BERKSHIRE HATHAWAY INC.

2007 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, BoatU.S. 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 Electric and Yorkshire Electricity; 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, Vanity Fair, 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 to 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. *Borsheims, 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; *Iscar Metalworking Companies*, an industry leader in the metal cutting tools business; *TTI, Inc.*, a leading distributor of electronic components and *Richline Group*, a leading jewelry manufacturer.

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

Year	Annual Percentage Change in Per-Share Book Value of Berkshire (1)	Annual Percentage Change in S&P 500 with Dividends Included (2)	Relative Results (1)-(2)
1965	23.8	10.0	13.8
1966	20.3	(11.7)	32.0
1967	11.0	30.9	(19.9)
1968	19.0	11.0	8.0
1969	16.2	(8.4)	24.6
1970	12.0	3.9	8.1
1971	16.4	14.6	1.8
1972	21.7	18.9	2.8
1973	4.7	(14.8)	19.5
1974	5.5	(26.4)	31.9
1975	21.9	37.2	(15.3)
1976	59.3	23.6	35.7
1977	31.9	(7.4)	39.3
1978	24.0	6.4	17.6
1979	35.7	18.2	17.5
1980	19.3	32.3	(13.0)
1981	31.4	(5.0)	36.4
1982	40.0	21.4	18.6
1983	32.3	22.4	9.9
1984	13.6	6.1	7.5
1985	48.2	31.6	16.6
1986	26.1	18.6	7.5
1987	19.5	5.1	14.4
1988	20.1	16.6	3.5
1989	44.4	31.7	12.7
1990	7.4	(3.1)	10.5
1991	39.6	30.5	9.1
1992	20.3	7.6	12.7
1993	14.3	10.1	4.2
1994	13.9	1.3	12.6
1995	43.1	37.6	5.5
1996	31.8	23.0	8.8
1997	34.1	33.4	.7
1998	48.3	28.6	19.7
1999	.5	21.0	(20.5)
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
2007	11.0	5.5	5.5
Compounded Annual Gain – 1965-2007	21.1%	10.3%	10.8
Overall Gain – 1964-2007	400,863%	6,840%	

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 2007 was $12.3 billion, which increased the per-share book value of both our Class A and Class B stock by 11%. Over the last 43 years (that is, since present management took over) book value has grown from $19 to $78,008, a rate of 21.1% compounded annually.*

Overall, our 76 operating businesses did well last year. The few that had problems were primarily those linked to housing, among them our brick, carpet and real estate brokerage operations. Their setbacks are minor and temporary. Our competitive position in these businesses remains strong, and we have first-class CEOs who run them right, in good times or bad.

Some major financial institutions have, however, experienced staggering problems because they engaged in the "weakened lending practices" I described in last year's letter. John Stumpf, CEO of Wells Fargo, aptly dissected the recent behavior of many lenders: "It is interesting that the industry has invented new ways to lose money when the old ways seemed to work just fine."

You may recall a 2003 Silicon Valley bumper sticker that implored, "Please, God, Just One More Bubble." Unfortunately, this wish was promptly granted, as just about all Americans came to believe that house prices would forever rise. That conviction made a borrower's income and cash equity seem unimportant to lenders, who shoveled out money, confident that HPA – house price appreciation – would cure all problems. Today, our country is experiencing widespread pain because of that erroneous belief. As house prices fall, a huge amount of financial folly is being exposed. You only learn who has been swimming naked when the tide goes out – and what we are witnessing at some of our largest financial institutions is an ugly sight.

Turning to happier thoughts, we can report that Berkshire's newest acquisitions of size, TTI and Iscar, led by their CEOs, Paul Andrews and Jacob Harpaz respectively, performed magnificently in 2007. Iscar is as impressive a manufacturing operation as I've seen, a view I reported last year and that was confirmed by a visit I made in the fall to its extraordinary plant in Korea.

Finally, our insurance business – the cornerstone of Berkshire – had an excellent year. Part of the reason is that we have the best collection of insurance managers in the business – more about them later. But we also were very lucky in 2007, the second year in a row free of major insured catastrophes.

That party is over. It's a *certainty* that insurance-industry profit margins, including ours, will fall significantly in 2008. Prices are down, and exposures inexorably rise. Even if the U.S. has its third consecutive catastrophe-light year, industry profit margins will probably shrink by four percentage points or so. If the winds roar or the earth trembles, results could be *far* worse. So be prepared for lower insurance earnings during the next few years.

Yardsticks

Berkshire has two major areas of value. The first is our investments: stocks, bonds and cash equivalents. At yearend these totaled $141 billion (not counting those in our finance or utility operations, which we assign to our second bucket of value).

***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.**

Insurance float – money we temporarily hold in our insurance operations that does not belong to us – funds $59 billion of our investments. This float is "free" as long as insurance underwriting breaks even, meaning that the premiums we receive equal the losses and expenses we incur. Of course, insurance underwriting is volatile, swinging erratically between profits and losses. Over our entire history, however, we've been profitable, and I expect we will average breakeven results or better in the future. If we do that, our investments can be viewed as an unencumbered source of value for Berkshire shareholders.

Berkshire's second component of value is earnings that come from sources other than investments and insurance. These earnings are delivered by our 66 non-insurance companies, itemized on page 76. In our early years, we focused on the investment side. During the past two decades, however, we have put ever more emphasis on the development of earnings from non-insurance businesses.

The following tables illustrate this shift. In the first we tabulate per-share investments at 14-year intervals. We exclude those applicable to minority interests.

Year	*Per-Share Investments*	*Years*	*Compounded Annual Gain in Per-Share Investments*
1965	$ 4		
1979	577	1965-1979	42.8%
1993	13,961	1979-1993	25.6%
2007	90,343	1993-2007	14.3%

For the entire 42 years, our compounded annual gain in per-share investments was 27.1%. But the trend has been downward as we increasingly used our available funds to buy operating businesses.

Here's the record on how earnings of our non-insurance businesses have grown, again on a per-share basis and after applicable minority interests.

Year	*Per Share Pre-Tax Earnings*	*Years*	*Compounded Annual Gain in Per-Share Pre-Tax Earnings*
1965	$ 4		
1979	18	1965-1979	11.1%
1993	212	1979-1993	19.1%
2007	4,093	1993-2007	23.5%

For the entire period, the compounded annual gain was 17.8%, with gains accelerating as our focus shifted.

Though these tables may help you gain historical perspective and be useful in valuation, they are completely misleading in predicting future possibilities. *Berkshire's past record can't be duplicated or even approached. Our base of assets and earnings is now far too large for us to make outsized gains in the future.*

Charlie Munger, my partner at Berkshire, and I will continue to measure our progress by the two yardsticks I have just described and will regularly update you on the results. Though we can't come close to duplicating the past, we will do our best to make sure the future is not disappointing.

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In our efforts, we will be aided enormously by the managers who have joined Berkshire. This is an unusual group in several ways. First, most of them have no financial need to work. Many sold us their businesses for large sums and run them because they love doing so, not because they need the money. Naturally they wish to be paid fairly, but money alone is not the reason they work hard and productively.

A second, somewhat related, point about these managers is that they have exactly the job they want for the rest of their working years. At almost any other company, key managers below the top aspire to keep climbing the pyramid. For them, the subsidiary or division they manage today is a way station – or so they hope. Indeed, if they are in their present positions five years from now, they may well feel like failures.

Conversely, our CEOs' scorecards for success are not whether they obtain my job but instead are the long-term performances of their businesses. Their decisions flow from a here-today, here-forever mindset. I think our rare and hard-to-replicate managerial structure gives Berkshire a real advantage.

Acquisitions

Though our managers may be the best, we will need large and sensible acquisitions to get the growth in operating earnings we wish. Here, we made little progress in 2007 until very late in the year. Then, on Christmas day, Charlie and I finally earned our paychecks by contracting for the largest cash purchase in Berkshire's history.

The seeds of this transaction were planted in 1954. That fall, only three months into a new job, I was sent by my employers, Ben Graham and Jerry Newman, to a shareholders' meeting of Rockwood Chocolate in Brooklyn. A young fellow had recently taken control of this company, a manufacturer of assorted cocoa-based items. He had then initiated a one-of-a-kind tender, offering 80 pounds of cocoa beans for each share of Rockwood stock. I described this transaction in a section of the 1988 annual report that explained arbitrage. I also told you that Jay Pritzker – the young fellow mentioned above – was the business genius behind this tax-efficient idea, the possibilities for which had escaped all the other experts who had thought about buying Rockwood, including my bosses, Ben and Jerry.

At the meeting, Jay was friendly and gave me an education on the 1954 tax code. I came away very impressed. Thereafter, I avidly followed Jay's business dealings, which were many and brilliant. His valued partner was his brother, Bob, who for nearly 50 years ran Marmon Group, the home for most of the Pritzker businesses.

Jay died in 1999, and Bob retired early in 2002. Around then, the Pritzker family decided to gradually sell or reorganize certain of its holdings, including Marmon, a company operating 125 businesses, managed through nine sectors. Marmon's largest operation is Union Tank Car, which together with a Canadian counterpart owns 94,000 rail cars that are leased to various shippers. The original cost of this fleet is $5.1 billion. All told, Marmon has $7 billion in sales and about 20,000 employees.

We will soon purchase 60% of Marmon and will acquire virtually all of the balance within six years. Our initial outlay will be $4.5 billion, and the price of our later purchases will be based on a formula tied to earnings. Prior to our entry into the picture, the Pritzker family received substantial consideration from Marmon's distribution of cash, investments and certain businesses.

This deal was done in the way Jay would have liked. We arrived at a price using only Marmon's financial statements, employing no advisors and engaging in no nit-picking. I knew that the business would be exactly as the Pritzkers represented, and they knew that we would close on the dot, however chaotic financial markets might be. During the past year, many large deals have been renegotiated or killed entirely. With the Pritzkers, as with Berkshire, a deal is a deal.

Marmon's CEO, Frank Ptak, works closely with a long-time associate, John Nichols. John was formerly the highly successful CEO of Illinois Tool Works (ITW), where he teamed with Frank to run a mix of industrial businesses. Take a look at their ITW record; you'll be impressed.

Byron Trott of Goldman Sachs – whose praises I sang in the 2003 report – facilitated the Marmon transaction. Byron is the rare investment banker who puts himself in his client's shoes. Charlie and I trust him completely.

You'll like the code name that Goldman Sachs assigned the deal. Marmon entered the auto business in 1902 and exited it in 1933. Along the way it manufactured the Wasp, a car that won the first Indianapolis 500 race, held in 1911. So this deal was labeled "Indy 500."

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In May 2006, I spoke at a lunch at Ben Bridge, our Seattle-based jewelry chain. The audience was a number of its vendors, among them Dennis Ulrich, owner of a company that manufactured gold jewelry.

In January 2007, Dennis called me, suggesting that with Berkshire's support he could build a large jewelry supplier. We soon made a deal for his business, simultaneously purchasing a supplier of about equal size. The new company, Richline Group, has since made two smaller acquisitions. Even with those, Richline is far below the earnings threshold we normally require for purchases. I'm willing to bet, however, that Dennis – with the help of his partner, Dave Meleski – will build a large operation, earning good returns on capital employed.

Businesses – The Great, the Good and the Gruesome

Let's take a look at what kind of businesses turn us on. And while we're at it, let's also discuss what we wish to avoid.

Charlie and I look for companies that have a) a business we understand; b) favorable long-term economics; c) able and trustworthy management; and d) a sensible price tag. We like to buy the whole business or, if management is our partner, at least 80%. When control-type purchases of quality aren't available, though, we are also happy to simply buy small portions of great businesses by way of stock-market purchases. It's better to have a part interest in the Hope Diamond than to own all of a rhinestone.

A truly great business must have an enduring "moat" that protects excellent returns on invested capital. The dynamics of capitalism guarantee that competitors will repeatedly assault any business "castle" that is earning high returns. Therefore a formidable barrier such as a company's being the low-cost producer (GEICO, Costco) or possessing a powerful world-wide brand (Coca-Cola, Gillette, American Express) is essential for sustained success. Business history is filled with "Roman Candles," companies whose moats proved illusory and were soon crossed.

Our criterion of "enduring" causes us to rule out companies in industries prone to rapid and continuous change. Though capitalism's "creative destruction" is highly beneficial for society, it precludes investment certainty. A moat that must be continuously rebuilt will eventually be no moat at all.

Additionally, this criterion eliminates the business whose success *depends* on having a great manager. Of course, a terrific CEO is a huge asset for any enterprise, and at Berkshire we have an abundance of these managers. Their abilities have created billions of dollars of value that would never have materialized if typical CEOs had been running their businesses.

But if a business *requires* a superstar to produce great results, the business itself cannot be deemed great. A medical partnership led by your area's premier brain surgeon may enjoy outsized and growing earnings, but that tells little about its future. The partnership's moat will go when the surgeon goes. You can count, though, on the moat of the Mayo Clinic to endure, even though you can't name its CEO.

Long-term competitive advantage in a stable industry is what we seek in a business. If that comes with rapid organic growth, great. But even without organic growth, such a business is rewarding. We will simply take the lush earnings of the business and use them to buy similar businesses elsewhere. There's no rule that you have to invest money where you've earned it. Indeed, it's often a mistake to do so: Truly great businesses, earning huge returns on tangible assets, *can't* for any extended period reinvest a large portion of their earnings internally at high rates of return.

Let's look at the prototype of a dream business, our own See's Candy. The boxed-chocolates industry in which it operates is unexciting: Per-capita consumption in the U.S. is extremely low and doesn't grow. Many once-important brands have disappeared, and only three companies have earned more than token profits over the last forty years. Indeed, I believe that See's, though it obtains the bulk of its revenues from only a few states, accounts for nearly half of the entire industry's earnings.

At See's, annual sales were 16 million pounds of candy when Blue Chip Stamps purchased the company in 1972. (Charlie and I controlled Blue Chip at the time and later merged it into Berkshire.) Last year See's sold 31 million pounds, a growth rate of only 2% annually. Yet its durable competitive advantage, built by the See's family over a 50-year period, and strengthened subsequently by Chuck Huggins and Brad Kinstler, has produced extraordinary results for Berkshire.

We bought See's for $25 million when its sales were $30 million and pre-tax earnings were less than $5 million. The capital then required to conduct the business was $8 million. (Modest seasonal debt was also needed for a few months each year.) Consequently, the company was earning 60% pre-tax on invested capital. Two factors helped to minimize the funds required for operations. First, the product was sold for cash, and that eliminated accounts receivable. Second, the production and distribution cycle was short, which minimized inventories.

Last year See's sales were $383 million, and pre-tax profits were $82 million. The capital now required to run the business is $40 million. This means we have had to reinvest only $32 million since 1972 to handle the modest physical growth – and somewhat immodest financial growth – of the business. In the meantime pre-tax earnings have totaled $1.35 billion. *All of that*, except for the $32 million, has been sent to Berkshire (or, in the early years, to Blue Chip). After paying corporate taxes on the profits, we have used the rest to buy other attractive businesses. Just as Adam and Eve kick-started an activity that led to six billion humans, See's has given birth to multiple new streams of cash for us. (The biblical command to "be fruitful and multiply" is one we take seriously at Berkshire.)

There aren't many See's in Corporate America. Typically, companies that increase their earnings from $5 million to $82 million require, say, $400 million or so of capital investment to finance their growth. That's because growing businesses have both working capital needs that increase in proportion to sales growth and significant requirements for fixed asset investments.

A company that needs large increases in capital to engender its growth may well prove to be a satisfactory investment. There is, to follow through on our example, nothing shabby about earning $82 million pre-tax on $400 million of net tangible assets. But that equation for the owner is vastly different from the See's situation. It's far better to have an ever-increasing stream of earnings with virtually no major capital requirements. Ask Microsoft or Google.

One example of good, but far from sensational, business economics is our own FlightSafety. This company delivers benefits to its customers that are the equal of those delivered by any business that I know of. It also possesses a durable competitive advantage: Going to any other flight-training provider than the best is like taking the low bid on a surgical procedure.

Nevertheless, this business requires a significant reinvestment of earnings if it is to grow. When we purchased FlightSafety in 1996, its pre-tax operating earnings were $111 million, and its net investment in fixed assets was $570 million. Since our purchase, depreciation charges have totaled $923 million. But capital expenditures have totaled $1.635 billion, most of that for simulators to match the new airplane models that are constantly being introduced. (A simulator can cost us more than $12 million, and we have 273 of them.) Our fixed assets, after depreciation, now amount to $1.079 billion. Pre-tax operating earnings in 2007 were $270 million, a gain of $159 million since 1996. That gain gave us a good, but far from See's-like, return on our incremental investment of $509 million.

Consequently, if measured only by economic returns, FlightSafety is an excellent but not extraordinary business. Its put-up-more-to-earn-more experience is that faced by most corporations. For example, our large investment in regulated utilities falls squarely in this category. We will earn considerably more money in this business ten years from now, but we will invest many billions to make it.

Now let's move to the gruesome. The worst sort of business is one that grows rapidly, requires significant capital to engender the growth, and then earns little or no money. Think airlines. Here a *durable* competitive advantage has proven elusive ever since the days of the Wright Brothers. Indeed, if a farsighted capitalist had been present at Kitty Hawk, he would have done his successors a huge favor by shooting Orville down.

The airline industry's demand for capital ever since that first flight has been insatiable. Investors have poured money into a bottomless pit, attracted by growth when they should have been repelled by it. And I, to my shame, participated in this foolishness when I had Berkshire buy U.S. Air preferred stock in 1989. As the ink was drying on our check, the company went into a tailspin, and before long our preferred dividend was no longer being paid. But we then got very lucky. In one of the recurrent, but always misguided, bursts of optimism for airlines, we were actually able to sell our shares in 1998 for a hefty gain. In the decade following our sale, the company went bankrupt. Twice.

To sum up, think of three types of "savings accounts." The great one pays an extraordinarily high interest rate that will rise as the years pass. The good one pays an attractive rate of interest that will be earned also on deposits that are added. Finally, the gruesome account both pays an inadequate interest rate and requires you to keep adding money at those disappointing returns.

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And now it's confession time. It should be noted that no consultant, board of directors or investment banker pushed me into the mistakes I will describe. In tennis parlance, they were all unforced errors.

To begin with, I almost blew the See's purchase. The seller was asking $30 million, and I was adamant about not going above $25 million. Fortunately, he caved. Otherwise I would have balked, and that $1.35 billion would have gone to somebody else.

About the time of the See's purchase, Tom Murphy, then running Capital Cities Broadcasting, called and offered me the Dallas-Fort Worth NBC station for $35 million. The station came with the Fort Worth paper that Capital Cities was buying, and under the "cross-ownership" rules Murph had to divest it. I knew that TV stations were See's-like businesses that required virtually no capital investment and had excellent prospects for growth. They were simple to run and showered cash on their owners.

Moreover, Murph, then as now, was a close friend, a man I admired as an extraordinary manager and outstanding human being. He knew the television business forward and backward and would not have called me unless he felt a purchase was certain to work. In effect Murph whispered "buy" into my ear. But I didn't listen.

In 2006, the station earned $73 million pre-tax, bringing its total earnings since I turned down the deal to at least $1 billion – almost all available to its owner for other purposes. Moreover, the property now has a capital value of about $800 million. Why did I say "no"? The only explanation is that my brain had gone on vacation and forgot to notify me. (My behavior resembled that of a politician Molly Ivins once described: "If his I.Q. was any lower, you would have to water him twice a day.")

Finally, I made an even worse mistake when I said "yes" to Dexter, a shoe business I bought in 1993 for $433 million in Berkshire stock (25,203 shares of A). What I had assessed as durable competitive advantage vanished within a few years. But that's just the beginning: By using Berkshire stock, I compounded this error hugely. That move made the cost to Berkshire shareholders not $400 million, but rather $3.5 billion. In essence, I gave away 1.6% of a wonderful business – one now valued at $220 billion – to buy a worthless business.

To date, Dexter is the worst deal that I've made. But I'll make more mistakes in the future – you can bet on that. A line from Bobby Bare's country song explains what too often happens with acquisitions: "I've never gone to bed with an ugly woman, but I've sure woke up with a few."

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Now, let's examine the four major operating sectors of Berkshire. Each sector has vastly different balance sheet and income account characteristics. Therefore, lumping them together impedes analysis. So we'll present them as four separate businesses, which is how Charlie and I view them.

Insurance

The best anecdote I've heard during the current presidential campaign came from Mitt Romney, who asked his wife, Ann, "When we were young, did you ever in your wildest dreams think I might be president?" To which she replied, "Honey, you weren't *in* my wildest dreams."

When we first entered the property/casualty insurance business in 1967, my wildest dreams did not envision our current operation. Here's how we did in the first five years after purchasing National Indemnity:

Year	*Underwriting Profit (Loss)*	*Float*
	(in millions)	
1967	$ 0.4	$18.5
1968	0.6	21.3
1969	0.1	25.4
1970	(0.4)	39.4
1971	1.4	65.6

To put it charitably, we were a slow starter. But things changed. Here's the record of the last five years:

Year	*Underwriting Profit (Loss)*	*Float*
	(in millions)	
2003	$1,718	$44,220
2004	1,551	46,094
2005	53	49,287
2006	3,838	50,887
2007	3,374	58,698

This metamorphosis has been accomplished by some extraordinary managers. Let's look at what each has achieved.

- GEICO possesses the widest moat of any of our insurers, one carefully protected and expanded by Tony Nicely, its CEO. Last year – again – GEICO had the best growth record among major auto insurers, increasing its market share to 7.2%. When Berkshire acquired control in 1995, that share was 2.5%. Not coincidentally, annual ad expenditures by GEICO have increased from $31 million to $751 million during the same period.

  Tony, now 64, joined GEICO at 18. Every day since, he has been passionate about the company – proud of how it could both save money for its customers and provide growth opportunities for its associates. Even now, with sales at $12 billion, Tony feels GEICO is just getting started. So do I.

  Here's some evidence. In the last three years, GEICO has increased its share of the motorcycle market from 2.1% to 6%. We've also recently begun writing policies on ATVs and RVs. And in November we wrote our first *commercial* auto policy. GEICO and National Indemnity are working together in the commercial field, and early results are very encouraging.

  Even in aggregate, these lines will remain a small fraction of our personal auto volume. Nevertheless, they should deliver a growing stream of underwriting profits and float.

- General Re, our international reinsurer, is by far our largest source of "home-grown" float – $23 billion at yearend. This operation is now a huge asset for Berkshire. Our ownership, however, had a shaky start.

  For decades, General Re was the Tiffany of reinsurers, admired by all for its underwriting skills and discipline. This reputation, unfortunately, outlived its factual underpinnings, a flaw that I completely missed when I made the decision in 1998 to merge with General Re. The General Re of 1998 was not operated as the General Re of 1968 or 1978.

  Now, thanks to Joe Brandon, General Re's CEO, and his partner, Tad Montross, the luster of the company has been restored. Joe and Tad have been running the business for six years and have been doing first-class business in a first-class way, to use the words of J. P. Morgan. They have restored discipline to underwriting, reserving and the selection of clients.

  Their job was made more difficult by costly and time-consuming legacy problems, both in the U.S. and abroad. Despite that diversion, Joe and Tad have delivered excellent underwriting results while skillfully repositioning the company for the future.

- Since joining Berkshire in 1986, Ajit Jain has built a truly great specialty reinsurance operation from scratch. For one-of-a-kind mammoth transactions, the world now turns to him.

  Last year I told you in detail about the Equitas transfer of huge, but capped, liabilities to Berkshire for a single premium of $7.1 billion. At this very early date, our experience has been good. But this doesn't tell us much because it's just one straw in a fifty-year-or-more wind. What we know for sure, however, is that the London team who joined us, headed by Scott Moser, is first-rate and has become a valuable asset for our insurance business.

- Finally, we have our smaller operations, which serve specialized segments of the insurance market. In aggregate, these companies have performed extraordinarily well, earning above-average underwriting profits and delivering valuable float for investment.

  Last year BoatU.S., headed by Bill Oakerson, was added to the group. This company manages an association of about 650,000 boat owners, providing them services similar to those offered by AAA auto clubs to drivers. Among the association's offerings is boat insurance. Learn more about this operation by visiting its display at the annual meeting.

Below we show the record of our four categories of property/casualty insurance.

	Underwriting Profit		*Yearend Float*	
	(in millions)			
Insurance Operations	*2007*	*2006*	*2007*	*2006*
General Re	$ 555	$ 526	$23,009	$22,827
BH Reinsurance	1,427	1,658	23,692	16,860
GEICO	1,113	1,314	7,768	7,171
Other Primary	279	340*	4,229	4,029*
	$3,374	$3,838	$58,698	$50,887

* Includes Applied Underwriters from May 19, 2006.

Regulated Utility Business

Berkshire has an 87.4% (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 3.8 million electric customers make it the third largest distributor of electricity in the U.K.; (2) MidAmerican Energy, which serves 720,000 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 make major moves only when we are unanimous in thinking them wise. Eight years of working with Dave, Greg and Walter have underscored my original belief: Berkshire couldn't have better partners.

Somewhat incongruously, MidAmerican also owns the second largest real estate brokerage firm in the U.S., HomeServices of America. This company operates through 20 locally-branded firms with 18,800 agents. Last year was a slow year for residential sales, and 2008 will probably be slower. We will continue, however, to acquire quality brokerage operations when they are available at sensible prices.

Here are some key figures on MidAmerican's operation:

	Earnings (in millions)	
	2007	*2006*
U.K. utilities	$ 337	$ 338
Iowa utility	412	348
Western utilities (acquired March 21, 2006)	692	356
Pipelines	473	376
HomeServices	42	74
Other (net)	130	245
Earnings before corporate interest and taxes	2,086	1,737
Interest, other than to Berkshire	(312)	(261)
Interest on Berkshire junior debt	(108)	(134)
Income tax	(477)	(426)
Net earnings	$ 1,189	$ 916
Earnings applicable to Berkshire*	$ 1,114	$ 885
Debt owed to others	19,002	16,946
Debt owed to Berkshire	821	1,055

*Includes interest earned by Berkshire (net of related income taxes) of $70 in 2007 and $87 in 2006.

We agreed to purchase 35,464,337 shares of MidAmerican at $35.05 per share in 1999, a year in which its per-share earnings were $2.59. Why the odd figure of $35.05? I originally decided the business was worth $35.00 per share to Berkshire. Now, I'm a "one-price" guy (remember See's?) and for several days the investment bankers representing MidAmerican had no luck in getting me to increase Berkshire's offer. But, finally, they caught me in a moment of weakness, and I caved, telling them I would go to $35.05. With that, I explained, they could tell their client they had wrung the last nickel out of me. At the time, it hurt.

Later on, in 2002, Berkshire purchased 6,700,000 shares at $60 to help finance the acquisition of one of our pipelines. Lastly, in 2006, when MidAmerican bought PacifiCorp, we purchased 23,268,793 shares at $145 per share.

In 2007, MidAmerican earned $15.78 per share. However, 77¢ of that was non-recurring – a reduction in deferred tax at our British utility, resulting from a lowering of the U.K. corporate tax rate. So call normalized earnings $15.01 per share. And yes, I'm glad I wilted and offered the extra nickel.

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 12/31/07 (in millions)

Assets		*Liabilities and Equity*	
Cash and equivalents	$ 2,080	Notes payable	$ 1,278
Accounts and notes receivable	4,488	Other current liabilities	7,652
Inventory	5,793	Total current liabilities	8,930
Other current assets	470		
Total current assets	12,831		
Goodwill and other intangibles	14,201	Deferred taxes	828
Fixed assets	9,605	Term debt and other liabilities	3,079
Other assets	1,685	Equity	25,485
	$38,322		$38,322

Earnings Statement (in millions)

	2007	*2006*	*2005*
Revenues	$59,100	$52,660	$46,896
Operating expenses (including depreciation of $955 in 2007, $823 in 2006 and $699 in 2005)	55,026	49,002	44,190
Interest expense	127	132	83
Pre-tax earnings	3,947*	3,526*	2,623*
Income taxes and minority interests	1,594	1,395	977
Net income	$ 2,353	$ 2,131	$ 1,646

*Does not include purchase-accounting adjustments.

This motley group, which sells products ranging from lollipops to motor homes, earned a pleasing 23% 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 9.8%.

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

- Shaw, Acme Brick, Johns Manville and MiTek were all hurt in 2007 by the sharp housing downturn, with their pre-tax earnings declining 27%, 41%, 38%, and 9% respectively. Overall, these companies earned $941 million pre-tax compared to $1.296 billion in 2006.

  Last year, Shaw, MiTek and Acme contracted for tuck-in acquisitions that will help future earnings. You can be sure they will be looking for more of these.

- In a tough year for retailing, our standouts were See's, Borsheims and Nebraska Furniture Mart.

  Two years ago Brad Kinstler was made CEO of See's. We very seldom move managers from one industry to another at Berkshire. But we made an exception with Brad, who had previously run our uniform company, Fechheimer, and Cypress Insurance. The move could not have worked out better. In his two years, profits at See's have increased more than 50%.

  At Borsheims, sales increased 15.1%, helped by a 27% gain during Shareholder Weekend. Two years ago, Susan Jacques suggested that we remodel and expand the store. I was skeptical, but Susan was right.

  Susan came to Borsheims 25 years ago as a $4-an-hour saleswoman. Though she lacked a managerial background, I did not hesitate to make her CEO in 1994. She's smart, she loves the business, and she loves her associates. That beats having an MBA degree any time.

  (An aside: Charlie and I are not big fans of resumes. Instead, we focus on brains, passion and integrity. Another of our great managers is Cathy Baron Tamraz, who has significantly increased Business Wire's earnings since we purchased it early in 2006. She is an owner's dream. It is positively *dangerous* to stand between Cathy and a business prospect. Cathy, it should be noted, began her career as a cab driver.)

  Finally, at Nebraska Furniture Mart, earnings hit a record as our Omaha and Kansas City stores each had sales of about $400 million. These, by some margin, are the two top home furnishings stores in the country. In a disastrous year for many furniture retailers, sales at Kansas City increased 8%, while in Omaha the gain was 6%.

  Credit the remarkable Blumkin brothers, Ron and Irv, for this performance. Both are close personal friends of mine and great businessmen.

- Iscar continues its wondrous ways. Its products are small carbide cutting tools that make large and very expensive machine tools more productive. The raw material for carbide is tungsten, mined in China. For many decades, Iscar moved tungsten to Israel, where brains turned it into something far more valuable. Late in 2007, Iscar opened a large plant in Dalian, China. In effect, we've now moved the brains to the tungsten. Major opportunities for growth await Iscar. Its management team, led by Eitan Wertheimer, Jacob Harpaz, and Danny Goldman, is certain to make the most of them.

- Flight services set a record in 2007 with pre-tax earnings increasing 49% to $547 million. Corporate aviation had an extraordinary year worldwide, and both of our companies – as runaway leaders in their fields – fully participated.

  FlightSafety, our pilot training business, gained 14% in revenues and 20% in pre-tax earnings. We estimate that we train about 58% of U.S. corporate pilots. Bruce Whitman, the company's CEO, inherited this leadership position in 2003 from Al Ueltschi, the father of advanced flight training, and has proved to be a worthy successor.

At NetJets, the inventor of fractional-ownership of jets, we also remain the unchallenged leader. We now operate 487 planes in the U.S. and 135 in Europe, a fleet more than twice the size of that operated by our three major competitors *combined*. Because our share of the large-cabin market is near 90%, our lead in value terms is far greater.

The NetJets brand – with its promise of safety, service and security – grows stronger every year. Behind this is the passion of one man, Richard Santulli. If you were to pick someone to join you in a foxhole, you couldn't do better than Rich. No matter what the obstacles, he just doesn't stop.

Europe is the best example of how Rich's tenacity leads to success. For the first ten years we made little financial progress there, actually running up cumulative losses of $212 million. After Rich brought Mark Booth on board to run Europe, however, we began to gain traction. Now we have real momentum, and last year earnings tripled.

In November, our directors met at NetJets headquarters in Columbus and got a look at the sophisticated operation there. It is responsible for 1,000 or so flights a day in all kinds of weather, with customers expecting top-notch service. Our directors came away impressed by the facility and its capabilities – but even more impressed by Rich and his associates.

Finance and Finance Products

Our major operation in this category is Clayton Homes, the largest U.S. manufacturer and marketer of manufactured homes. Clayton's market share hit a record 31% last year. But industry volume continues to shrink: Last year, manufactured home sales were 96,000, down from 131,000 in 2003, the year we bought Clayton. (At the time, it should be remembered, some commentators criticized its directors for selling at a cyclical bottom.)

Though Clayton earns money from both manufacturing and retailing its homes, most of its earnings come from an $11 billion loan portfolio, covering 300,000 borrowers. That's why we include Clayton's operation in this finance section. Despite the many problems that surfaced during 2007 in real estate finance, the Clayton portfolio is performing well. Delinquencies, foreclosures and losses during the year were at rates similar to those we experienced in our previous years of ownership.

Clayton's loan portfolio is financed by Berkshire. For this funding, we charge Clayton one percentage point over Berkshire's borrowing cost – a fee that amounted to $85 million last year. Clayton's 2007 pre-tax earnings of $526 million are *after* its paying this fee. The flip side of this transaction is that Berkshire recorded $85 million as income, which is included in "other" in the following table.

	Pre-Tax Earnings (in millions)	
	2007	*2006*
Trading – ordinary income	$ 272	$ 274
Life and annuity operation	(60)	29
Leasing operations	111	182
Manufactured-housing finance (Clayton)	526	513
Other	157	159
Income before capital gains	1,006	1,157
Trading – capital gains	105	938
	$1,111	$2,095

The leasing operations tabulated are XTRA, which rents trailers, and CORT, which rents furniture. Utilization of trailers was down considerably in 2007 and that led to a drop in earnings at XTRA. That company also borrowed $400 million last year and distributed the proceeds to Berkshire. The resulting higher interest it is now paying further reduced XTRA's earnings.

Clayton, XTRA and CORT are all good businesses, very ably run by Kevin Clayton, Bill Franz and Paul Arnold. Each has made tuck-in acquisitions during Berkshire's ownership. More will come.

Investments

We show below our common stock investments at yearend, itemizing those with a market value of at least $600 million.

			12/31/07	
Shares	*Company*	*Percentage of Company Owned*	*Cost**	*Market*
			(in millions)	
151,610,700	American Express Company	13.1	$ 1,287	$ 7,887
35,563,200	Anheuser-Busch Companies, Inc............	4.8	1,718	1,861
60,828,818	Burlington Northern Santa Fe.................	17.5	4,731	5,063
200,000,000	The Coca-Cola Company	8.6	1,299	12,274
17,508,700	Conoco Phillips	1.1	1,039	1,546
64,271,948	Johnson & Johnson.................................	2.2	3,943	4,287
124,393,800	Kraft Foods Inc.......................................	8.1	4,152	4,059
48,000,000	Moody's Corporation	19.1	499	1,714
3,486,006	POSCO	4.5	572	2,136
101,472,000	The Procter & Gamble Company	3.3	1,030	7,450
17,170,953	Sanofi-Aventis..	1.3	1,466	1,575
227,307,000	Tesco plc...	2.9	1,326	2,156
75,176,026	U.S. Bancorp	4.4	2,417	2,386
17,072,192	USG Corp	17.2	536	611
19,944,300	Wal-Mart Stores, Inc.	0.5	942	948
1,727,765	The Washington Post Company	18.2	11	1,367
303,407,068	Wells Fargo & Company........................	9.2	6,677	9,160
1,724,200	White Mountains Insurance Group Ltd. ..	16.3	369	886
	Others		5,238	7,633
	Total Common Stocks		$39,252	$74,999

*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.

Overall, we are delighted by the business performance of our investees. In 2007, American Express, Coca-Cola and Procter & Gamble, three of our four largest holdings, increased per-share earnings by 12%, 14% and 14%. The fourth, Wells Fargo, had a small decline in earnings because of the popping of the real estate bubble. Nevertheless, I believe its intrinsic value increased, even if only by a minor amount.

In the strange world department, note that American Express and Wells Fargo were both organized by Henry Wells and William Fargo, Amex in 1850 and Wells in 1852. P&G and Coke began business in 1837 and 1886 respectively. Start-ups are not our game.

I should emphasize that we do not measure the progress of our investments by what their market prices do during any given year. Rather, we evaluate their performance by the two methods we apply to the businesses we own. The first test is improvement in earnings, with our making due allowance for industry conditions. The second test, more subjective, is whether their "moats" – a metaphor for the superiorities they possess that make life difficult for their competitors – have widened during the year. All of the "big four" scored positively on that test.

We made one large sale last year. In 2002 and 2003 Berkshire bought 1.3% of PetroChina for $488 million, a price that valued the entire business at about $37 billion. Charlie and I then felt that the company was worth about $100 billion. By 2007, two factors had materially increased its value: the price of oil had climbed significantly, and PetroChina's management had done a great job in building oil and gas reserves. In the second half of last year, the market value of the company rose to $275 billion, about what we thought it was worth compared to other giant oil companies. So we sold our holdings for $4 billion.

A footnote: We paid the IRS tax of $1.2 billion on our PetroChina gain. This sum paid *all* costs of the U.S. government – defense, social security, you name it – for about four hours.

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Last year I told you that Berkshire had 62 derivative contracts that I manage. (We also have a few left in the General Re runoff book.) Today, we have 94 of these, and they fall into two categories.

First, we have written 54 contracts that require us to make payments if certain bonds that are included in various high-yield indices default. These contracts expire at various times from 2009 to 2013. At yearend we had received $3.2 billion in premiums on these contracts; had paid $472 million in losses; and in the worst case (though it is extremely unlikely to occur) could be required to pay an additional $4.7 billion.

We are certain to make many more payments. But I believe that on premium revenues alone, these contracts will prove profitable, leaving aside what we can earn on the large sums we hold. Our yearend liability for this exposure was recorded at $1.8 billion and is included in "Derivative Contract Liabilities" on our balance sheet.

The second category of contracts involves various put options we have sold on four stock indices (the S&P 500 plus three foreign indices). These puts had original terms of either 15 or 20 years and were struck at the market. We have received premiums of $4.5 billion, and we recorded a liability at yearend of $4.6 billion. The puts in these contracts are exercisable *only* at their expiration dates, which occur between 2019 and 2027, and Berkshire will then need to make a payment only if the index in question is quoted at a level below that existing on the day that the put was written. Again, I believe these contracts, in aggregate, will be profitable and that we will, in addition, receive substantial income from our investment of the premiums we hold during the 15- or 20-year period.

Two aspects of our derivative contracts are particularly important. First, in all cases we hold the money, which means that we have *no* counterparty risk.

Second, accounting rules for our derivative contracts differ from those applying to our investment portfolio. In that portfolio, changes in value are applied to the net worth shown on Berkshire's balance sheet, but do not affect earnings unless we sell (or write down) a holding. Changes in the value of a derivative contract, however, must be applied each quarter to earnings.

Thus, our derivative positions will sometimes cause large swings in reported earnings, even though Charlie and I might believe the intrinsic value of these positions has changed little. He and I will not be bothered by these swings – even though they could easily amount to $1 billion or more in a quarter – and we hope you won't be either. You will recall that in our catastrophe insurance business, we are always ready to trade increased volatility in reported earnings in the short run for greater gains in net worth in the long run. That is our philosophy in derivatives as well.

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The U.S. dollar weakened further in 2007 against major currencies, and it's no mystery why: Americans like buying products made elsewhere more than the rest of the world likes buying products made in the U.S. Inevitably, that causes America to ship about $2 billion of IOUs and assets *daily* to the rest of the world. And over time, that puts pressure on the dollar.

When the dollar falls, it both makes our products cheaper for foreigners to buy and their products more expensive for U.S. citizens. That's why a falling currency is supposed to cure a trade deficit. Indeed, the U.S. deficit has undoubtedly been tempered by the large drop in the dollar. But ponder this: In 2002 when the Euro averaged 94.6¢, our trade deficit with Germany (the fifth largest of our trading partners) was $36 billion, whereas in 2007, with the Euro averaging $1.37, our deficit with Germany was up to $45 billion. Similarly, the Canadian dollar averaged 64¢ in 2002 and 93¢ in 2007. Yet our trade deficit with Canada rose as well, from $50 billion in 2002 to $64 billion in 2007. So far, at least, a plunging dollar has not done much to bring our trade activity into balance.

There's been much talk recently of sovereign wealth funds and how they are buying large pieces of American businesses. This is *our* doing, not some nefarious plot by foreign governments. Our trade equation guarantees massive foreign investment in the U.S. When we force-feed $2 billion daily to the rest of the world, they must invest in *something* here. Why should we complain when they choose stocks over bonds?

Our country's weakening currency is not the fault of OPEC, China, etc. Other developed countries rely on imported oil and compete against Chinese imports just as we do. In developing a sensible trade policy, the U.S. should not single out countries to punish or industries to protect. Nor should we take actions likely to evoke retaliatory behavior that will reduce America's exports, true trade that benefits both our country and the rest of the world.

Our legislators should recognize, however, that the current imbalances are unsustainable and should therefore adopt policies that will materially reduce them sooner rather than later. Otherwise our $2 billion daily of force-fed dollars to the rest of the world may produce global indigestion of an unpleasant sort. (For other comments about the unsustainability of our trade deficits, see Alan Greenspan's comments on November 19, 2004, the Federal Open Market Committee's minutes of June 29, 2004, and Ben Bernanke's statement on September 11, 2007.)

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At Berkshire we held only one direct currency position during 2007. That was in – hold your breath – the Brazilian real. Not long ago, swapping dollars for reals would have been unthinkable. After all, during the past century *five* versions of Brazilian currency have, in effect, turned into confetti. As has been true in many countries whose currencies have periodically withered and died, wealthy Brazilians sometimes stashed large sums in the U.S. to preserve their wealth.

But any Brazilian who followed this apparently prudent course would have lost *half* his net worth over the past five years. Here's the year-by-year record (indexed) of the real versus the dollar from the end of 2002 to yearend 2007: 100; 122; 133; 152; 166; 199. Every year the real went up and the dollar fell. Moreover, during much of this period the Brazilian government was actually holding down the value of the real and supporting *our* currency by buying dollars in the market.

Our direct currency positions have yielded $2.3 billion of pre-tax profits over the past five years, and in addition we have profited by holding bonds of U.S. companies that are denominated in other currencies. For example, in 2001 and 2002 we purchased €310 million Amazon.com, Inc. 6 7/8 of 2010 at 57% of par. At the time, Amazon bonds were priced as "junk" credits, though they were anything but. (Yes, Virginia, you can occasionally find markets that are ridiculously inefficient – or at least you can find them anywhere except at the finance departments of some leading business schools.)

The Euro denomination of the Amazon bonds was a further, and important, attraction for us. The Euro was at 95¢ when we bought in 2002. Therefore, our cost in dollars came to only $169 million. Now the bonds sell at 102% of par and the Euro is worth $1.47. In 2005 and 2006 some of our bonds were called and we received $253 million for them. Our remaining bonds were valued at $162 million at yearend. Of our $246 million of realized and unrealized gain, about $118 million is attributable to the fall in the dollar. Currencies do matter.

At Berkshire, we will attempt to further increase our stream of direct and indirect foreign earnings. Even if we are successful, however, our assets and earnings will always be concentrated in the U.S. Despite our country's many imperfections and unrelenting problems of one sort or another, America's rule of law, market-responsive economic system, and belief in meritocracy are almost certain to produce ever-growing prosperity for its citizens.

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As I have told you before, we have for some time been well-prepared for CEO succession because we have three outstanding internal candidates. The board knows exactly whom it would pick if I were to become unavailable, either because of death or diminishing abilities. And that would still leave the board with two backups.

Last year I told you that we would also promptly complete a succession plan for the investment job at Berkshire, and we have indeed now identified four candidates who could succeed me in managing investments. All manage substantial sums currently, and all have indicated a strong interest in coming to Berkshire if called. The board knows the strengths of the four and would expect to hire one or more if the need arises. The candidates are young to middle-aged, well-to-do to rich, and all wish to work for Berkshire for reasons that go beyond compensation.

(I've reluctantly discarded the notion of my continuing to manage the portfolio after my death – abandoning my hope to give new meaning to the term "thinking outside the box.")

Fanciful Figures – How Public Companies Juice Earnings

Former Senator Alan Simpson famously said: "Those who travel the high road in Washington need not fear heavy traffic." If he had sought truly deserted streets, however, the Senator should have looked to Corporate America's accounting.

An important referendum on which road businesses prefer occurred in 1994. America's CEOs had just strong-armed the U.S. Senate into ordering the Financial Accounting Standards Board to shut up, by a vote that was 88-9. Before that rebuke the FASB had shown the audacity – by unanimous agreement, no less – to tell corporate chieftains that the stock options they were being awarded represented a form of compensation and that their value should be recorded as an expense.

After the senators voted, the FASB – now educated on accounting principles by the Senate's 88 closet CPAs – decreed that companies could choose between two methods of reporting on options. The *preferred* treatment would be to expense their value, but it would also be allowable for companies to ignore the expense as long as their options were issued at market value.

A moment of truth had now arrived for America's CEOs, and their reaction was not a pretty sight. During the next six years, exactly *two* of the 500 companies in the S&P chose the preferred route. CEOs of the rest opted for the low road, thereby ignoring a large and obvious expense in order to report higher "earnings." I'm sure some of them also felt that if they opted for expensing, their directors might in future years think twice before approving the mega-grants the managers longed for.

It turned out that for many CEOs even the low road wasn't good enough. Under the weakened rule, there remained earnings consequences if options were issued with a strike price below market value. No problem. To avoid that bothersome rule, a number of companies surreptitiously backdated options to falsely indicate that they were granted at current market prices, when in fact they were dished out at prices well below market.

Decades of option-accounting nonsense have now been put to rest, but other accounting choices remain – important among these the investment-return assumption a company uses in calculating pension expense. It will come as no surprise that many companies continue to choose an assumption that allows them to report less-than-solid "earnings." For the 363 companies in the S&P that have pension plans, this assumption in 2006 averaged 8%. Let's look at the chances of that being achieved.

The average holdings of bonds and cash for all pension funds is about 28%, and on these assets returns can be expected to be no more than 5%. Higher yields, of course, are obtainable but they carry with them a risk of commensurate (or greater) loss.

This means that the remaining 72% of assets – which are mostly in equities, either held directly or through vehicles such as hedge funds or private-equity investments – must earn 9.2% in order for the fund overall to achieve the postulated 8%. And that return must be delivered *after* all fees, which are now far higher than they have ever been.

How realistic is this expectation? Let's revisit some data I mentioned two years ago: During the 20th Century, the Dow advanced from 66 to 11,497. This gain, though it appears huge, shrinks to 5.3% when compounded annually. An investor who owned the Dow throughout the century would also have received generous dividends for much of the period, but only about 2% or so in the final years. It was a wonderful century.

Think now about *this* century. For investors to merely match that 5.3% market-value gain, the Dow – recently below 13,000 – would need to close at about *2,000,000* on December 31, 2099. We are now eight years into this century, and we have racked up less than 2,000 of the 1,988,000 Dow points the market needed to travel in this hundred years to equal the 5.3% of the last.

It's amusing that commentators regularly hyperventilate at the prospect of the Dow crossing an even number of thousands, such as 14,000 or 15,000. If they keep reacting that way, a 5.3% annual gain for the century will mean they experience at least 1,986 seizures during the next 92 years. While anything is possible, does anyone really believe this is the most likely outcome?

Dividends continue to run about 2%. Even if stocks were to average the 5.3% annual appreciation of the 1900s, the equity portion of plan assets – allowing for expenses of .5% – would produce no more than 7% or so. And .5% may well understate costs, given the presence of layers of consultants and high-priced managers ("helpers").

Naturally, everyone expects to be above average. And those helpers – bless their hearts – will certainly encourage their clients in this belief. But, as a class, the helper-aided group must be *below* average. The reason is simple: 1) Investors, overall, will necessarily earn an average return, minus costs they incur; 2) Passive and index investors, through their very inactivity, will earn that average minus costs that are very low; 3) With that group earning average returns, so must the remaining group – the active investors. But this group will incur high transaction, management, and advisory costs. Therefore, the active investors will have their returns diminished by a far greater percentage than will their inactive brethren. That means that the passive group – the "know-nothings" – must win.

I should mention that people who expect to earn 10% annually from equities during this century – envisioning that 2% of that will come from dividends and 8% from price appreciation – are implicitly forecasting a level of about *24,000,000* on the Dow by 2100. If your adviser talks to you about double-digit returns from equities, explain this math to him – not that it will faze him. Many helpers are apparently direct descendants of the queen in Alice in Wonderland, who said: "Why, sometimes I've believed as many as six impossible things before breakfast." Beware the glib helper who fills your head with fantasies while he fills his pockets with fees.

Some companies have pension plans in Europe as well as in the U.S. and, in their accounting, almost all assume that the U.S. plans will earn more than the non-U.S. plans. This discrepancy is puzzling: Why should these companies not put their U.S. managers in charge of the non-U.S. pension assets and let them work their magic on these assets as well? I've never seen this puzzle explained. But the auditors and actuaries who are charged with vetting the return assumptions seem to have no problem with it.

What is no puzzle, however, is why CEOs opt for a high investment assumption: It lets them report higher earnings. And if they are wrong, as I believe they are, the chickens won't come home to roost until long after they retire.

After decades of pushing the envelope – or worse – in its attempt to report the highest number possible for current earnings, Corporate America should ease up. It should listen to my partner, Charlie: "If you've hit three balls out of bounds to the left, aim a little to the right on the next swing."

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

Whatever pension-cost surprises are in store for shareholders down the road, these jolts will be surpassed many times over by those experienced by taxpayers. Public pension promises are huge and, in many cases, funding is woefully inadequate. Because the fuse on this time bomb is long, politicians flinch from inflicting tax pain, given that problems will only become apparent long after these officials have departed. Promises involving very early retirement – sometimes to those in their low 40s – and generous cost-of-living adjustments are easy for these officials to make. In a world where people are living longer and inflation is certain, those promises will be anything but easy to keep.

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

Having laid out the failures of an "honor system" in American accounting, I need to point out that this is exactly the system existing at Berkshire for a truly huge balance-sheet item. In every report we make to you, we must guesstimate the loss reserves for our insurance units. If our estimate is wrong, it means that both our balance sheet and our earnings statement will be wrong. So naturally we do our best to make these guesses accurate. *Nevertheless, in every report our estimate is sure to be wrong*.

At yearend 2007, we show an insurance liability of $56 billion that represents our guess as to what we will eventually pay for all loss events that occurred before yearend (except for about $3 billion of the reserve that has been discounted to present value). We know of many thousands of events and have put a dollar value on each that reflects what we believe we will pay, including the associated costs (such as attorney's fees) that we will incur in the payment process. In some cases, among them claims for certain serious injuries covered by worker's compensation, payments will be made for 50 years or more.

We also include a large reserve for losses that occurred before yearend but that we have yet to hear about. Sometimes, the insured itself does not know that a loss has occurred. (Think of an embezzlement that remains undiscovered for years.) We sometimes hear about losses from policies that covered our insured many decades ago.

A story I told you some years back illustrates our problem in accurately estimating our loss liability: A fellow was on an important business trip in Europe when his sister called to tell him that their dad had died. Her brother explained that he couldn't get back but said to spare nothing on the funeral, whose cost he would cover. When he returned, his sister told him that the service had been beautiful and presented him with bills totaling $8,000. He paid up but a month later received a bill from the mortuary for $10. He paid that, too – and still another $10 charge he received a month later. When a third $10 invoice was sent to him the following month, the perplexed man called his sister to ask what was going on. "Oh," she replied, "I forgot to tell you. We buried Dad in a rented suit."

At our insurance companies we have an unknown, but most certainly large, number of "rented suits" buried around the world. We try to estimate the bill for them accurately. In ten or twenty years, we will even be able to make a good guess as to how inaccurate our present guess is. But even *that* guess will be subject to surprises. I personally believe our stated reserves are adequate, but I've been wrong several times in the past.

The Annual Meeting

Our meeting this year will be held on Saturday, May 3rd. 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 27,000 people who came to the meeting did their part, and almost every location racked up record sales. But you can do better. (If necessary, I'll lock the doors.)

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 this 1,550-square-foot home, priced at $69,500, delivers exceptional value. And after you purchase the house, consider also acquiring the Forest River RV and pontoon boat on display nearby.

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.

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 and scissors that you wish on board with you.

Next, if you have any money left, visit the Bookworm, where you will find about 25 books and DVDs – all discounted – led again by *Poor Charlie's Almanack*. Without any advertising or bookstore placement, Charlie's book has now remarkably sold nearly 50,000 copies. For those of you who can't make the meeting, go to poorcharliesalmanack.com to order a copy.

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 eleven years ago, and sales during the "Weekend" grew from $5.3 million in 1997 to $30.9 million in 2007. This is more volume than most furniture stores register in a year.

To obtain the Berkshire discount, you must make your purchases between Thursday, May 1st and Monday, May 5th 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 Baja Beach Bash featuring beef and chicken tacos.

At Borsheims, 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 2nd. The second, the main gala, will be held on Sunday, May 4th, from 9 a.m. to 4 p.m. On Saturday, we will be open until 6 p.m.

We will have huge crowds at Borsheims throughout the weekend. For your convenience, therefore, shareholder prices will be available from Monday, April 28th through Saturday, May 10th. 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 Borsheims, 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. 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.

Gorat's will again be open exclusively for Berkshire shareholders on Sunday, May 4th, and will be serving from 4 p.m. until 10 p.m. Last year Gorat's, which seats 240, served 915 dinners on Shareholder Sunday. The three-day total was 2,487 including 656 T-bone steaks, the entrée preferred by the *cognoscenti*. 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*).

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.

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

At 84 and 77, Charlie and I remain lucky beyond our dreams. 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 that experienced by many 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 in countless ways by talented and cheerful associates. Every day is exciting to us; 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 3rd at the Qwest for our annual Woodstock for Capitalists. We'll see you there.

February 2008

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."

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

	2007	2006	2005	2004	2003
Revenues:					
Insurance premiums earned [1]	$ 31,783	$ 23,964	$ 21,997	$ 21,085	$ 21,493
Sales and service revenues	58,243	51,803	46,138	43,222	32,098
Revenues of utilities and energy businesses [2]	12,628	10,644	—	—	—
Interest, dividend and other investment income	4,979	4,382	3,487	2,816	3,098
Interest and other revenues of finance and financial products businesses	5,103	5,111	4,633	3,788	3,087
Investment and derivative gains/losses [3]	5,509	2,635	5,408	3,471	4,083
Total revenues	$118,245	$ 98,539	$ 81,663	$ 74,382	$ 63,859
Earnings:					
Net earnings [3] [4]	$ 13,213	$ 11,015	$ 8,528	$ 7,308	$ 8,151
Net earnings per share	$ 8,548	$ 7,144	$ 5,538	$ 4,753	$ 5,309
Year-end data:					
Total assets	$273,160	$248,437	$198,325	$188,874	$180,559
Notes payable and other borrowings:					
Insurance and other non-finance businesses	2,680	3,698	3,583	3,450	4,182
Utilities and energy businesses [2]	19,002	16,946	—	—	—
Finance and financial products businesses	12,144	11,961	10,868	5,387	4,937
Shareholders' equity	120,733	108,419	91,484	85,900	77,596
Class A equivalent common shares outstanding, in thousands	1,548	1,543	1,541	1,539	1,537
Shareholders' equity per outstanding Class A equivalent common share	$ 78,008	$ 70,281	$ 59,377	$ 55,824	$ 50,498

[1] *Insurance premiums earned in 2007 included $7.1 billion from a single reinsurance transaction with Equitas.*

[2] *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 Consolidated Financial Statements in 2006 and 2007 reflect the consolidation of the accounts of MidAmerican. In each of the three years ending December 31, 2005, Berkshire's investment in MidAmerican was accounted for pursuant to the equity method.*

[3] *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 $3,579 million in 2007, $1,709 million in 2006, $3,530 million in 2005, $2,259 million in 2004 and $2,729 million in 2003. 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.*

[4] *Net earnings for the year ended 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.*

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, 2007 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, 2007.

The effectiveness of our internal control over financial reporting as of December 31, 2007 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 27, 2008

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, 2007 and 2006, 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, 2007. We also have audited the Company's internal control over financial reporting as of December 31, 2007, 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 these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on these financial statements and an opinion on the effectiveness of the Company's internal control over financial reporting 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 and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Berkshire Hathaway Inc. and subsidiaries as of December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

As discussed in Note 1(r) to the consolidated financial statements, the Company changed its method of accounting for uncertainty in income taxes in 2007 and pension and other postretirement benefit plans in 2006.

DELOITTE & TOUCHE LLP

Omaha, Nebraska
February 29, 2008

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

	December 31, 2007	December 31, 2006
ASSETS		
Insurance and Other:		
Cash and cash equivalents	$ 37,703	$ 37,977
Investments:		
Fixed maturity securities	28,515	25,300
Equity securities	74,999	61,533
Loans and receivables	13,157	12,881
Inventories	5,793	5,257
Property, plant and equipment	9,969	9,303
Goodwill	26,306	25,678
Deferred charges reinsurance assumed	3,987	1,964
Other	7,797	7,443
	208,226	187,336
Utilities and Energy:		
Cash and cash equivalents	1,178	343
Property, plant and equipment	26,221	24,039
Goodwill	5,543	5,548
Other	6,246	6,560
	39,188	36,490
Finance and Financial Products:		
Cash and cash equivalents	5,448	5,423
Investments in fixed maturity securities	3,056	3,012
Loans and finance receivables	12,359	11,498
Goodwill	1,013	1,012
Other	3,870	3,666
	25,746	24,611
	$273,160	$248,437
LIABILITIES AND SHAREHOLDERS' EQUITY		
Insurance and Other:		
Losses and loss adjustment expenses	$ 56,002	$ 47,612
Unearned premiums	6,680	7,058
Life and health insurance benefits	3,804	3,600
Other policyholder liabilities	4,089	3,938
Accounts payable, accruals and other liabilities	10,672	9,654
Notes payable and other borrowings	2,680	3,698
	83,927	75,560
Utilities and Energy:		
Accounts payable, accruals and other liabilities	6,043	6,693
Notes payable and other borrowings	19,002	16,946
	25,045	23,639
Finance and Financial Products:		
Accounts payable, accruals and other liabilities	2,931	3,543
Derivative contract liabilities	6,887	3,883
Notes payable and other borrowings	12,144	11,961
	21,962	19,387
Income taxes, principally deferred	18,825	19,170
Total liabilities	149,759	137,756
Minority shareholders' interests	2,668	2,262
Shareholders' equity:		
Common stock:		
Class A, $5 par value; Class B, $0.1667 par value	8	8
Capital in excess of par value	26,952	26,522
Accumulated other comprehensive income	21,620	22,977
Retained earnings	72,153	58,912
Total shareholders' equity	120,733	108,419
	$273,160	$248,437

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, 2007	2006	2005
Revenues:			
Insurance and Other:			
Insurance premiums earned	$31,783	$23,964	$21,997
Sales and service revenues	58,243	51,803	46,138
Interest, dividend and other investment income	4,979	4,382	3,487
Investment gains/losses	5,405	1,697	5,728
	100,410	81,846	77,350
Utilities and Energy:			
Operating revenues	12,376	10,301	—
Other	252	343	—
	12,628	10,644	—
Finance and Financial Products:			
Interest income	1,717	1,610	1,554
Investment gains/losses	193	114	468
Derivative gains/losses	(89)	824	(788)
Other	3,386	3,501	3,079
	5,207	6,049	4,313
	118,245	98,539	81,663
Costs and expenses:			
Insurance and Other:			
Insurance losses and loss adjustment expenses	21,010	13,068	15,482
Life and health insurance benefits	1,786	1,618	1,634
Insurance underwriting expenses	5,613	5,440	4,828
Cost of sales and services	47,477	42,416	38,288
Selling, general and administrative expenses	7,098	5,932	5,328
Interest expense	164	195	144
	83,148	68,669	65,704
Utilities and Energy:			
Cost of sales and operating expenses	9,696	8,189	—
Interest expense	1,158	979	—
	10,854	9,168	—
Finance and Financial Products:			
Interest expense	588	550	579
Other	3,494	3,374	3,112
	4,082	3,924	3,691
	98,084	81,761	69,395
Earnings before income taxes and equity in earnings of MidAmerican Energy Holdings Company	20,161	16,778	12,268
Equity in earnings of MidAmerican Energy Holdings Company	—	—	523
Earnings before income taxes and minority interests	20,161	16,778	12,791
Income taxes	6,594	5,505	4,159
Minority shareholders' interests	354	258	104
Net earnings	$13,213	$11,015	$ 8,528
Average common shares outstanding *	1,545,751	1,541,807	1,539,775
Net earnings per common share *	$ 8,548	$ 7,144	$ 5,538

* *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 $285 per share for 2007, $238 per share for 2006 and $185 per share for 2005.*

See accompanying Notes to Consolidated Financial Statements

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

	Year Ended December 31,		
	2007	2006	2005
Cash flows from operating activities:			
Net earnings	$ 13,213	$ 11,015	$ 8,528
Adjustments to reconcile net earnings to operating cash flows:			
Investment gains	(5,598)	(1,811)	(6,196)
Depreciation	2,407	2,066	982
Minority interests	354	258	104
Changes in operating assets and liabilities before business acquisitions:			
Losses and loss adjustment expenses	(1,164)	(2,704)	2,086
Deferred charges reinsurance assumed	196	424	339
Unearned premiums	(713)	637	(239)
Receivables and originated loans	(977)	(59)	(1,849)
Derivative contract assets and liabilities	2,938	(563)	3,620
Income taxes	553	303	1,602
Other assets and liabilities	1,341	629	469
Net cash flows from operating activities	12,550	10,195	9,446
Cash flows from investing activities:			
Purchases of securities with fixed maturities	(13,394)	(7,747)	(13,937)
Purchases of equity securities	(19,111)	(9,173)	(8,021)
Sales of securities with fixed maturities	7,821	1,818	3,243
Redemptions and maturities of securities with fixed maturities	9,158	10,313	7,142
Sales of equity securities	8,054	3,778	1,629
Purchases of loans and finance receivables	(1,008)	(365)	(1,987)
Principal collections on loans and finance receivables	1,229	985	911
Acquisitions of businesses, net of cash acquired	(1,602)	(10,132)	(2,387)
Purchases of property, plant and equipment	(5,373)	(4,571)	(2,195)
Other	798	1,017	1,761
Net cash flows from investing activities	(13,428)	(14,077)	(13,841)
Cash flows from financing activities:			
Proceeds from borrowings of finance businesses	1,153	1,280	5,628
Proceeds from borrowings of utilities and energy businesses	3,538	2,417	—
Proceeds from other borrowings	121	215	521
Repayments of borrowings of finance businesses	(1,093)	(244)	(319)
Repayments of borrowings of utilities and energy businesses	(1,149)	(516)	—
Repayments of other borrowings	(995)	(991)	(628)
Changes in short term borrowings	(596)	245	361
Other	387	84	188
Net cash flows from financing activities	1,366	2,490	5,751
Effect of foreign currency exchange rate changes	98	117	(123)
Increase (decrease) in cash and cash equivalents	586	(1,275)	1,233
Cash and cash equivalents at beginning of year	43,743	45,018	43,427
Cash and cash equivalents at end of year *	$44,329	$43,743	$44,660
** Cash and cash equivalents at end of year are comprised of the following:*			
Insurance and Other	*$37,703*	*$37,977*	*$40,471*
Utilities and Energy	*1,178*	*343*	—
Finance and Financial Products	*5,448*	*5,423*	*4,189*
	$44,329	*$43,743*	*$44,660*

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,		
	2007	2006	2005
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	$26,522	$26,399	$26,268
Issuance of Class A and B shares and SQUARZ warrant premiums	430	123	131
Balance at end of year	$26,952	$26,522	$26,399
Retained Earnings			
Balance at beginning of year	$58,912	$47,717	$39,189
Adoption of new accounting pronouncements	28	180	—
Net earnings	13,213	11,015	8,528
Balance at end of year	$72,153	$58,912	$47,717
Accumulated Other Comprehensive Income			
Unrealized appreciation of investments	$ 2,523	$ 9,278	$ 2,081
Applicable income taxes	(872)	(3,246)	(728)
Reclassification adjustment of investment appreciation included in net earnings	(5,494)	(1,646)	(6,261)
Applicable income taxes	1,923	576	2,191
Foreign currency translation adjustments	456	603	(359)
Applicable income taxes	(26)	1	(26)
Prior service cost and actuarial gains/losses of defined benefit plans	257	563	(62)
Applicable income taxes	(102)	(196)	38
Other, including minority interests	(22)	(13)	51
Other comprehensive income	(1,357)	5,920	(3,075)
Adoption of SFAS 158	—	(303)	—
Accumulated other comprehensive income at beginning of year	22,977	17,360	20,435
Accumulated other comprehensive income at end of year	$21,620	$22,977	$17,360
Comprehensive Income			
Net earnings	$13,213	$11,015	$ 8,528
Other comprehensive income	(1,357)	5,920	(3,075)
Total comprehensive income	$11,856	$16,935	$ 5,453

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, service and retailing. Further information regarding these businesses and Berkshire's reportable business segments is contained in Note 18. Berkshire consummated a number of business acquisitions over the past three years which are discussed in Note 2.

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.

On February 9, 2006, Berkshire converted its investment in non-voting preferred stock of MidAmerican Energy Holdings Company ("MidAmerican") into common stock and upon conversion, possessed approximately 83.4% (80.5% diluted) of the voting rights and economic interests in MidAmerican. Accordingly, the 2006 and 2007 Consolidated Financial Statements reflect the consolidation of the accounts of MidAmerican. In 2005, Berkshire accounted for its investment in MidAmerican pursuant to the equity method, reflecting Berkshire's ability to exercise significant influence on the operations of MidAmerican. Through its investment Berkshire possessed 9.7% of the voting rights and 83.4% (80.5% diluted) of the economic interests in MidAmerican.

(b) Use of estimates in preparation of financial statements

The preparation of the Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts 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 will be settled over many years. In addition, estimates and assumptions associated with the amortization of deferred charges reinsurance assumed, determinations of fair value of certain financial assets and liabilities and the determinations of goodwill impairments require considerable judgment by management. Actual results may differ from the estimates used in preparing the Consolidated Financial Statements.

(c) Cash and 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. Held-to-maturity investments are carried at amortized cost, reflecting the ability and intent to hold the securities to maturity. Trading investments are carried at fair value and include securities acquired with the intent to sell in the near term. All other securities are classified as available-for-sale and are carried at fair value with net unrealized gains or losses reported as a component of accumulated other comprehensive income. Berkshire's investments in fixed maturity and equity securities are predominantly classified as available-for-sale.

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.

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

(d) Investments (*Continued)*

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 more than 20% and less 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. 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.

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 and other comprehensive income of the investee. Dividends or other equity distributions are recorded as reductions in the carrying value 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. 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 contracts are carried at estimated fair value and are 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 anticipated under the contracts, which are affected by applicable interest rates, currency rates, security values, commodity values, 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.

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, 2007, approximately 45% of the total inventory cost was determined using the last-in-first-out ("LIFO") method, 34% using the first-in-first-out ("FIFO") method, with the remainder using the specific identification method and average cost methods. With respect to inventories carried at LIFO cost, the aggregate difference in value between LIFO cost and cost determined under FIFO methods was $331 million and $263 million as of December 31, 2007 and 2006, respectively.

(h) Property, plant and equipment

Property, plant and equipment additions are 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 assets are evaluated for impairment when events or changes in circumstances indicate that the carrying value of such 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 considers 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 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 where reports from ceding companies for the period are not contractually due until after the balance sheet date. For contracts 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, 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. Revenues related to the sales of fractional ownership interests in aircraft are recognized ratably over the term of the related management services agreement as the transfer of ownership interest in the aircraft is inseparable from the management services agreement.

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.

(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.

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.

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

(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. Changes to the expected timing and estimated amount of loss payments produce changes in the periodic amortization charge. Such changes in estimates are determined retrospectively and are included in insurance losses and loss adjustment expense in the period of the change. The periodic amortization charges are reflected in the accompanying Consolidated Statements of Earnings as losses and loss adjustment expenses.

(m) Insurance premium acquisition costs

Costs that vary with and are related to the issuance of insurance policies are deferred, subject to ultimate recoverability, and are 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 $1,519 million and $1,432 million at December 31, 2007 and 2006, respectively.

(n) Regulated utilities and energy businesses

Certain domestic energy subsidiaries prepare their financial statements in accordance with SFAS 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, 2007, the Consolidated Balance Sheet includes $1,503 million in regulatory assets and $1,629 million in regulatory liabilities. At December 31, 2006, the Consolidated Balance Sheet includes $1,827 million in regulatory assets and $1,839 million in regulatory liabilities. Regulatory assets and liabilities 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.

(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 generally 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) Income taxes

Berkshire and eligible subsidiaries currently file a consolidated Federal income tax return in the United States. In addition, Berkshire and subsidiaries also file income tax returns in state, local and foreign jurisdictions as applicable. Provisions for current income tax liabilities are calculated and accrued on income and expense amounts expected to be included in the income tax returns for the current year.

Deferred income taxes are calculated under the liability method. Deferred income tax assets and liabilities are based on differences between the financial statement and tax bases of assets and liabilities at the current 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. Changes in deferred income tax assets and liabilities attributable to changes in enacted tax rates are charged or credited to income tax expense in the period of enactment. Valuation allowances have been established for certain deferred tax assets where realization is not likely.

Assets and liabilities are established for uncertain tax positions taken or positions expected to be taken in income tax returns when such positions are judged to not meet the "more-likely-than-not" threshold based on the technical merits of the positions. Estimated interest and penalties related to uncertain tax positions are included as a component of income tax expense.

(r) Accounting pronouncements adopted in 2007 and 2006

Berkshire adopted FASB Interpretation No.48 "Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement No. 109" ("FIN 48") as of January 1, 2007. Under FIN 48, a tax position taken is recognized if it is determined that the position will "more-likely-than-not" be sustained upon examination by a taxing authority. FIN 48 also establishes measurement guidance with respect to positions that have met the recognition threshold. See Note 13 for additional information.

(r) Accounting pronouncements adopted in 2007 and 2006 (Continued)

Berkshire adopted FASB Staff Position No. AUG AIR-1 "Accounting for Planned Major Maintenance Activities" ("AUG AIR-1") as of January 1, 2007. AUG AIR-1 prohibits the use of an accounting method where planned major maintenance costs are ratably recognized by accruing a liability in periods before the maintenance is performed. Upon adoption, Berkshire elected to use the direct expense method where maintenance costs are expensed as incurred. Previously, certain maintenance costs related to the fractional aircraft ownership business were accrued in advance. As of January 1, 2007, a cumulative effect of this accounting change of $52 million was recorded as an increase in retained earnings. Berkshire's Consolidated Financial Statements for prior periods have not been restated because the net impact of retrospectively adopting AUG AIR-1 was not significant in each of the prior three years and in the aggregate.

Berkshire adopted FASB Staff Position No. FTB 85-4-1, "Accounting for Life Settlement Contracts by Third-Party Investors" ("FTB 85-4-1") as of January 1, 2006. FTB 85-4-1 requires that investors in life settlement contracts account for such contracts using the investment method or the fair value method. 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. Upon adoption, the cumulative effect of this accounting change of $180 million was recorded as an increase in retained earnings.

Berkshire adopted the recognition provisions of 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 158") as of December 31, 2006. SFAS 158 requires recognition in the statement of financial position of the over-funded or under-funded status of a defined benefit postretirement plan and the recognition in accumulated other comprehensive income of the actuarial gains and losses and prior service costs and credits that arise during the period that are not recognized as components of net periodic benefit cost. Upon adoption, Berkshire recognized a charge to accumulated other comprehensive income of $303 million.

(s) Accounting pronouncements to be adopted in the future

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. SFAS 157 establishes a framework for measuring fair value by creating a hierarchy for observable independent market inputs and unobservable market assumptions. SFAS 157 further expands disclosures about such fair value measurements. SFAS 157 is generally effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB delayed for one year the effective date of adoption with respect to certain non-financial assets and liabilities. Berkshire intends to defer the adoption of SFAS 157 with respect to certain non-financial assets and liabilities as permitted.

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 159"). SFAS 159 permits entities to elect to measure financial instruments and certain other items at fair value. Upon adoption of SFAS 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 can only be made at initial recognition of the asset or liability or upon a re-measurement event that gives rise to new-basis accounting. SFAS 159 is effective for fiscal years beginning after November 15, 2007.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141R"). SFAS 141R changes the accounting model for business combinations from a cost allocation standard to a standard that provides, with limited exception, for the recognition of all identifiable assets and liabilities of the business acquired at fair value, regardless of whether the acquirer acquires 100% or a lesser controlling interest of the business. SFAS 141R defines the acquisition date of a business acquisition as the date on which control is achieved (generally the closing date of the acquisition). SFAS 141R requires recognition of assets and liabilities arising from contractual contingencies and non-contractual contingencies meeting a "more-likely-than-not" threshold at fair value at the acquisition date. SFAS 141R also provides for the recognition of acquisition costs as expenses when incurred and for expanded disclosures. SFAS 141R is effective for business acquisitions with acquisition dates on or after January 1, 2009. Early adoption is prohibited.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51" ("SFAS 160"). SFAS 160 establishes accounting and reporting standards for non-controlling interests in subsidiaries and for the deconsolidation of a subsidiary and also amends certain consolidation procedures for consistency with SFAS 141R. Under SFAS 160, non-controlling interests in consolidated subsidiaries (formerly known as "minority interests") are reported in the consolidated statement of financial position as a separate component within shareholders' equity. Net earnings and comprehensive income attributable to the controlling and non-controlling interests are to be shown separately in the consolidated statements of earnings and comprehensive income. Any changes in ownership interests of a non-controlling interest where the parent retains a controlling financial interest in the subsidiary are to be reported as equity transactions. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008 with earlier adoption prohibited. When adopted, SFAS 160 is to be applied prospectively at the beginning of the year, except that the presentation and disclosure requirements are to be applied retrospectively for all periods presented.

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

(s) Accounting pronouncements to be adopted in the future (Continued)

Berkshire is continuing to evaluate the impact that these standards will have on its consolidated financial statements but currently does not anticipate that the adoption of these accounting pronouncements will have a material effect on its consolidated financial position.

(2) 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. 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. In conjunction with the acquisition of PacifiCorp, Berkshire acquired additional common stock of MidAmerican for $3.4 billion, which increased its ownership interest in MidAmerican from approximately 83% to approximately 88%. On May 19, 2006, Berkshire acquired 85% of Applied Underwriters, an industry leader in integrated workers' compensation solutions. 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. 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 and are sold worldwide. On August 2, 2006, Berkshire acquired Russell Corporation, a leading branded athletic apparel and sporting goods company. Consideration paid for all businesses acquired in 2006 was approximately $10.1 billion.

On March 30, 2007, Berkshire acquired TTI, Inc., a privately held electronic components distributor headquartered in Fort Worth, Texas. TTI, Inc. is a leading distributor specialist of passive, interconnect and electromechanical components. Effective April 1, 2007, Berkshire acquired the intimate apparel business of VF Corporation. During 2007, Berkshire also acquired several other relatively smaller businesses. Consideration paid for all businesses acquired in 2007 was approximately $1.6 billion.

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, as if each acquisition occurring during 2006 and 2007 was consummated on the same terms at the beginning of 2006. Pro forma consolidated revenues and net earnings for 2007 are not materially different from the amounts reported. Amounts are in millions, except earnings per share.

	2006
Total revenues	$103,698
Net earnings	11,159
Earnings per equivalent Class A common share	7,238

On December 25, 2007, Berkshire and Marmon Holdings, Inc ("Marmon") announced that Berkshire had entered into an agreement to acquire 60% of Marmon, a private company owned by trusts for the benefit of members of the Pritzker Family of Chicago for $4.5 billion. The agreement also provides for Berkshire to acquire the remaining 40% through staged acquisitions over a five to six year period for consideration to be based on the future earnings of Marmon. The acquisition is subject to customary closing conditions, including regulatory approvals, and is expected to close in the first quarter of 2008.

Marmon consists of 125 manufacturing and service businesses that operate independently within diverse business sectors. These sectors are Wire & Cable, serving energy related markets, residential and non-residential construction and other industries; Transportation Services & Engineered Products, including railroad tank cars and intermodal tank containers; Highway Technologies, primarily serving the heavy-duty highway transportation industry; Distribution Services for specialty pipe and tubing; Flow Products for the plumbing, HVAC/R, construction and industrial markets; Industrial Products including metal fasteners, safety products and metal fabrication; Construction Services, providing the leasing and operation of mobile cranes primarily to the energy, mining and petrochemical markets; Water Treatment equipment for residential, commercial and industrial applications; and Retail Services, providing store fixtures, food preparation equipment and related services. Marmon has approximately 20,000 employees and operates more than 250 manufacturing, distribution and service facilities, primarily in North America, Europe and China. Consolidated revenues in 2007 were approximately $7 billion.

(3) Loans and receivables

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

	2007	2006
Insurance premiums receivable	$ 4,215	$ 4,418
Reinsurance recoverables	3,171	2,961
Trade and other receivables	6,179	5,884
Allowances for uncollectible accounts	(408)	(382)
	$13,157	$12,881

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

	2007	2006
Consumer installment loans and finance receivables	$11,506	$10,325
Commercial loans and finance receivables	1,003	1,336
Allowances for uncollectible loans	(150)	(163)
	$12,359	$11,498

Allowances for uncollectible loans primarily relate to consumer installment loans. Provisions for consumer loan losses were $176 million in 2007 and $210 million in 2006. Loan charge-offs were $197 million in 2007 and $243 million in 2006. Consumer loan amounts are net of acquisition discounts of $452 million at December 31, 2007 and $484 million at December 31, 2006.

(4) Investments in fixed maturity securities

Investments in securities with fixed maturities as of December 31, 2007 and 2006 are shown below (in millions).

	Amortized Cost	*Unrealized Gains*	*Unrealized Losses **	*Fair Value*
2007				
Insurance and other:				
U.S. Treasury, U.S. government corporations and agencies	$ 3,487	$ 59	$ —	$ 3,546
States, municipalities and political subdivisions	2,120	107	(3)	2,224
Foreign governments	9,529	76	(47)	9,558
Corporate bonds and redeemable preferred stocks	8,400	1,187	(48)	9,539
Mortgage-backed securities	3,597	62	(11)	3,648
	$27,133	$1,491	$ (109)	$28,515
Finance and financial products:				
Corporate bonds	$ 420	$ 63	$ —	$ 483
Mortgage-backed securities	938	52	—	990
	$ 1,358	$ 115	$ —	$ 1,473
Mortgage-backed securities, held-to-maturity	$ 1,583	$ 176	$ (1)	$ 1,758

	Amortized Cost	*Unrealized Gains*	*Unrealized Losses **	*Fair Value*
2006				
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 $60 million at December 31, 2007 and $69 million at December 31, 2006 related to securities that have been in an unrealized loss position for 12 months or more.*

(4) Investments in fixed maturity securities *(Continued)*

The amortized cost and estimated fair values of securities with fixed maturities at December 31, 2007 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 2008	*Due 2009 – 2012*	*Due 2013 – 2017*	*Due after 2017*	*Mortgage-backed securities*	*Total*
Amortized cost......	$7,499	$10,496	$3,862	$2,099	$6,118	$30,074
Fair value..............	7,597	10,908	4,003	2,842	6,396	31,746

(5) Investments in equity securities

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

	2007	*2006*
Cost	$44,695	$28,353
Gross unrealized gains	31,289	33,217
Gross unrealized losses *	(985)	(37)
Fair value	$74,999	$61,533

* *Gross unrealized losses at December 31, 2007 included $566 million related to individual purchases of securities in which Berkshire had gross unrealized gains of $3.2 billion in the same securities. Substantially all of the gross unrealized losses pertain to security positions that have been held for less than 12 months.*

(6) Investment gains (losses)

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

	2007	*2006*	*2005*
Fixed maturity securities —			
Gross gains from sales and other disposals	$ 657	$ 279	$ 792
Gross losses from sales and other disposals	(35)	(9)	(23)
Equity securities —			
Gross gains from sales and other disposals	4,880	1,562	5,612
Gross losses from sales	(7)	(44)	(6)
Losses from other-than-temporary impairments	—	(142)	(114)
Other	103	165	(65)
	$5,598	$1,811	$6,196

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

Insurance and other	$5,405	$1,697	$5,728
Finance and financial products	193	114	468
	$5,598	$1,811	$6,196

(7) Goodwill

A reconciliation of the change in the carrying value of goodwill for 2007 and 2006 is as follows (in millions).

	2007	*2006*
Balance at beginning of year	$32,238	$23,644
Goodwill of MidAmerican as of January 1, 2006	—	4,156
Acquisitions of businesses and other	624	4,438
Balance at end of year	$32,862	$32,238

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 during 2006 primarily relates to the acquisitions of PacifiCorp and IMC.

(8) Inventories

Inventories are comprised of the following (in millions):

	2007	*2006*
Raw materials	$ 897	$ 700
Work in process and other	479	402
Finished manufactured goods	1,781	1,817
Purchased goods	2,636	2,338
	$ 5,793	$ 5,257

(9) 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	2007	2006
Land	—	$ 607	$ 548
Buildings and improvements	3 – 40 years	3,611	3,203
Machinery and equipment	3 – 25 years	9,507	8,470
Furniture, fixtures and other	3 – 20 years	1,670	1,702
		15,395	13,923
Accumulated depreciation		(5,426)	(4,620)
		$ 9,969	$ 9,303

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

	Ranges of estimated useful life	2007	2006
Utility generation, distribution and transmission system	5-85 years	$30,369	$27,687
Interstate pipeline assets	3-67 years	5,484	5,329
Independent power plants and other assets	3-30 years	1,330	1,770
Construction in progress	—	1,745	1,969
		38,928	36,755
Accumulated depreciation and amortization		(12,707)	(12,716)
		$26,221	$24,039

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, 2007 and December 31, 2006, accumulated depreciation and amortization related to regulated assets was $12.3 billion and $11.9 billion, respectively. Substantially all of the construction in progress at December 31, 2007 and December 31, 2006 related to the construction of regulated assets.

(10) 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.

	2007			2006		
	Assets *	Liabilities	Notional Value	Assets *	Liabilities	Notional Value
Credit default obligations	$ —	$ 1,838	$ 4,660	$ —	$ 952	$ 2,510
Equity index options	—	4,610	35,043	—	2,436	21,155
Interest rate and foreign currency swaps	626	434	7,887	632	473	10,851
Other	123	55	2,301	69	99	5,477
Adjustment for counterparty netting	(50)	(50)		(77)	(77)	
Derivative contract assets and liabilities	$ 699	$ 6,887		$ 624	$ 3,883	

* *Included in other assets of finance and financial products businesses.*

Berkshire utilizes derivatives in order to manage certain economic business risks 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. Master netting agreements are utilized to manage counterparty credit risk, where gains and losses are netted across other contracts with that counterparty.

Under certain circumstances, Berkshire is contractually entitled to receive cash or securities from counterparties as collateral on derivative contract assets. At December 31, 2007, Berkshire held collateral with a fair value of $328 million to secure derivative contract assets. Under certain circumstances, including a downgrade of its credit rating below specified levels, Berkshire may be required to post collateral against derivative liabilities. However, Berkshire is not required to post collateral with respect to most of its long-dated credit default and equity index option contract liabilities. At December 31, 2007, Berkshire had posted no collateral with counterparties as security on contract liabilities.

(10) Derivatives *(Continued)*

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. Gains and losses under these contracts are either probable of recovery through rates and therefore are recorded as a regulatory net asset or liability or are accounted for as cash flow hedges and therefore are recorded as accumulated other comprehensive income.

(11) 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).

	2007	*2006*	*2005*
Unpaid losses and loss adjustment expenses:			
Gross liabilities at beginning of year	$47,612	$48,034	$45,219
Ceded losses and deferred charges at beginning of year	(4,833)	(5,200)	(5,132)
Net balance at beginning of year	42,779	42,834	40,087
Incurred losses recorded during the year:			
Current accident year	22,488	13,680	15,839
Prior accident years	(1,478)	(612)	(357)
Total incurred losses	21,010	13,068	15,482
Payments during the year with respect to:			
Current accident year	(6,594)	(5,510)	(5,514)
Prior accident years	(8,865)	(9,345)	(7,793)
Total payments	(15,459)	(14,855)	(13,307)
Unpaid losses and loss adjustment expenses:			
Net balance at end of year	48,330	41,047	42,262
Ceded losses and deferred charges at end of year	7,126	4,833	5,200
Foreign currency translation adjustment	534	608	(728)
Acquisitions	12	1,124	1,300
Gross liabilities at end of year	$56,002	$47,612	$48,034

Incurred losses "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 losses and loss adjustment expenses liability was reduced by $1,793 million in 2007, $1,071 million in 2006 and $743 million in 2005. In each year, 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 reinsurance losses in various property and casualty lines. Developed frequencies were generally more favorable than originally expected, particularly for liability coverages, and claim severity increases were generally less than originally estimated. 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 $213 million in 2007, $358 million in 2006 and $294 million in 2005. Certain workers' compensation loss reserves are discounted. Net discounted liabilities at December 31, 2007 and 2006 were $2,436 million and $2,705 million, respectively, reflecting net discounts of $2,732 million and $2,793 million, respectively. Periodic accretions of these discounts are also a component of incurred prior accident years losses. The accretion of discounted liabilities related to prior years' losses was approximately $102 million in 2007, $101 million in 2006 and $92 million in 2005.

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 $11.2 billion at December 31, 2007 and $5.1 billion at December 31, 2006. These liabilities included approximately $9.7 billion at December 31, 2007 and $3.8 billion at December 31, 2006, of liabilities assumed under retroactive reinsurance contracts. The increase during 2007 is primarily as a result of the Equitas agreement (see following paragraphs). Liabilities arising from retroactive contracts with exposure to claims of this nature are generally subject to aggregate policy limits. Thus, Berkshire's

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

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.

In November 2006, the Berkshire Hathaway Reinsurance Group's lead insurance entity, National Indemnity Company ("NICO") and Equitas, a London based entity established to reinsure and manage the 1992 and prior years' non-life insurance and reinsurance liabilities of the Names or Underwriters at Lloyd's of London, entered into an agreement for NICO to initially provide up to $5.7 billion and potentially provide up to an additional $1.3 billion of reinsurance to Equitas in excess of its undiscounted loss and allocated loss adjustment expense reserves as of March 31, 2006. The transaction became effective on March 30, 2007. The agreement requires that NICO pay all claims and related costs that arise from the underlying insurance and reinsurance contracts of Equitas, subject to the aforementioned excess limit of indemnification. On the effective date, the aggregate limit of indemnification, which does not include unallocated loss adjustment expenses, was $13.8 billion. A significant amount of loss exposure associated with Equitas is related to asbestos, environmental and latent injury claims.

NICO received substantially all of Equitas' assets as consideration under the arrangement. The fair value of such consideration was $7.1 billion and included approximately $540 million in cash and miscellaneous receivables plus a combination of fixed maturity and equity securities which were delivered in April 2007. The cash and miscellaneous receivables received are included in the accompanying Consolidated Statement of Cash Flows for 2007 as components of operating cash flows. The investment securities received are reported as a non-cash investing activity.

The Equitas agreement was accounted for as reinsurance in accordance with SFAS No. 113 "Accounting for short duration and long duration reinsurance contracts." Accordingly, premiums earned of $7.1 billion and losses incurred of $7.1 billion are reflected in the Consolidated Statement of Earnings. Losses incurred consisted of an estimated liability for unpaid losses and loss adjustment expenses of $9.3 billion less an asset for unamortized deferred charges reinsurance assumed of $2.2 billion. The deferred charge asset is being amortized over the expected remaining loss settlement period using the interest method and the periodic amortization is being charged to earnings as a component of losses and loss adjustment expenses incurred.

(12) Notes payable and other borrowings

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

	2007	*2006*
Insurance and other:		
Issued by Berkshire due 2025-2033	$ 250	$ 894
Issued by subsidiaries and guaranteed by Berkshire:		
Commercial paper and other short-term borrowings	1,192	1,355
Other debt due 2009-2035	240	240
Issued by subsidiaries and not guaranteed by Berkshire due 2008-2041	998	1,209
	$ 2,680	$ 3,698

Notes payable and other borrowings issued by Berkshire includes several individual investment agreement borrowings under which Berkshire is required to periodically pay interest over the contract terms. Under certain conditions, principal amounts may be redeemed without premium prior to the contractual maturity date at the option of the counterparties. Commercial paper and other short-term borrowings are utilized by certain subsidiaries as part of normal business operations. Weighted average interest rates as of December 31, 2007 and 2006 were 4.6% and 5.4%, respectively.

	2007	*2006*
Utilities and energy:		
Issued by MidAmerican and its subsidiaries and not guaranteed by Berkshire:		
MidAmerican senior unsecured debt due 2008-2037	$ 5,471	$ 4,479
Subsidiary and project debt due 2008-2037	13,227	12,014
Other	304	453
	$19,002	$16,946

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, 2007, MidAmerican and its subsidiaries were in compliance with all applicable covenants. During 2007, MidAmerican issued $3.55 billion par amount of bonds and senior notes with maturities ranging from 2012 to 2037. The proceeds were used to repay existing debt or otherwise are intended to be used to repay debt maturing subsequent to December 31, 2007, to finance planned capital expenditures or for general corporate purposes. Berkshire has made a commitment until February 28, 2011 that allows MidAmerican to request up to $3.5 billion of capital to pay its debt obligations or to provide funding to its regulated subsidiaries.

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

	2007	2006
Finance and financial products:		
Issued by Berkshire Hathaway Finance Corporation ("BHFC") and guaranteed by Berkshire:		
Notes due 2007	$ —	$ 700
Notes due 2008	3,100	3,098
Notes due 2010	1,996	1,994
Notes due 2012-2015	3,790	3,039
Issued by other subsidiaries and guaranteed by Berkshire due 2008-2027	804	398
Issued by other subsidiaries and not guaranteed by Berkshire due 2008-2030	2,454	2,732
	$12,144	$11,961

BHFC, a wholly-owned subsidiary of Berkshire, issued senior notes at various times in recent years. In the third quarter of 2007, BHFC issued $750 million par amount of senior notes due in 2012. BHFC issued $2 billion par amount of senior notes in January 2008, including $1.5 billion par amount of notes due in 2011 and $500 million par amount of notes due in 2013 and repaid maturing notes of $1.25 billion par amount. Borrowings by BHFC are used to provide financing for installment loans issued or acquired by subsidiaries of Clayton Homes. At December 31, 2007, debt issued by other finance subsidiaries and not guaranteed by Berkshire includes approximately $1.4 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. During 2007, XTRA Finance Corporation, a wholly owned subsidiary, issued $400 million par amount of senior notes due 2017, which is included in other subsidiary borrowings guaranteed by Berkshire.

Berkshire subsidiaries in the aggregate have approximately $4.8 billion of available unused lines of credit and commercial paper capacity to support their short-term borrowing programs and provide additional liquidity. 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).

	2008	2009	2010	2011	2012
Insurance and other	$1,268	$ 298	$ 55	$ 12	$ 21
Utilities and energy	2,096	422	140	1,138	1,461
Finance and financial products	3,938	198	2,165	139	1,632
	$7,302	$ 918	$2,360	$1,289	$3,114

(13) Income taxes

The liability for income taxes as of December 31, 2007 and 2006 as reflected in the accompanying Consolidated Balance Sheets is as follows (in millions).

	2007	2006
Payable currently	$ (182)	$ 189
Deferred	18,156	18,271
Other	851	710
	$18,825	$19,170

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities at December 31, 2007 and 2006 are shown below (in millions).

	2007	2006
Deferred tax liabilities:		
Investments – unrealized appreciation and cost basis differences	$13,501	$14,520
Deferred charges reinsurance assumed	1,395	687
Property, plant and equipment	4,890	4,775
Other	2,743	2,591
	22,529	22,573
Deferred tax assets:		
Unpaid losses and loss adjustment expenses	(756)	(681)
Unearned premiums	(425)	(443)
Accrued liabilities	(1,259)	(1,335)
Other	(1,933)	(1,843)
	(4,373)	(4,302)
Net deferred tax liability	$18,156	$18,271

(13) Income taxes *(Continued)*

Deferred income taxes have not been established with respect to undistributed earnings of certain foreign subsidiaries. Earnings expected to remain reinvested indefinitely were approximately $3,028 million as of December 31, 2007. 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).

	2007	*2006*	*2005*
Federal	$ 5,740	$ 4,752	$ 3,736
State	234	153	129
Foreign	620	600	294
	$ 6,594	$ 5,505	$ 4,159
Current	$ 5,708	$ 5,030	$ 2,057
Deferred	886	475	2,102
	$ 6,594	$ 5,505	$ 4,159

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

	2007	*2006*	*2005*
Earnings before income taxes	$20,161	$16,778	$12,791
Hypothetical amounts applicable to above computed at the Federal statutory rate	$ 7,056	$ 5,872	$ 4,477
Tax effects resulting from:			
Tax-exempt interest income	(33)	(44)	(65)
Dividends received deduction	(306)	(224)	(133)
Net earnings of MidAmerican	—	—	(183)
State income taxes, less Federal income tax benefit	152	99	84
Foreign tax rate differences	(36)	(45)	56
Effect of income tax rate changes on deferred income taxes *	(90)	—	—
Other differences, net	(149)	(153)	(77)
Total income taxes	$ 6,594	$ 5,505	$ 4,159

* *Relates to adjustments made to deferred income tax assets and liabilities upon the enactment of reductions to corporate income tax rates in the United Kingdom and Germany.*

Berkshire and its subsidiaries' U.S. Federal income tax returns are continuously under audit. Berkshire's U.S. Federal income tax return liabilities have been settled with the Internal Revenue Service ("IRS") through 1998. The IRS has completed its audits of 1999 through 2004 and has proposed adjustments to increase consolidated tax liabilities in 1999 through 2004 tax periods which remain unsettled. These proposed adjustments are predominantly related to timing of deductions of insurance subsidiaries and the examinations are currently in the IRS' appeals process.

Income tax returns of Berkshire subsidiaries are also under examination in numerous state, local and foreign jurisdictions. While it is reasonably possible that certain of the income tax examinations will be settled within the next twelve months, management believes the impact will be immaterial to the Consolidated Financial Statements.

Berkshire adopted FIN 48 effective January 1, 2007 and had $857 million of net unrecognized tax benefits. The cumulative net effect of adopting FIN 48 was a reduction to retained earnings of $24 million. At December 31, 2007, net unrecognized tax benefits were $851 million which included $635 million that if recognized would have an impact on the effective tax rate. The remaining unrecognized benefits relate to positions for which ultimate recognition is highly certain but the timing of recognition is uncertain and for tax benefits related to acquired businesses that if recognized would not be reflected in income tax expense.

(14) 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 $6.6 billion as ordinary dividends before the end of 2008.

Combined shareholders' equity of U.S. based property/casualty insurance subsidiaries determined pursuant to statutory accounting rules (Statutory Surplus as Regards Policyholders) was approximately $62 billion at December 31, 2007 and $59 billion at December 31, 2006.

(14) Dividend restrictions – Insurance subsidiaries *(Continued)*

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 not amortized and is subject to periodic tests for impairment.

(15) Fair values of financial instruments

The estimated fair values of Berkshire's financial instruments as of December 31, 2007 and 2006 are as follows (in millions).

	Carrying Value		*Fair Value*	
	2007	*2006*	*2007*	*2006*
Insurance and other:				
Investments in fixed maturity securities	$28,515	$25,300	$28,515	$25,300
Investments in equity securities	74,999	61,533	74,999	61,533
Notes payable and other borrowings	2,680	3,698	2,709	3,815
Finance and financial products:				
Investments in fixed maturity securities	3,056	3,012	3,231	3,164
Derivative contract assets *(a)*	699	624	699	624
Loans and finance receivables	12,359	11,498	12,612	11,862
Notes payable and other borrowings	12,144	11,961	12,317	11,787
Derivative contract liabilities	6,887	3,883	6,887	3,883
Utilities and energy:				
Derivative contract assets *(a)*	397	484	397	484
Notes payable and other borrowings	19,002	16,946	19,834	17,789
Derivative contract liabilities *(b)*	765	889	765	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. The pricing services and appraisals reflect the estimated present values of future expected cash flows utilizing current risk adjusted market rates of similar instruments. The carrying values of cash and cash equivalents, accounts receivable and accounts payable, accruals and other liabilities are deemed to be reasonable estimates of their fair values.

Considerable judgment is 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.

(16) Common stock

Changes in issued and outstanding Berkshire common stock during the three years ended December 31, 2007 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, 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
Issuance of shares on exercise of SQUARZ warrants	2,325	41,706
Conversions of Class A common stock to Class B common stock and other	(38,869)	1,205,943
Balance December 31, 2007	1,081,024	14,000,080

(16) Common stock *(Continued)*

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 1,547,693 shares outstanding as of December 31, 2007 and 1,542,649 shares as of December 31, 2006.

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.

During 2007, holders of SQUARZ securities exercised the warrant component of the securities and received Class A and Class B shares. In connection with these exercises, Berkshire received $333 million.

(17) 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 make contributions to the plans to meet regulatory requirements plus additional amounts as determined by management based on actuarial valuations.

The components of net periodic pension expense for each of the three years ending December 31, 2007 are as follows (in millions).

	2007	*2006*	*2005*
Service cost	$ 202	$ 199	$ 113
Interest cost	439	390	190
Expected return on plan assets	(444)	(393)	(186)
Net gain/loss amortization, other	65	67	9
Net pension expense	$ 262	$ 263	$ 126

The accumulated benefit obligation is the actuarial present value of benefits earned based on service and compensation prior to the valuation date. As of December 31, 2007 and 2006, the accumulated benefit obligation was $6,990 million and $7,056 million, respectively. 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 the projected benefit obligations is shown in the table that follows (in millions).

	2007	*2006*
Projected benefit obligation, beginning of year	$7,926	$3,602
Service cost	202	199
Interest cost	439	390
Benefits paid	(476)	(370)
Consolidation of MidAmerican	—	2,237
Business acquisitions	—	1,519
Actuarial (gain) or loss and other	(408)	349
Projected benefit obligation, end of year	$7,683	$7,926

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, 2007, projected benefit obligations of non-qualified U.S. plans and non-U.S. plans which are not funded through assets held in trusts were $637 million. A reconciliation of the changes in plan assets and a summary of plan assets held as of December 31, 2007 and 2006 is presented in the table that follows (in millions).

	2007	*2006*
Plan assets at fair value, beginning of year	$6,792	$3,101
Employer contributions	262	228
Benefits paid	(476)	(370)
Actual return on plan assets	447	612
Consolidation of MidAmerican	—	2,238
Business acquisitions	—	967
Other and expenses	38	16
Plan assets at fair value, end of year	$7,063	$6,792

	2007	*2006*
Cash and equivalents	$ 427	$ 818
U.S. Government obligations	186	554
Mortgage-backed securities	390	602
Corporate obligations	1,005	963
Equity securities	4,169	3,440
Other	886	415
	$7,063	$6,792

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 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 generally 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.

(17) Pension plans *(Continued)*

The defined benefit plans expect to pay benefits to participants over the next ten years, reflecting expected future service as appropriate, as follows (in millions): 2008 - $418; 2009 - $415; 2010 - $419; 2011 - $435; 2012 - $459; and 2013 to 2017 - $2,594. Sponsoring subsidiaries expect to contribute $265 million to defined benefit pension plans in 2008.

As of December 31, 2007 and 2006, the net funded status of the plans is summarized in the table that follows (in millions).

	2007	*2006*
Amounts recognized in the Consolidated Balance Sheets:		
Other liabilities	$ 981	$1,398
Other assets	(361)	(264)
Amounts recognized	$ 620	$1,134

A reconciliation of amounts not yet recognized as components of net periodic benefit costs for the years ending December 31, 2007 and 2006 follows (in millions).

Net amount included in accumulated other comprehensive income, beginning of year	$(303)	$ (392)
Amount included in net periodic pension expense	25	45
Gains and losses current period	114	322
Adoption of SFAS 158	—	(278)
Net amount included in accumulated other comprehensive income, end of year	$(164)	$(303)

Amount included in accumulated other comprehensive income as of December 31, 2007 and expected to be included in net periodic pension expense next year (in millions)	$ 22

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.

	2007	*2006*
Discount rate	6.1	5.7
Expected long-term rate of return on plan assets	6.9	6.9
Rate of compensation increase	4.4	4.4

Several Berkshire subsidiaries also 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. Several of the plans require that the subsidiary match these contributions up to levels specified in the plans and provide for additional discretionary contributions as determined by management. The total expenses related to employer contributions for these plans were $506 million, $498 million and $395 million for the years ended December 31, 2007, 2006 and 2005, respectively.

(18) 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.

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

(18) Business segment data *(Continued)*

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, IMC, Johns Manville, Justin Brands, Larson-Juhl, MiTek, Richline, Russell and Scott Fetzer
Service	Buffalo News, Business Wire, FlightSafety, International Dairy Queen, Pampered Chef, NetJets and TTI
Retailing	Ben Bridge Jeweler, Borsheims, 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:	*2007*	*2006*	*2005*	*2007*	*2006*	*2005*
Premiums earned:						
GEICO	$ 11,806	$11,055	$10,101	$ 1,113	$ 1,314	$ 1,221
General Re	6,076	6,075	6,435	555	526	(334)
Berkshire Hathaway Reinsurance Group	11,902	4,976	3,963	1,427	1,658	(1,069)
Berkshire Hathaway Primary Group	1,999	1,858	1,498	279	340	235
Investment income	4,791	4,347	3,501	4,758	4,316	3,480
Total insurance group	36,574	28,311	25,498	8,132	8,154	3,533
Finance and financial products	5,119	5,124	4,559	1,006	1,157	822
McLane Company	28,079	25,693	24,074	232	229	217
MidAmerican	12,628	10,644	—	1,774	1,476	—
Shaw Industries	5,373	5,834	5,723	436	594	485
Other businesses	25,648	21,133	17,099	3,279	2,703	1,921
	113,421	96,739	76,953	14,859	14,313	6,978
Reconciliation of segments to consolidated amount:						
Investment and derivative gains/losses	5,509	2,635	5,494	5,509	2,635	5,494
Equity in earnings of MidAmerican	—	—	—	—	—	523
Interest expense, not allocated to segments	—	—	—	(52)	(76)	(72)
Eliminations and other	(685)	(835)	(784)	(155)	(94)	(132)
	$118,245	$98,539	$81,663	$20,161	$16,778	$12,791

	Capital expenditures *			**Depreciation of tangible assets**		
Operating Businesses:	*2007*	*2006*	*2005*	*2007*	*2006*	*2005*
Insurance group	$ 52	$ 65	$ 60	$ 69	$ 64	$ 62
Finance and financial products	322	334	354	226	230	221
McLane Company	175	193	125	100	94	96
MidAmerican	3,513	2,423	—	1,157	949	—
Shaw Industries	144	189	209	144	134	113
Other businesses	1,167	1,367	1,447	711	595	490
	$ 5,373	$ 4,571	$ 2,195	$ 2,407	$ 2,066	$ 982

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

(18) Business segment data *(Continued)*

Operating Businesses:	**Goodwill at year-end** *2007*	*2006*	**Identifiable assets at year-end** *2007*	*2006*
Insurance group:				
GEICO	$ 1,372	$ 1,370	$ 18,988	$ 18,544
General Re	13,532	13,532	32,571	31,114
Berkshire Hathaway Reinsurance and Primary Groups	546	465	95,379	85,972
Total insurance group	15,450	15,367	146,938	135,630
Finance and financial products	1,013	1,012	24,733	23,599
McLane Company	149	158	3,329	2,986
MidAmerican	5,543	5,548	33,645	30,942
Shaw Industries	2,339	2,228	2,922	2,776
Other businesses	8,368	7,925	20,579	17,571
	$32,862	$32,238	232,146	213,504
Reconciliation of segments to consolidated amount:				
Corporate and other			8,152	2,695
Goodwill			32,862	32,238
			$273,160	$248,437

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

	Property/Casualty *2007*	*2006*	*2005*	*Life/Health* *2007*	*2006*	*2005*
United States	$18,589	$19,195	$16,228	$1,092	$1,073	$1,147
Western Europe	9,641	2,576	2,643	706	628	578
All other	588	638	760	681	667	578
	$28,818	$22,409	$19,631	$2,479	$2,368	$2,303

Insurance premiums written and earned in 2007 included $7.1 billion from a single reinsurance transaction with Equitas. See Note 11 for additional information. Amounts for Western Europe were primarily in the United Kingdom and Germany. Consolidated sales and service revenues in 2007, 2006 and 2005 were $58.2 billion, $51.8 billion and $46.1 billion, respectively. Over 90% of such amounts in each year were in the United States with the remainder primarily in Canada and Europe. In 2007, consolidated sales and service revenues included $10.5 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 *2007*	*2006*	*2005*	*Life/Health* *2007*	*2006*	*2005*
Premiums Written:						
Direct	$16,056	$15,729	$13,582			
Assumed	13,316	7,224	6,788	$2,579	$2,476	$2,400
Ceded	(554)	(544)	(739)	(100)	(108)	(97)
	$28,818	$22,409	$19,631	$2,479	$2,368	$2,303
Premiums Earned:						
Direct	$16,076	$15,453	$13,287			
Assumed	13,744	6,746	7,114	$2,564	$2,471	$2,387
Ceded	(499)	(599)	(699)	(102)	(107)	(92)
	$29,321	$21,600	$19,702	$2,462	$2,364	$2,295

(19) 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.

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). 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 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.

On February 25, 2008, 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, were each convicted in a trial in the U.S. District Court for the District of Connecticut on charges of conspiracy, mail fraud, securities fraud and making false statements to the SEC in connection with the AIG Transaction. These individuals have the right to appeal their convictions. 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.

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. Berkshire believes that government authorities are continuing to evaluate possible legal actions against General Re and its subsidiaries.

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.

Kolnische Ruckversicherungs-Gesellschaft AG ("Cologne Re") has also cooperated fully with requests for information and orders to produce documents from the German Federal Financial Supervisory Authority ("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. The BaFin has concluded its investigation of Cologne Re concerning these matters.

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 cooperated fully with this investigation. On June 28, 2007, APRA announced that it had concluded its investigation and imposed a condition on GRA's license that requires it to maintain a majority of independent directors on its local board.

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.

(19) Contingencies and Commitments *(Continued)*

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) <u>Civil Litigation</u>

<u>Litigation Related to ROA</u>

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. ROA was a Virginia-based reciprocal insurer and reinsurer of physician, hospital and lawyer professional liability risks. 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. 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 that motion was granted, with the court dismissing the claim based on an alleged violation of RICO with prejudice and dismissing the state law claims without prejudice. One of the other defendants filed a motion for the court to reconsider the dismissal of the state law claims, requesting that the court retain jurisdiction over them. That motion is pending.

The Tennessee Receiver subsequently filed three Tennessee state court actions against General Reinsurance, essentially asserting the same state law claims that had been dismissed without prejudice by the Federal court. General Reinsurance removed those actions to Federal court, and the Tennessee Receiver filed a motion to remand to state court. That motion is the subject of briefing. General Reinsurance has filed a motion with the Judicial Panel on Multi-District Litigation to transfer the three Tennessee state court actions now pending in the Middle District of Tennessee to the U.S. District Court for the Western District of Tennessee.

The Virginia receiver has moved for reconsideration of the dismissal and for leave to amend his complaint, which was opposed by General Reinsurance. The court affirmed its original ruling but has given the Virginia receiver leave to amend. 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.

General Reinsurance filed a Complaint and a motion in federal court to compel the Tennessee and Virginia receivers to arbitrate their claims against General Reinsurance. The receivers filed motions to dismiss the Complaint. These motions are pending.

<u>Actions related to AIG</u>

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.

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. Subsequently, the New York Derivative Litigation was stayed by stipulation between the plaintiffs and AIG. That stay remains in place.

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. In June 2007, AIG filed an Amended Complaint in the Delaware Derivative Litigation asserting claims against two of its former officers, but not against General Reinsurance. On September 28, 2007, AIG and the shareholder plaintiffs filed a Second Combined Amended Complaint, in which AIG asserted claims against certain of its former officers and the shareholder plaintiffs asserted claims against a number of other defendants, including General Reinsurance and General Re. 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. General Reinsurance and General Re filed a motion to dismiss on November 30, 2007. Various parties moved to stay discovery and/or all proceedings in the Delaware Derivative Litigation. At a hearing held on February 12, 2008, the Court ruled that discovery would be stayed pending the resolution of the claims asserted against AIG in the AIG Securities Litigation. The parties are currently formulating the text of a stipulation implementing the Court's ruling and establishing a briefing schedule on the motions to dismiss.

<u>FAI/HIH Matter</u>

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 and discovery is ongoing. The FAI Liquidator dismissed his complaint against GRA and Cologne Re.

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) <u>Commitments</u>

Berkshire subsidiaries lease certain manufacturing, warehouse, retail and office facilities as well as certain equipment. Rent expense for all leases was $648 million in 2007, $578 million in 2006 and $432 million in 2005. 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.

2008	*2009*	*2010*	*2011*	*2012*	*After 2012*	*Total*
$541	$457	$351	$272	$214	$661	$2,496

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 541 aircraft through 2015 and MidAmerican's commitments to purchase coal, electricity and natural gas. Commitments under all such subsidiary arrangements are approximately $7.3 billion in 2008, $3.9 billion in 2009, $3.6 billion in 2010, $2.6 billion in 2011, $1.7 billion in 2012 and $6.9 billion after 2012.

As of December 31, 2007 Berkshire is contractually obligated to acquire 60% of Marmon Holdings, Inc. ("Marmon") for $4.5 billion in cash. Once the initial acquisition is completed, Berkshire will then become obligated to acquire the remaining minority shareholders' interests (40%) in stages between 2011 and 2014. Based upon the initial purchase price, the cost to Berkshire of the minority shareholders' interest would be $3.0 billion. However, the consideration payable for the minority shareholders' interest is contingent upon future operating results of Marmon and the per share cost could be greater than or less than the initial per share price. (For additional information see Note 2).

Berkshire is also obligated under certain conditions to acquire minority ownership interests of certain consolidated, but not wholly-owned subsidiaries, pursuant to the terms of certain shareholder agreements with the minority shareholders. The consideration payable for such interests is generally based on the fair value of the subsidiary. Were Berkshire to have acquired all such outstanding minority ownership interest holdings as of December 31, 2007, the cost to Berkshire would have been approximately $4 billion. However, the timing and the amount of any such future payments that might be required are contingent on future actions of the minority owners and future operating results of the related subsidiaries.

(20) Supplemental cash flow information

A summary of supplemental cash flow information for each of the three years ending December 31, 2007 is presented in the following table (in millions).

	2007	2006	2005
Cash paid during the year for:			
Income taxes	$5,895	$4,959	$2,695
Interest of finance and financial products businesses	569	514	484
Interest of utilities and energy businesses	1,118	937	—
Interest of insurance and other businesses	182	195	149
Non-cash investing and financing activities:			
Investments received in connection with the Equitas reinsurance transaction	6,529	—	—
Liabilities assumed in connection with acquisitions of businesses	612	12,727	2,163
Fixed maturity securities sold or redeemed offset by decrease in directly related repurchase agreements	599	460	4,693
Value of equity securities and warrants exchanged for other equity securities	258	—	5,877

(21) 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.

2007	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Revenues	$32,918	$27,347	$29,937	$28,043
Net earnings *	2,595	3,118	4,553	2,947
Net earnings per equivalent Class A common share	1,682	2,018	2,942	1,904
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

* *Includes investment 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 and includes derivative contract gains/losses, which may include significant amounts related to non-cash fair value changes to long-term contracts arising from short-term changes in equity prices, interest rate and foreign currency rates, among other factors. Derivative contract gains/losses therefore have little predictive value and minimal analytical value in relation to reported earnings. 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 – 2007	*$382*	*$608*	*$1,992*	*$597*
Investment and derivative gains/losses – 2006	*526*	*294*	*174*	*715*

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.

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.

	2007	2006	2005
Insurance – underwriting	$ 2,184	$ 2,485	$ 27
Insurance – investment income	3,510	3,120	2,412
Utilities and energy	1,114	885	523
Manufacturing, service and retailing	2,353	2,131	1,646
Finance and financial products	632	732	514
Other	(159)	(47)	(124)
Investment and derivative gains/losses	3,579	1,709	3,530
Net earnings	$13,213	$11,015	$8,528

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 18 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.

	2007	2006	2005
Underwriting gain (loss) attributable to:			
GEICO	$ 1,113	$ 1,314	$ 1,221
General Re	555	526	(334)
Berkshire Hathaway Reinsurance Group	1,427	1,658	(1,069)
Berkshire Hathaway Primary Group	279	340	235
Pre-tax underwriting gain	3,374	3,838	53
Income taxes and minority interests	1,190	1,353	26
Net underwriting gain	$ 2,184	$ 2,485	$ 27

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, (2) General Re, (3) Berkshire Hathaway Reinsurance Group and (4) Berkshire Hathaway Primary Group.

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 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 significant losses from major catastrophe events in 2006 or 2007.

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 $62 billion at December 31, 2007. 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 the 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.

	2007		2006		2005	
	Amount	%	Amount	%	Amount	%
Premiums written	$11,931		$11,303		$10,285	
Premiums earned	$11,806	100.0	$11,055	100.0	$10,101	100.0
Losses and loss adjustment expenses	8,523	72.2	7,749	70.1	7,128	70.6
Underwriting expenses	2,170	18.4	1,992	18.0	1,752	17.3
Total losses and expenses	10,693	90.6	9,741	88.1	8,880	87.9
Pre-tax underwriting gain	$ 1,113		$ 1,314		$ 1,221*	

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

Premiums earned in 2007 and 2006 increased 6.8% and 9.4%, respectively, over the corresponding prior year amounts. The growth in premiums earned for voluntary auto in 2007 was 6.6%, which was less than the 8.8% increase in policies-in-force during the past year as average premiums per policy continue to slowly decline. Average premiums per policy in 2008 are expected to be relatively unchanged from 2007. Policies-in-force also increased over the last twelve months in the preferred risk markets (8.4%) and in the standard and nonstandard markets (10.0%). Voluntary auto new business sales increased 5.0% in 2007 as compared to the prior year. Voluntary auto policies-in-force at December 31, 2007 were 656,000 higher than at December 31, 2006.

Losses and loss adjustment expenses in 2007 were $8,523 million, an increase of 10.0% over 2006. The loss ratio increased to 72.2% in 2007 compared to 70.1% in 2006 and 70.6% in 2005. The increase in the loss ratio in 2007 in part reflects the aforementioned decline in average premiums per policy attributable to rate decreases. In 2007, claims frequencies for physical damage coverages increased in the two to four percent range over 2006 while frequencies for injury coverages decreased in the three to five percent range. Physical damage severities increased in the second half of 2007 at an annualized rate of two to four percent. Injury severities also began to increase in the latter part of 2007 at an annualized rate of three to six percent. Incurred losses from catastrophe events were approximately $34 million in 2007, $54 million in 2006 and $227 million in 2005 (primarily from the hurricanes in the third and fourth quarters).

Underwriting expenses in 2007 were $2,170 million, an increase of 8.9% over 2006, which increased 13.7% over 2005. The increases in expenses in both years primarily reflected higher advertising costs as well as increased personnel costs to service the growth of policies-in-force.

General Re

General Re conducts a reinsurance business offering property and casualty and life and health coverages to clients worldwide. Property and casualty reinsurance is written in North America on a direct basis through General Reinsurance Corporation and internationally through 95% owned Cologne Re (based in Germany) and other wholly-owned affiliates. Property and casualty reinsurance is also written through brokers with respect to Faraday in London. Life and health reinsurance is written worldwide through Cologne Re. General Re strives to generate underwriting gains in essentially all of its product lines. Underwriting performance is not evaluated based upon market share and underwriters are instructed to reject inadequately priced risks. General Re's 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)		
	2007	2006	2005	2007	2006	2005	2007	2006	2005
Property/casualty	$3,478	$3,581	$3,852	$3,614	$3,711	$4,140	$ 475	$ 373	$ (445)*
Life/health	2,479	2,368	2,303	2,462	2,364	2,295	80	153	111
	$5,957	$5,949	$6,155	$6,076	$6,075	$6,435	$ 555	$ 526	$ (334)

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

<u>*Property/casualty*</u>

Premiums written in 2007 declined 2.9% from amounts written in 2006 which declined 7.0% from amounts written in 2005. Premiums written in 2007 included $114 million with respect to a reinsurance to close transaction that increased General Re's economic interest in the runoff of the Lloyd's Syndicate 435's 2001 year of account from 60% to 100%. There was no similar transaction in 2006 or 2005. Excluding the effect of the reinsurance to close transaction and the effects of foreign currency translation, premiums written declined 10.9% when compared to 2006 which decreased 5.7% when compared to 2005. Premiums earned in 2007 declined 2.6% from amounts earned in 2006 which declined 10.4% from amounts earned in 2005. Excluding the effects of the reinsurance to close transaction discussed above and the effects of foreign currency translation, premiums earned declined 10.1% in 2007 as compared to 2006 and 11.3% in 2006 as compared to 2005. The overall comparative declines in written and earned premiums in the past three years reflected continued underwriting discipline by rejecting transactions where pricing is deemed inadequate with respect to the risk as well as significant decreases in finite risk business. Competition within the industry could lead to further declines in 2008.

Pre-tax underwriting results in 2007 included $519 million in underwriting gains from property business partially offset by $44 million in underwriting losses from casualty/workers' compensation business. The property business produced underwriting gains of $90 million for the 2007 accident year and $429 million from favorable run-off of prior years' property losses. Although the current accident year results included $192 million of catastrophe losses, property results generally reflected relatively low loss levels. The timing and magnitude of catastrophe and large individual losses produces significant volatility in periodic underwriting results. The pre-tax underwriting losses from casualty business in 2007 included $120 million of workers' compensation accretion of discount and deferred charge amortization, as well as legal costs associated with various ongoing finite reinsurance investigations. These charges were largely offset by underwriting gains in other casualty business.

Pre-tax underwriting results in 2006 included $708 million in underwriting gains from property business partially offset by $335 million in underwriting losses from casualty/workers' compensation business and legal and estimated settlement costs associated with the finite reinsurance investigations. The property business produced underwriting gains of $317 million for the 2006 accident year and $391 million from favorable run-off of prior years' losses. The 2006 accident year results also benefited from a lack of catastrophe losses. The underwriting losses from casualty business in 2006 included $137 million in discount accretion and deferred charge amortization, increases in prior years' workers' compensation reserves of $103 million arising from the continuing escalation of medical utilization and cost inflation as well as increases in asbestos and environmental reserves which were somewhat offset by net decreases in prior years' reserves for other casualty coverages.

The 2005 pre-tax underwriting loss of $445 million included approximately $685 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 as well as favorable aviation and non-catastrophe property business. 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 and deferred charge amortization. Offsetting these prior years' losses were $527 million in gains from net reserve decreases in other casualty lines and property lines.

<u>*Life/health*</u>

Premiums earned in 2007 increased 4.1% over 2006 which increased 3.0% over 2005. Adjusting for the effects of foreign currency translation, premiums earned were relatively unchanged in 2007 and increased 2.3% in 2006 when compared to 2005. The increase in premiums earned in 2006 was primarily from life business in Europe.

Underwriting results for the global life/health operations produced pre-tax underwriting gains of $80 million in 2007, $153 million in 2006 and $111 million in 2005. Results for continuing operations were profitable in each of the past three years primarily due to favorable mortality with respect to life business. Included in the underwriting results for 2007, 2006 and 2005 were $105 million, $31 million and $66 million, respectively, of net losses attributable to reserve increases on certain U.S. health coverages related to workers' compensation and long-term-care business that has been in run-off for several years.

Insurance — Underwriting *(Continued)*

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 property, aviation and workers' compensation programs. The timing and amount of catastrophe losses can produce extraordinary volatility in BHRG's periodic underwriting results. BHRG's underwriting results are summarized below. Amounts are in millions.

	Premiums earned			Pre-tax underwriting gain (loss)		
	2007	2006	2005	2007	2006	2005
Catastrophe and individual risk	$ 1,577	$2,196	$1,663	$1,477	$1,588	$(1,178)
Retroactive reinsurance	7,708	146	10	(375)	(173)	(214)
Other multi-line	2,617	2,634	2,290	325	243	323
	$11,902	$4,976	$3,963	$1,427	$1,658	$(1,069)*

* *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). Premiums earned from catastrophe and individual risk contracts in 2007 declined 28% from 2006 which increased 32% over 2005. Catastrophe and individual risk premiums written were approximately $1.2 billion in 2007, $2.4 billion in 2006 and $1.8 billion in 2005. The decrease in written and earned premiums in 2007 was principally attributable to increased industry capacity for catastrophe reinsurance which has produced increased price competition and fewer opportunities to write business. The level of catastrophe and individual risk business written in a given period will vary significantly based upon market conditions and management's assessment of the adequacy of premium rates.

The underwriting results from catastrophe and individual risk business in 2007 and 2006 reflected no significant losses from catastrophe events during those years. In 2006, BHRG incurred losses of approximately $200 million attributable to prior years' events, primarily Hurricane Wilma which occurred in the fourth quarter of 2005. The underwriting results in 2005 included estimated losses of approximately $2.4 billion from Hurricanes Katrina, Rita and Wilma. The timing and magnitude of losses produce extraordinary volatility in periodic underwriting results of BHRG's catastrophe and individual risk business. BHRG 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 attributable to the amortization of deferred charges established on the contracts. At the inception of the contract, deferred charges represent the difference between the premium received and the estimated ultimate loss reserves payable. Deferred charges are amortized over the estimated claims payment period using the interest method. The amortization charges are based on the estimated timing and amount of loss payments and are recorded as a component of losses and loss adjustment expenses.

Premiums earned from retroactive reinsurance in 2007 included $7.1 billion from the Equitas reinsurance agreement which became effective on March 30, 2007. See Note 11 to the accompanying Consolidated Financial Statements. At the inception of the Equitas contract, estimated liabilities for losses and loss adjustment expenses of $9.3 billion and an asset for deferred charges reinsurance assumed of $2.2 billion were recorded. At December 31, 2007, unamortized deferred charges for all of BHRG's retroactive contracts (including the Equitas contract) were approximately $3.8 billion and gross unpaid losses were approximately $17.3 billion.

The underwriting loss from retroactive policies in 2007 included deferred charge amortization of $156 million on contracts written in 2007 (primarily the Equitas contract). There were no significant reserve changes in 2007 related to pre-2007 contracts. 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 commutation of a contract.

Other multi-line premiums earned in 2007 reflect significant increases in property business and significant decreases in casualty excess reinsurance. In addition, the management of certain workers' compensation business was transferred to the Berkshire Hathaway Primary Group and the results for this business are now included in that group's results. Premiums earned from other multi-line business increased in 2006 as compared to 2005 due to growth in workers' compensation business. Multi-line business produced a pre-tax underwriting gain of $325 million in 2007 and $243 million in 2006 reflecting relatively low loss ratios on property business and favorable loss experience on workers' compensation business. Underwriting results in 2005 included estimated losses of approximately $100 million from Hurricanes Katrina, Rita and Wilma.

Insurance — Underwriting *(Continued)*

Berkshire Hathaway Reinsurance Group (Continued)

Effective January 1, 2008, BHRG entered into a reinsurance agreement with Swiss Reinsurance Company and its property-casualty affiliates ("Swiss Re"). Under the agreement, BHRG will assume a 20% quota-share of the premiums and related losses and expenses on all property-casualty risks of Swiss Re incepting over the five year period ending December 31, 2012. If recent years' volumes were to continue over the next five years, the annual written premium assumed under this agreement would be in the $3 billion range, however actual premiums assumed over the five year period could vary significantly depending on market conditions and opportunities.

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, whose subsidiaries underwrite specialty insurance coverages; a group of companies referred to internally as "Homestate" operations, providers of standard multi-line insurance; and Central States Indemnity Company, a provider of credit and disability insurance to individuals nationwide through financial institutions. Also included are Medical Protective Corporation ("MedPro"), a provider of professional liability insurance to physicians, dentists and other healthcare providers acquired on June 30, 2005 and Applied Underwriters, a provider of integrated workers' compensation solutions acquired on May 19, 2006. Underwriting results for these two businesses are included in the Berkshire Hathaway Primary Group results beginning on their respective acquisition dates.

Collectively, Berkshire's primary insurance businesses produced earned premiums of $1,999 million in 2007, $1,858 million in 2006 and $1,498 million in 2005. The significant 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. Pre-tax underwriting gains as percentages of premiums earned were approximately 14% in 2007, 18% in 2006 and 16% in 2005. Underwriting gains were achieved by all significant primary insurance businesses.

Insurance — Investment Income

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

	2007	2006	2005
Investment income before taxes	$4,758	$4,316	$3,480
Income taxes and minority interests	1,248	1,196	1,068
Investment income after taxes and minority interests	$3,510	$3,120	$2,412

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 2007 by Berkshire's insurance businesses increased $442 million (10%) over 2006 which increased $836 million (24%) over 2005. The increases in 2007 and 2006 over the preceding year reflect increased invested assets, higher short-term interest rates in the United States and increased dividend rates on certain equity investments.

A summary of cash and investments held in Berkshire's insurance businesses follows. Amounts are in millions.

	2007	2006	2005
Cash and cash equivalents	$ 28,257	$ 34,590	$ 38,814
Equity securities	74,681	61,168	46,412
Fixed maturity securities	27,922	25,272	27,385
	$130,860	$121,030	$112,611

Fixed maturity investments as of December 31, 2007 were as follows. Amounts are in millions.

	Amortized cost	Unrealized gains/losses	Fair value
U.S. Treasury, government corporations and agencies	$ 3,487	$ 59	$ 3,546
States, municipalities and political subdivisions	2,120	104	2,224
Foreign governments	9,529	29	9,558
Corporate bonds and redeemable preferred stocks, investment grade	4,223	64	4,287
Corporate bonds and redeemable preferred stocks, non-investment grade	3,589	1,075	4,664
Mortgage-backed securities	3,592	51	3,643
	$26,540	$ 1,382	$27,922

All U.S. government obligations are rated AAA by the major rating agencies and approximately 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.

Insurance — Investment Income *(Continued)*

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 $59 billion at December 31, 2007, $51 billion at December 31, 2006 and $49 billion at December 31, 2005. The increase in float in 2007 was principally due to the Equitas reinsurance transaction. The cost of float, as represented by the ratio of underwriting gain or loss to average float, was negative for the last three years, as Berkshire's insurance businesses generated underwriting gains in each year.

Utilities and Energy ("MidAmerican")

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

	Revenues			Earnings		
	2007	2006	2005	2007	2006	2005
MidAmerican Energy Company	$ 4,325	$ 3,519	$3,200	$ 412	$ 348	$ 288
PacifiCorp	4,319	2,971	—	692	356	—
Natural gas pipelines	1,088	972	909	473	376	309
U.K. utilities	1,114	961	921	337	338	308
Real estate brokerage	1,511	1,724	1,894	42	74	148
Other	271	497	356	130	245	124
	$12,628	$10,644	$7,280			
Earnings before corporate interest and taxes				2,086	1,737	1,177
Interest, other than to Berkshire				(312)	(261)	(200)
Interest on Berkshire junior debt				(108)	(134)	(157)
Income taxes and minority interests **				(477)	(426)	(257)
Net earnings				$ 1,189	$ 916	$ 563
Earnings applicable to Berkshire *				$ 1,114	$ 885	$ 523
Debt owed to others at December 31				19,002	16,946	10,296
Debt owed to Berkshire at December 31				821	1,055	1,289

* *Net of minority interests and includes interest earned by Berkshire (net of related income taxes).*

** *Net of $58 million deferred income tax benefit in 2007 as a result of the reduction in the United Kingdom corporate income tax rate from 30% to 28% which was enacted during the third quarter of 2007 and will be effective in 2008. Includes additional income tax charges of $49 million in 2005 related to Berkshire's accounting for MidAmerican under the equity method.*

Revenues in 2007 from MidAmerican Energy Company ("MEC") increased $806 million (23%) over 2006. MEC's non-regulated energy sales in 2007 exceeded 2006 by $597 million primarily due to increased electric sales volume and prices driven by improved market opportunities. MEC's regulated retail and wholesale electricity sales in 2007 exceeded 2006 by $155 million, which reflected the impact of new generating assets in 2007 and improved market opportunities in wholesale markets as well as higher unit sales attributable to warmer summer temperatures and increases in the average number of retail customers. Earnings before corporate interest and taxes ("EBIT") of MEC in 2007 increased $64 million (18%), reflecting the margins on the increases in regulated and nonregulated energy sales, partially offset by higher facilities operating and maintenance costs.

Revenues in 2007 from PacifiCorp increased $1,348 million (45%) versus 2006. Revenues and EBIT of PacifiCorp for 2006 in the preceding table are included beginning as of the acquisition date (March 21, 2006). EBIT of PacifiCorp in 2007 increased $336 million (94%) versus 2006. In 2007, PacifiCorp's revenues and EBIT were favorably impacted by regulatory-approved rate increases and higher customer usage in retail markets, as well as increased margins on wholesale electricity sales, partially offset by higher fuel and purchased power costs. Fuel costs increased due to the higher volumes and because of higher average unit costs.

Revenues in 2007 from natural gas pipelines increased $116 million (12%) over 2006 due primarily to higher demand and rates resulting from favorable market conditions and because revenues in 2006 reflected the impact of estimated rate case refunds to customers with respect to an order by the Federal Energy Regulatory Commission. EBIT in 2007 from natural gas pipelines increased $97 million (26%) over 2006 mainly due to comparatively higher revenue and lower depreciation due to expected changes in depreciation rates in connection with a current rate proceeding.

Revenues from U.K. utilities in 2007 increased over the comparable 2006 period primarily attributable to the strengthening of the Pound Sterling versus the U.S. dollar as well as higher gas production and electricity distribution revenues. EBIT from the U.K. utilities in 2007 was essentially unchanged compared to 2006 as higher maintenance and depreciation costs and the write-off of unsuccessful gas exploration costs offset the impact of higher revenues.

Revenues and EBIT from real estate brokerage declined 12% and 43%, respectively, compared to 2006, primarily due to significantly lower transaction volume as a result of the slowdown in U.S. residential real estate activity. Revenues and EBIT from other activities in 2006 included pre-tax gains of $117 million which was primarily from the disposal of equity securities. There were no significant securities gains in 2007.

Manufacturing, Service and Retailing

Revenues and pre-tax earnings of the manufacturing, service and retailing businesses for each of the past three years follows. Amounts are in millions.

	Revenues			Earnings		
	2007	2006	2005	2007	2006	2005
McLane Company	$28,079	$25,693	$24,074	$ 232	$ 229	$ 217
Shaw Industries	5,373	5,834	5,723	436	594	485
Other manufacturing	14,459	11,988	9,260	2,037	1,756	1,335
Other service *	7,792	5,811	4,728	968	658	329
Retailing	3,397	3,334	3,111	274	289	257
	$59,100	$52,660	$46,896			
Pre-tax earnings				$3,947	$3,526	$2,623
Income taxes and minority interests				1,594	1,395	977
				$2,353	$2,131	$1,646

* *Management evaluates the results of NetJets using accounting standards for recognition of revenue and planned major maintenance expenses that were generally accepted when Berkshire acquired NetJets but are no longer acceptable due to subsequent changes in accounting standards adopted by the FASB. Revenues and pre-tax earnings for the other services businesses shown above reflect these prior revenue and expense recognition methods. Revenues shown in this table are greater than the amounts reported in Berkshire's consolidated financial statements by $709 million in 2007, $781 million in 2006 and $704 million in 2005. Pre-tax earnings included in this table for 2007, 2006 and 2005 exceed the amounts included in the consolidated financial statements by $48 million, $79 million and $63 million, respectively.*

McLane Company

McLane Company, Inc., ("McLane") is a wholesale distributor of grocery and non-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 2007 increased $2,386 million (9%) as compared to 2006 which increased $1,619 million (7%) as compared to 2005. The comparative revenue increases reflect additional grocery and foodservice customers as well as manufacturer price increases and state excise tax increases which are passed on to customers.

Pre-tax earnings in 2007 increased $3 million over 2006 which increased $12 million over 2005. The increases reflect the increase in sales volume, partially offset by lower gross margins. The gross margin rate in 2007 was 5.79% versus 5.85% in 2006 and 5.98% in 2005. In 2007, the gross margin rate was negatively impacted by excise tax increases as well as the effects of increased competition. The impact of the reduced gross margin rate was partially offset by a decline in other operating expenses as a percentage of revenues. Pre-tax earnings in 2007 also included a $10 million gain from a litigation settlement, which was offset by an asset write down at a small novelty items distribution subsidiary. Approximately 33% of McLane's annual revenues are from sales to Wal-Mart. A curtailment of purchasing by Wal-Mart could have a material adverse impact on the 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. Revenues of $5,373 million in 2007 declined $461 million (8%) from 2006. In 2007, carpet volume decreased 10% versus 2006 due to lower sales in residential markets, partially offset by a modest increase in commercial market volume. The continued slowdown in new housing construction is the primary driver behind lower residential market sales. In 2007, pre-tax earnings decreased $158 million (27%) compared to 2006. The decline reflects the aforementioned lower sales volume and higher product costs due primarily to comparatively higher raw material prices and lower manufacturing efficiencies as a result of decreased production. These factors combined to produce declines in gross margin dollars in 2007 of approximately 17% versus 2006. Selling, general and administrative costs in 2007 declined approximately 6% compared with 2006, reflecting lower sales volume and expense control efforts. Residential housing construction activity is expected to remain slow during 2008 and as a result, revenues and earnings will likely decline further.

In 2006, revenues increased $111 million (2%) and pre-tax earnings of $594 million increased $109 million (22%) as compared to 2005. The increase in revenues reflected a 7% increase in the average square yard 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 was attributable to the slowing of single-family housing construction and the effects of accelerated customer purchases during the second half of 2005 in anticipation of price increases. The increase in pre-tax earnings in 2006 over 2005 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.

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 (includes the Russell athletic apparel and sporting goods business acquired in August 2006 and the women's intimate apparel business acquired from VF Corporation in April 2007), Garan, Fechheimers, Justin Brands and the H.H. Brown Shoe Group). Also included in this group are Forest River, a leading manufacturer of leisure vehicles and the ISCAR Metalworking

Manufacturing, Service and Retailing *(Continued)*

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

Companies ("IMC"), an industry leader in the metal cutting tools business with operations worldwide that was acquired in July 2006. In July 2007, Berkshire acquired two leading jewelry manufacturing and distribution companies ("Richline") that design, manufacture and distribute karat gold, silver and gem set jewelry to mass merchandisers, large jewelry chains, department stores and home shopping networks. There are numerous other manufacturers of consumer and commercial products in this diverse group.

Revenues in 2007 from other manufacturing activities were $14,459 million, an increase of $2,471 million (21%) over 2006. The comparative increase was primarily attributable to the businesses acquired since mid-2006 as well as a significant increase from CTB, a manufacturer of equipment for the livestock and agricultural industries. Revenues from the building products businesses declined $292 million in 2007 as demand for their products was negatively affected by the general slowdown in housing construction activity.

Pre-tax earnings of the other manufacturing businesses were $2,037 million in 2007, an increase of $281 million (16%) over 2006. The increases were primarily due to full-year inclusion in 2007 of IMC and increased earnings of CTB, partially offset by a 22% decline in earnings of the building products businesses. Revenues and earnings from the building products businesses will likely decline further in 2008 as a result of the continued weakness in residential housing construction. Additionally, pre-tax earnings of Fruit of the Loom declined in 2007 as a result of operating losses from the newly acquired women's intimate apparel operations.

Revenues of the other manufacturing businesses in 2006 increased $2,728 million (29%) and pre-tax earnings increased $421 million (32%) as compared to 2005. The acquisitions of Forest River (acquired August 2005), IMC and Russell Corporation account for a substantial portion of these increases. Additionally, the building products group of businesses reported increases in revenues and pre-tax earnings in 2006 as compared to the prior year.

<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: TTI, a leading electronic components distributor (acquired March 2007); Business Wire, a leading distributor of corporate news, multimedia and regulatory filings (acquired February 2006); The 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 businesses that provide management and other services to insurance companies.

Revenues from the other service businesses in 2007 increased $1,981 million (34%) and pre-tax earnings increased $310 million (47%) as compared to 2006. The increase in revenues and pre-tax earnings in 2007 versus 2006 was attributable to the impact of business acquisitions (primarily TTI and Business Wire) as well as increased revenues and pre-tax earnings from FlightSafety and NetJets. Both of these businesses benefited in 2007 from higher equipment (simulators and aircraft) utilization rates and from increased customer demand.

Revenues from the other service businesses in 2006 increased $1,083 million (23%) and pre-tax earnings increased $329 million (100%) as compared to 2005. These increases derived from significantly improved operating results of NetJets, as well as increases in revenues and earnings for FlightSafety and the inclusion of the results of Business Wire. NetJets' revenues in 2006 increased $759 million as compared to 2005 and pre-tax earnings in 2006 were $143 million compared to a pre-tax loss of $80 million in 2005. In 2006, occupied flight hours increased 19% and average hourly rates increased as well. The improvement in operating results at NetJets also reflected a substantial decline in the cost of subcontracted flights that were necessary to meet peak customer demand.

<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 (Borsheims, Helzberg and Ben Bridge) retailers. Also included in this group is See's Candies. Revenues of $3.4 billion in 2007 increased $63 million (2%) versus 2006. Pre-tax earnings in 2007 of the retailing businesses decreased $15 million (5%) compared to 2006 and was primarily attributable to lower revenues and earnings from jewelry stores.

Revenues of the retail group in 2006 were $3.3 billion, an increase of $223 million (7%) versus 2005. Pre-tax earnings in 2006 were $289 million, an increase of $32 million (12%) over 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 a $27 million increase at See's Candies.

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		
	2007	2006	2005	2007	2006	2005
Manufactured housing and finance	$3,665	$3,570	$3,175	$ 526	$ 513	$ 416
Furniture/transportation equipment leasing	810	880	856	111	182	173
Other	644	674	528	369	462	233
	$5,119	$5,124	$4,559			
Pre-tax earnings				1,006	1,157	822
Income taxes and minority interests				374	425	308
				$ 632	$ 732	$ 514

Revenues from manufactured housing and finance activities (Clayton Homes) increased $95 million (3%) as compared to 2006. In 2007, interest income from financing activities increased $70 million (7%) over 2006 reflecting higher average installment loan balances. Installment loan balances outstanding as of December 31, 2007 were approximately $11.1 billion compared to $9.9 billion and $9.5 billion at the end of 2006 and 2005. Pre-tax earnings of Clayton Homes increased $13 million (3%) over 2006 reflecting a $30 million increase in net interest earned and lower credit losses partially offset by an overall 5% decline in sales of manufactured homes. Installment loans originated or acquired by subsidiaries of Clayton Homes are financed primarily with proceeds from debt issued by Berkshire Hathaway Finance Corporation ("BHFC"). In September 2007 and January 2008, BHFC issued an aggregate of $2.75 billion par amount of new notes at interest rates that are on average approximately 72 basis points higher than notes that matured in the second half of 2007 and January 2008. Accordingly, net interest earned from financing activities may decline in 2008.

The increase in revenues in 2006 as compared to 2005 from Clayton Homes was primarily attributable to increased sales of manufactured homes of $302 million due to increased sales of higher priced homes as well as an increase in total units sold. Pre-tax earnings from Clayton Homes in 2006 increased $97 million (23%) as compared to 2005 which was due to increased interest income from higher average installment loan balances as a result of loan portfolio acquisitions in 2005.

Revenues and pre-tax earnings from furniture/transportation equipment leasing activities for 2007 decreased $70 million (8%) and $71 million (39%), respectively, as compared to 2006. The declines primarily reflect lower rental income driven by lower utilization rates for the over-the-road trailer and storage units. Due to significant cost components of this business being fixed (depreciation and facility expenses), pre-tax earnings declined disproportionately to revenues.

Revenues of other finance business activities consist primarily of interest income earned on short-term and other fixed maturity investments. Pre-tax earnings in 2007 reflected a charge of approximately $67 million from the adverse effects of changes in mortality assumptions on certain life annuity contract liabilities. In 2006, pre-tax earnings included income of $67 million from an equity commitment fee and in 2005 pre-tax earnings included losses of $137 million from the General Re derivatives business, which has now completed a major portion of its run-off, and Berkshire's investment in Value Capital, a partnership interest that was liquidated as of June 30, 2006.

Investment and Derivative Gains/Losses

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

	2007	2006	2005
Investment gains/losses from -			
Sales and other disposals of investments -			
Insurance and other	$5,308	$1,782	$5,831
Finance and financial products	187	6	544
Other-than-temporary impairments	—	(142)	(114)
Other	103	165	(65)
	5,598	1,811	6,196
Derivative gains/losses from -			
Foreign currency forward contracts	62	186	(955)
Other derivative contracts	(151)	638	253
	(89)	824	(702)
Gains/losses before income taxes and minority interests	5,509	2,635	5,494
Income taxes and minority interests	1,930	926	1,964
Net gains/losses	$3,579	$1,709	$3,530

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 impairments represent the adjustment of cost to fair value when 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.

Investment and Derivative Gains/Losses *(Continued)*

In each of the past three years, pre-tax investment gains from sales and other disposals primarily derived from equity securities. In 2005, pre-tax investment gains from sales and other disposals included a non-cash pre-tax gain of approximately $5 billion from Berkshire's exchange of common stock of The Gillette Company ("Gillette"), which Berkshire held for many years, for shares of The Procter & Gamble Company ("PG"), which PG issued in its acquisition of Gillette. Berkshire's management does not regard the gain recorded, as required under GAAP, as meaningful. 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 was accompanied by a corresponding reduction of unrealized investment gains included in accumulated other comprehensive income.

Derivative gains and losses from foreign currency forward contracts arise as the value of the U.S. dollar changes against certain foreign currencies. The notional value of open foreign currency forward contracts was approximately $14 billion as of December 31, 2005 but has declined to an immaterial amount at December 31, 2007. During 2005, the value of most foreign currencies decreased relative to the U.S. dollar and these contracts produced losses.

Other derivative contracts primarily pertain to credit default risks of other U.S. entities as well as equity price risks associated with major worldwide equity indices. Such contracts are carried at estimated fair value and changes in estimated fair value are included in earnings in the period of the change. The gains/losses from such contracts are principally attributable to non-cash changes in the fair values of the related contracts and reflect changes in applicable underlying credit standing, equity index values, interest rates, foreign currency exchange rates and other factors. These contracts generally may not be settled before the expiration date (up to 20 years in the future with respect to equity index contracts) and therefore the amount of cash basis gains or losses will not be known for years. Nevertheless, the fair values on any given reporting date and the resulting gains and losses reflected in earnings will likely be volatile, reflecting the volatility of equity and credit markets.

The estimated fair value of equity index and credit default derivative contracts at December 31, 2007 was approximately $6.4 billion, an increase of approximately $3.1 billion from December 31, 2006. The increase was primarily due to new contracts entered into during the year for which Berkshire received premiums of approximately $2.9 billion. As of December 31, 2007, Berkshire's maximum exposure under these contracts was approximately $40 billion, an increase of approximately $16 billion from December 31, 2006.

Financial Condition

Berkshire's balance sheet continues to reflect significant liquidity and a strong capital base. Consolidated shareholders' equity at December 31, 2007 was $120.7 billion. Consolidated cash and invested assets, excluding assets of finance and financial products businesses, was approximately $142.4 billion at December 31, 2007 (including cash and cash equivalents of $38.9 billion) and $125.2 billion at December 31, 2006 (including cash and cash equivalents of $38.3 billion). Berkshire's invested assets are held predominantly in its insurance businesses. A large amount of capital is maintained in the insurance subsidiaries for strategic and marketing 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, 2007, Berkshire's insurance subsidiaries paid dividends of $4.9 billion.

During 2007, Berkshire made several relatively small business acquisitions for aggregate cash consideration of $1.6 billion. Additionally, Berkshire agreed in December 2007 to acquire a 60% interest in Marmon Holdings, Inc. ("Marmon") for $4.5 billion. This acquisition is subject to customary closing conditions, including regulatory approvals, and is expected to close in March 2008. See Note 2 to the Consolidated Financial Statements for more information concerning the business acquisitions. Berkshire believes that it currently maintains sufficient liquidity to cover its contractual obligations and provide for contingent liquidity.

Notes payable and other borrowings of the insurance and other businesses were $2.7 billion (includes about $1.7 billion issued or guaranteed by Berkshire Hathaway Inc.) at December 31, 2007, a decrease of $1 billion from December 31, 2006, reflecting maturities and prepayments of $644 million of parent company debt, reductions in commercial paper (principally NetJets) and repayments of other borrowings of subsidiaries. Berkshire issued 3,715 Class A equivalent shares of common stock during 2007 in connection with the SQUARZ warrant exercises in exchange for $333 million.

Capital expenditures of the utilities and energy businesses were approximately $3.5 billion in 2007 and are forecasted to be approximately $3.9 billion in 2008. MidAmerican expects to fund these capital expenditures with cash flows from operations and debt proceeds. Certain of its borrowings are secured by certain assets of its regulated utility subsidiaries. During 2007, MidAmerican issued $3.55 billion par amount of new term debt and repaid $1.57 billion of previously issued debt including net repayments of short-term borrowings. Term debt of MidAmerican maturing in 2008 is $1.97 billion with an additional $3.16 billion due before 2013. Berkshire has committed until February 28, 2011 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.

Assets of the finance and financial products businesses were $25.7 billion as of December 31, 2007 and $24.6 billion at December 31, 2006, which consisted primarily of loans and finance receivables, fixed maturity securities and cash and cash equivalents. Liabilities were $22.0 billion as of December 31, 2007 and $19.4 billion at December 31, 2006. As of December 31, 2007, notes payable and other borrowings of $12.1 billion included $8.9 billion par amount of medium-term notes issued by BHFC. In 2007, BHFC issued $750 million par amount of notes due in 2012 and repaid $700 million par amount of notes that matured. In 2008, an additional $3.1 billion par amount of notes will mature, including $1.25 billion that matured in January 2008. BHFC issued an additional $2.0 billion par amount of medium-term notes in January 2008. BHFC notes are unsecured and mature at various dates extending through 2015. The proceeds from these notes are being used to finance originated and acquired loans of Clayton Homes, which as of December 31, 2007 had a carrying value of $11 billion. Full and timely payment of principal and interest on the notes issued by BHFC is guaranteed by Berkshire. In addition, Clayton Homes had outstanding borrowings of $1.4 billion which are secured by portfolios of manufactured housing loans and are not guaranteed by Berkshire. These borrowings are repaid as the underlying collateralized loans are repaid.

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. Also, short-term borrowings and repurchase agreements are generally expected to be renewed as they mature, however 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. 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. Accordingly, the actual timing and amount of payments may differ materially from the amounts shown in the table.

A summary of contractual obligations as of December 31, 2007 follows. Amounts represent estimates of gross undiscounted amounts payable over time. Amounts are in millions.

		Estimated payments due by period			
	Total	2008	2009-2010	2011-2012	After 2012
Notes payable and other borrowings [(1)]	$ 56,638	$ 8,953	$ 6,079	$ 6,899	$34,707
Operating leases	2,496	541	808	486	661
Purchase obligations [(2)]	25,995	7,262	7,495	4,349	6,889
Unpaid losses and loss expenses [(3)]	58,734	13,264	14,038	8,349	23,083
Other long-term policyholder liabilities	4,247	190	443	96	3,518
Other [(4)]	22,313	5,385	1,489	3,039	12,400
Total	$170,423	$35,595	$30,352	$23,218	$81,258

(1) *Includes interest.*

(2) *Principally relates to future aircraft, coal, electricity and natural gas purchases.*

(3) *Before reserve discounts of $2,732 million.*

(4) *Principally annuity reserves, employee benefits and derivative contract liabilities. Also includes $4.5 billion in 2008 related to the pending acquisition of 60% of Marmon and estimates for the acquisition of the remaining 40% of Marmon between 2011 and 2014.*

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, 2007	Dec. 31, 2006	Dec. 31, 2007	Dec. 31, 2006
GEICO	$ 6,642	$ 6,095	$ 6,341	$ 5,814
General Re	19,831	20,444	17,651	18,361
BHRG	24,894	16,832	20,223	14,255
Berkshire Hathaway Primary Group	4,635	4,241	4,127	3,741
Total	$56,002	$47,612	$48,342	$42,171

* *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, the timing and amount of loss payments are subject to a great degree of variability and are contingent upon, among other things, the timing of 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 reported claims (referred to as "case reserves") and for 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 further 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 utilizes loss reserving techniques that are believed to best fit its 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, 2007 were $6,642 million. As of December 31, 2007, gross reserves included $4,735 million of reported average, case and case development reserves and $1,907 million of IBNR reserves.

GEICO predominantly writes private passenger auto insurance which has a relatively short claim-tail. 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 actuarial 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 frequencies and average severities of claims. Such amounts are analyzed using actuarial 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 specific claim estimates and for a large number of minor physical damage claims that are paid within a relatively 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 severities 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 subsequently 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, 2007, 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.

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 2007, claim frequencies were generally lower than expected and severity increases were generally not as great as originally projected during the first part of the year. Loss reserve estimates recorded at the end of 2006 developed downward by approximately $375 million when reevaluated at December 31, 2007 producing a corresponding increase to pre-tax earnings in 2007. These downward reserve developments represented approximately 3% of earned premiums in 2007 and approximately 6% of the prior year-end reserve amount. Reserving assumptions at December 31, 2007 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, 2007 were for automobile liability, of which bodily injury (“BI”) coverage accounted for nearly 60%. 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 $99 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 apparent asbestos or environmental liability exposure. Related claim activity over the past year was insignificant.

General Re and BHRG

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 either work closely with the ceding company in settling individual claims or manage the claims themselves 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 they believe it is 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 since 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 with respect 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 by 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 business as of December 31, 2007 are summarized below. Amounts are in millions.

Type		Line of business	
Reported case reserves	$10,957	Workers' compensation [1]	$ 3,284
IBNR reserves	8,874	Professional liability [2]	1,646
Gross reserves	19,831	Mass tort–asbestos/environmental	1,841
Ceded reserves and deferred charges	(2,180)	Auto liability	3,004
Net reserves	$17,651	Other casualty [3]	4,099
		Other general liability	3,127
		Property	2,830
		Total	$19,831

[1] *Net of discounts of $2,732 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.

General Re 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, 2007, ACRs of $3.3 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 2007, claim examiners conducted about 400 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 or underwriting 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: changes in 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 2007, for prior years' workers' compensation losses, reported claims were less than expected claims by about $74 million. However, further analysis of the workers' compensation reserve cells by segment indicated the need for additional IBNR. These developments precipitated about $218 million of a net increase in nominal IBNR reserve estimates for unreported occurrences. After deducting $20 million for the change in net reserve discounts during the year, workers' compensation losses from prior years reduced pre-tax earnings in 2007 by $164 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 $587 million and $334 million on a discounted basis as of December 31, 2007. 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 2007 relative to expectations. Casualty losses tend to be long-tail and it should not be assumed that favorable loss experience in a year 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 (one percent for large international proportional reserve cells) would produce a net increase in nominal IBNR reserves and a corresponding reduction in pre-tax earnings of approximately $720 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 individual aforementioned reserve cells. However, given the diversification in worldwide business, more likely outcomes are believed to be less than $720 million.

Property losses were lower than expected in 2007 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 and estimated losses from the hurricanes in 2005 were reduced by $93 million.

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 number of recent 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 $210 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, 2007 were approximately $1.8 billion gross and $1.2 billion net of reinsurance. Such

Property and casualty losses *(Continued)*

General Re *(Continued)*

reserves were approximately $1.9 billion gross and $1.2 billion net of reinsurance as of December 31, 2006. Claims paid attributable to such losses were about $75 million in 2007. In 2007, IBNR reserve estimates for asbestos and environmental claims were increased by $48 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 thirteen years as of December 31, 2007. The insurance industry's comparable survival ratio for asbestos and pollution reserves was approximately eight 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, 2007 are summarized as follows. Amounts are in millions.

	Property	Casualty	Total
Reported case reserves	$ 1,654	$ 2,143	$ 3,797
IBNR reserves	1,180	2,660	3,840
Retroactive	—	17,257	17,257
Gross reserves	$ 2,834	$22,060	24,894
Deferred charges and ceded reserves			(4,671)
Net reserves			$20,223

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 as well as ground-up techniques where appropriate. 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, 2007, BHRG's gross loss reserves related to retroactive reinsurance policies were predominantly 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 2007 were $894 million. 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 often 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 2007, retroactive reserves developed downward by approximately $37 million.

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 $9.7 billion at December 31, 2007 and $3.8 billion at December 31, 2006. The increase during 2007 was due to the Equitas reinsurance agreement which became effective on March 30, 2007. See Note 11 to the accompanying Consolidated Financial Statements. Losses paid in 2007 attributable to these exposures were approximately $500 million. BHRG, as a reinsurer, does not regularly receive reliable information regarding numbers of asbestos, environmental and latent injury claims from all 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. 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 $24.8 billion as of December 31, 2007. Absent significant judicial or legislative changes affecting asbestos, environmental or latent injury exposures, management currently believes it unlikely that unpaid losses as of December 31, 2007 ($17.3 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 property 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 $2.2 billion at year end 2006 to approximately $1.3 billion at year end 2007. The decrease in reserves reflected loss payments in 2007 of approximately $900 million that were primarily attributable to the major hurricanes that occurred in

2005. Loss reserves for pre-2007 events declined by approximately $200 million which produced a corresponding increase to pre-tax earnings in 2007. 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 with the periodic amortization 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 $4.0 billion at December 31, 2007. Significant changes in the estimated amount and payment timing of 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, 2007 includes goodwill of acquired businesses of approximately $32.9 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 or net cash flows 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 of similar instruments or valuation models reflecting the present value of estimated future cash flows. 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(s) 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. Berkshire strives to maintain high 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)			
	Fair Value	100 bp decrease	100 bp increase	200 bp increase	300 bp increase
December 31, 2007					
Insurance and other businesses:					
Investments in fixed maturity securities	$28,515	$29,179	$27,689	$26,967	$26,318
Notes payable and other borrowings	2,709	2,757	2,666	2,628	2,593
Finance and financial products businesses:					
Investments in fixed maturity securities and loans and finance receivables	15,843	16,860	14,766	13,806	12,934
Notes payable and other borrowings	12,321	12,725	11,921	11,563	11,229
Utilities and energy businesses:					
Notes payable and other borrowings	19,834	21,640	18,305	17,006	15,890
December 31, 2006					
Insurance and other businesses:					
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
Finance and financial products businesses:					
Investments in fixed maturity securities and loans and finance receivables	15,026	16,033	14,025	13,101	12,263
Notes payable and other borrowings	12,362	12,775	11,937	11,565	11,218
Utilities and energy businesses:					
Notes payable and other borrowings	17,789	19,256	16,548	15,486	14,569

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. Historically, Berkshire's equity investments are generally concentrated in relatively few investees. At December 31, 2007, 49% 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, 2007 and 2006 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
December 31, 2007	$74,999	30% increase	$97,499	12.1
		30% decrease	52,499	(12.1)
December 31, 2006	$61,533	30% increase	$79,993	11.0
		30% decrease	43,073	(11.0)

***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 $35 billion and $21 billion at December 31, 2007 and 2006, 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 based on foreign markets. 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 indexes do not produce a proportional change in the estimated fair value of the contracts. Other factors (such as interest rates, expected dividend rates and the remaining duration of the contract as well as general market assumptions) affect the estimates of fair value reflected in the financial statements. The carrying amount of these liabilities was $4.6 billion at December 31, 2007 and $2.4 billion at December 31, 2006. If the underlying indexes declined 30% immediately, and absent changes in other factors required to estimate fair value, Berkshire estimates that it could incur a non-cash pre-tax loss of approximately $2.3 billion.

Foreign Currency Risk

Market risks associated with changes in foreign currency exchange rates are currently concentrated in long duration equity index option contracts on foreign equity indexes. The following table summarizes the outstanding derivatives contracts as of December 31, 2007 and 2006 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 net 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, 2007	$(4,070)	$(3,293)	$(3,681)	$(4,031)	$(4,110)	$(4,464)	$(4,862)
December 31, 2006	(2,041)	(1,819)	(1,936)	(2,031)	(2,051)	(2,131)	(2,200)

Commodity Price Risk

Berkshire, through its ownership of MidAmerican, is subject to commodity price 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 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 price risk on energy derivative contracts of MidAmerican as of December 31, 2007 and 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 net assets (liabilities)	Hypothetical Price Change	Estimated Fair Value after Hypothetical Change in Price
December 31, 2007	$(263)	10% increase	$(208)
		10% decrease	(318)
December 31, 2006	(273)	10% increase	(220)
		10% decrease	(326)

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 14, 2007, 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 February 29, 2008, Berkshire filed its 2007 Form 10-K with the SEC. The Form 10-K included as Exhibits 31.1 and 31.2 the required CEO and CFO Sarbanes-Oxley Act Section 302 certifications.

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 233,000 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. One executive will become CEO and responsible for operations. The responsibility for investments will be given to one or more executives. If the acquisition of new businesses is in prospect, these executives 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 my recommendations for both posts. All candidates currently work for or are available to 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 4,600 record holders of its Class A Common Stock and 13,900 record holders of its Class B Common Stock at February 15, 2008. Record owners included nominees holding at least 550,000 shares of Class A Common Stock and 13,800,000 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:

	2007				2006			
	Class A		Class B		Class A		Class B	
	High	Low	High	Low	High	Low	High	Low
First Quarter	$110,700	$103,800	$3,690	$3,460	$90,600	$86,200	$3,013	$2,860
Second Quarter	110,490	107,200	3,679	3,538	93,100	85,400	3,099	2,839
Third Quarter	120,800	108,600	4,000	3,558	97,100	89,400	3,238	2,978
Fourth Quarter	151,650	118,400	5,059	3,949	114,500	95,200	3,825	3,165

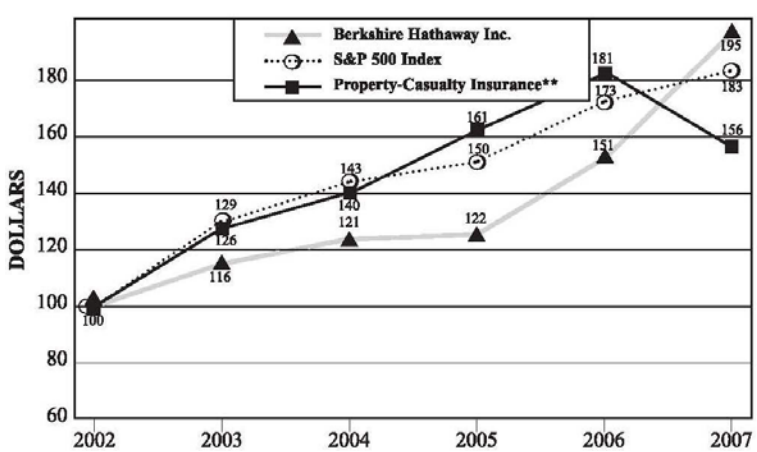
Dividends

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, 2002 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

INSURANCE BUSINESSES

Company	Employees	Company	Employees
Berkshire Hathaway Homestate Companies	650	**General Re Corporation**	2,647
Berkshire Hathaway Reinsurance Group	633	**Kansas Bankers Surety Company**	18
Boat America Corporation	415	**Medical Protective Corporation**	414
Central States Indemnity Co.	426	**National Indemnity Primary Group**	389
GEICO	22,354	**United States Liability Insurance Group**	484
		Insurance total	28,430

NON-INSURANCE BUSINESSES

Company	Employees	Company	Employees
Acme Building Brands	2,521	**Kingston** [1]	194
Adalet [1]	248	**Kirby** [1]	646
Altaquip [1]	338	**Larson-Juhl**	1,862
Applied Underwriters, Inc.	456	**McLane Company**	16,356
Ben Bridge Jeweler	763	**MidAmerican Energy Company** [2]	3,156
Benjamin Moore	2,625	**MidAmerican Energy Holdings Company** [2]	653
Borsheim's Jewelry	204	**MiTek Inc.**	1,575
The Buffalo News	822	**Nebraska Furniture Mart**	2,571
Business Wire	506	**NetJets**	7,297
CalEnergy [2]	323	**Northern Natural Gas** [2]	889
Campbell Hausfeld [1]	565	**Northern and Yorkshire Electric** [2]	2,398
Carefree of Colorado [1]	249	**Northland** [1]	132
Clayton Homes, Inc.	14,288	**PacifiCorp** [2]	3,203
Cleveland Wood Products [1]	88	**Pacific Power** [2]	1,171
CORT Business Services	2,494	**The Pampered Chef**	808
CTB International	1,450	**Precision Steel Warehouse**	197
Dairy Queen	2,379	**Richline Group**	2,221
Douglas/Quikut [1]	64	**Rocky Mountain Power** [2]	2,096
Fechheimer Brothers	911	**Russell Corporation**	13,694
FlightSafety International	4,218	**Other Scott Fetzer Companies** [1]	150
Forest River, Inc.	5,282	**See's Candies**	3,000
France [1]	117	**Shaw Industries**	30,874
Fruit of the Loom	26,643	**Stahl** [1]	271
Garan	4,403	**Star Furniture**	742
H. H. Brown Shoe Group	1,073	**TTI, Inc.**	2,576
Halex [1]	118	**United Consumer Finance Company** [1]	211
Helzberg's Diamond Shops	2,170	**Vanity Fair Brands, Inc.**	6,679
HomeServices of America [2]	3,194	**Wayne Water Systems** [1]	148
Iscar	7,198	**Wesco Financial Corp.**	13
Johns Manville	6,437	**Western Enterprises** [1]	385
Jordan's Furniture	1,267	**R. C. Willey Home Furnishings**	2,841
Justin Brands	911	**World Book** [1]	195
Kern River Gas Transmission Company [2]	163	**XTRA**	640
		Non-insurance total	204,332
		Corporate Office	19
			232,781

[1] A Scott Fetzer Company
[2] A MidAmerican Energy Holdings Company

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

SUSAN L. DECKER,
President of Yahoo! Inc., a global Internet brand.

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 2007), quarterly reports, press releases and other information about Berkshire may be obtained on the Internet at www.berkshirehathaway.com.