

BERKSHIRE HATHAWAY INC.

To the Shareholders of Berkshire Hathaway Inc.:

Last year we made a prediction: "A reduction [in Berkshire's net worth] is almost certain in at least one of the next three years." During much of 1990's second half, we were on the road to quickly proving that forecast accurate. But some strengthening in stock prices late in the year enabled us to close 1990 with net worth up by \$362 million, or 7.3%. Over the last 26 years (that is, since present management took over) our per-share book value has grown from \$19.46 to \$4,612.06, or at a rate of 23.2% compounded annually.

Our growth rate was lackluster in 1990 because our four major common stock holdings, in aggregate, showed little change in market value. Last year I told you that though these companies – Capital Cities/ABC, Coca-Cola, GEICO, and Washington Post – had fine businesses and superb managements, widespread recognition of these attributes had pushed the stock prices of the four to lofty levels. The market prices of the two media companies have since fallen significantly – for good reasons relating to evolutionary industry developments that I will discuss later – and the price of Coca-Cola stock has increased significantly for what I also believe are good reasons. Overall, yearend 1990 prices of our "permanent four," though far from enticing, were a bit more appealing than they were a year earlier.

Berkshire's 26-year record is meaningless in forecasting future results; so also, we hope, is the one-year record. We continue to aim for a 15% average annual gain in intrinsic value. But, as we never tire of telling you, this goal becomes ever more difficult to reach as our equity base, now \$5.3 billion, increases.

If we do attain that 15% average, our shareholders should fare well. However, Berkshire's corporate gains will produce an identical gain for a specific shareholder only if he eventually sells his shares at the same relationship to intrinsic value that existed when he bought them. For example, if you buy at a 10% premium to intrinsic value; if intrinsic value subsequently grows at 15% a year; and if you then sell at a 10% premium, your own return will correspondingly be 15% compounded. (The calculation assumes that no dividends are paid.) If, however, you buy at a premium and sell at a smaller premium, your results will be somewhat inferior to those achieved by the company.

Ideally, the results of every Berkshire shareholder would closely mirror those of the company during his period of ownership. That is why Charlie Munger, Berkshire's Vice Chairman and my partner, and I hope for Berkshire to sell consistently at about intrinsic value. We prefer such steadiness to the value-ignoring volatility of the past two years: In 1989 intrinsic value grew less than did book value, which was up 44%, while the market price rose 85%; in 1990 book value and intrinsic value increased by a small amount, while the market price fell 23%.

Berkshire's intrinsic value continues to exceed book value by a substantial margin. We can't tell you the exact differential because intrinsic value is necessarily an estimate; Charlie and I might, in fact, differ by 10% in our appraisals. We do know, however, that we own some exceptional businesses that are worth considerably more than the values at which they are carried on our books.

Much of the extra value that exists in our businesses has been created by the managers now running them. Charlie and I feel free to brag about this group because we had nothing to do with developing the skills they possess: These superstars just came that way. Our job is merely to identify talented managers and provide an environment in which they can do their stuff. Having done it, they send their cash to headquarters and we face our only other task: the intelligent deployment of these funds.

My own role in operations may best be illustrated by a small tale concerning my granddaughter, Emily, and her fourth birthday party last fall. Attending were other children, adoring relatives, and Beemer the Clown, a local entertainer who includes magic tricks in his act.

Beginning these, Beemer asked Emily to help him by waving a "magic wand" over "the box of wonders." Green handkerchiefs went into the box, Emily waved the wand, and Beemer removed blue ones. Loose handkerchiefs went in and, upon a magisterial wave by Emily, emerged knotted. After four such transformations, each more amazing than its predecessor, Emily was unable to contain herself. Her face aglow, she exulted: "Gee, I'm really good at this."

And that sums up my contribution to the performance of Berkshire's business magicians – the Blumkins, the Friedman family, Mike Goldberg, the Heldmans, Chuck Huggins, Stan Lipsey and Ralph Schey. They deserve your applause.

Sources of Reported Earnings

The table below shows the major sources of Berkshire's reported earnings. In this presentation, amortization of Goodwill and other major purchase–price accounting adjustments are not charged against the specific businesses to which they apply, but are instead aggregated and shown separately. This procedure lets you view the earnings of our businesses as they would have been reported had we not purchased them. I've explained in past reports why this form of presentation seems to us to be more useful to investors and managers than one utilizing generally accepted accounting principles (GAAP), which require purchase–price adjustments to be made on a business–by–business basis. The total net earnings we show in the table are, of course, identical to the GAAP total in our audited financial statements.

Much additional information about these businesses is given on pages 39–46, where you also will find our segment earnings reported on a GAAP basis. For information on Wesco's businesses, I urge you to read Charlie Munger's letter, which starts on page 56. His letter also contains the clearest and most insightful discussion of the banking industry that I have seen.

(000s omitted)

<i>Pre-Tax Earnings</i>		<i>Berkshire's Share of Net Earnings (after taxes and minority interests)</i>	
<i>1990</i>	<i>1989</i>	<i>1990</i>	<i>1989</i>
-----	-----	-----	-----

Operating Earnings:
Insurance Group:

Underwriting	\$(26,647)	\$(24,400)	\$(14,936)	\$(12,259)
Net Investment Income	327,048	243,599	282,613	213,642
Buffalo News	43,954	46,047	25,981	27,771
Fechheimer	12,450	12,621	6,605	6,789
Kirby	27,445	26,114	17,613	16,803
Nebraska Furniture Mart	17,248	17,070	8,485	8,441
Scott Fetzer Manufacturing Group	30,378	33,165	18,458	19,996
See				