KNOW MORE ABOUT HIS COMPANY, BUSINESS, BUSINESS PRINCIPLES & POLICIES AND HIS PHILOSOPHY.

ABOUT BERKSHIRE HATHAWAY

Mr. Warren Edward Buffett acquired a textile company in 1965 and turned into a holding company for investments in many other business.

ANNUAL REPORT 2005

Berkshire Hathaway’s Annual Report for calendar year 2005 comprises of 80 pages, of which 22 pages contain chairman’s letter, written by Mr. Warren Buffett i.e. almost 28% of the Annual report, comprises of chairman’s letter. And this is a regular feature year on year basis. A rare phenomenon in Indian context.

ABOUT BUSINESS ACTIVITIES:

Readers will find interesting to note that Berkshire Hathaway Inc., is the holding company, which owns 68 distinct business with widely disparate operating and financial characteristics. A brief note on Business activities is as under:

Berkshire Hathaway Inc. is a holding company owning subsidiaries engaged in a number of diverse business activities. The most important of these is the property and casualty insurance business conducted on both a direct and reinsurance basis through a number of subsidiaries. Included in this group of subsidiaries 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.

Numerous business activities are conducted through non-insurance subsidiaries. Included in the non-insurance subsidiaries are several large manufacturing businesses. Shaw Industries is the world’s largest manufacturer of tufted broadloom carpet. 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, Garan, Fechheimer, H.H. Brown Shoe Group and Justin Brands manufacture, license and distribute apparel and footwear under a variety of brand names. McLane Company is a wholesale distributor of groceries and nonfood items to convenience stores, wholesale clubs, mass merchandisers, quick service restaurants and others.

FlightSafety International provides training of aircraft and ship operators. NetJets provides fractional ownership programs for general aviation aircraft. Nebraska Furniture Mart, R.C. Willey Home Furnishings, Star Furniture and Jordan’s Furniture are retailers of home furnishings. Borsheim’s, Helzberg Diamond Shops and Ben Bridge Jeweler are retailers of fine jewelry. 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).
In addition, Berkshire's other non-insurance business activities 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.; and Forest River, a leading manufacturer of leisure vehicles in the U.S.

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.

COMPARISON OF BERKSHIRE HATHAWAY INC. CLASS A AND CLASS B COMMON STOCK

Berkshire Hathaway Inc. has two classes of common stock designated Class A and Class B. A share of Class B common stock has the rights of 1/30th of a share of Class A common stock except that a Class B share has 1/200th of the voting rights of a Class A share (rather than 1/30th of the vote). Each share of a Class A common stock is convertible at any time, at the holder’s option, into 30 shares of Class B common stock. This conversion privilege does not extend in the opposite direction. That is, holders of Class B shares are not able to convert them into Class A shares. Both Class A & B shareholders are entitled to attend the Berkshire Hathaway Annual Meeting which is held the first Saturday in May.

In my opinion, most of the time, the demand for the B will be such that it will trade at about 1/30th of the price of the A. However, from time to time, a different supply-demand situation will prevail and the B will sell at some discount. In my opinion, again, when the B is at a discount of more than say, 2%, it offers a better buy than the A. When the two are at parity, however, anyone wishing to buy 30 or more B should consider buying A instead.

Note: As at December 31, 2005, Class A outstanding shares were 12,60,920 and Class B outstanding shares were 83,94,083. On a year to year basis Class A is declining and Class B is increasing.

BOARD OF DIRECTORS

The name of Directors and officers of the company appear on the Inside Back cover of the Annual Report. The list of Directors and officers as appearing in 2005 Annual Report is as under:

DIRECTORS

WARREN E. BUFFETT, Chairman and CEO of Berkshire
CHARLES T. MUNGER, Vice Chairman of Berkshire
HOWARD G. BUFFETT, President of Buffett Farms and BioImages, a photography and publishing company.
MALCOLM G. CHACE, Chairman of the Board of Directors of BankRI, a community bank located in the State of Rhode Island.

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
Excerpt taken from the chairman’s letter to the shareholders’ in 2003 reads as under:

Last year, as we moved to change our board, I asked for self-nominations from shareholders who believed they had the requisite qualities to be a Berkshire director. Despite the lack of either liability insurance or meaningful compensation, we received more than twenty applications. Most were good, coming from owner-oriented individuals having family holdings of Berkshire worth well over $1 million. After considering them, Charlie and I – with the concurrence of our incumbent directors – asked four shareholders who did not nominate themselves to join the board: David Gottesman, Charlotte Guyman, Don Keough and Tom Murphy. These four people are all friends of mine, and I know their strengths well. They bring an extraordinary amount of business talent to Berkshire’s board.

ABOUT BOARD COMMITTEES:

(a) Corporate Governance Guidelines (as amended on February 27, 2006)

(1) Director Qualifications
In choosing directors, the Company seeks individuals who have very substantial personal and family ownership stakes in the Company’s stock. Such individuals must also have very high integrity, business savvy, shareholder orientation and a genuine interest in the Company. The Board does not have limits on the number of terms a director may serve. The Board does not have any retirement or tenure policies that would limit the ability of a director to be nominated for reelection. The Governance, Compensation and Nominating Committee is responsible for nominating directors for election or reelection.

(2) Board Size and Committees
The Board presently has 11 members (2 management directors, 3 non-management but not independent directors and 6 independent directors). The Board has three committees: (i) Audit; (ii) Governance, Compensation and Nominating; and (iii) Executive.
Voting for Directors
Any nominee for director in an uncontested election (i.e., an election where the number of nominees is not greater than the number of directors to be elected) who receives a greater number of votes “withheld” from his or her election than votes “for” such election shall, promptly following certification of the shareholder vote, offer his or her resignation to the Board for consideration in accordance with the procedures.

Director Responsibilities
The basic responsibility of the directors is to exercise their business judgment to act in what they reasonably believe to be in the best interests of the Company and its shareholders, and to conduct themselves in accordance with their duties of care and loyalty. Directors are expected to attend Board meetings and meetings of the committees on which they serve, and to spend the time needed to carry out their responsibilities as directors, including meeting as frequently as necessary to properly discharge those responsibilities. Directors are also expected to review in advance all materials for the meetings of the Board and the Committee(s) on which they serve.

Director Access to Management and Advisors
Each director has full and free access to the officers and employees of the Company and its subsidiaries. The Board and each of its Committees has the authority to hire independent legal, financial or other advisors as it may deem to be necessary without consulting or obtaining the advance approval of any officer of the Company.

Board Meetings
The Chairman of the Board is responsible for establishing the agenda for each Board meeting. Each director is free to suggest items for inclusion on the agenda and to raise at any Board meeting subjects that are not on the agenda for that meeting.

Executive Sessions
The non-management directors meet in regularly scheduled executive session (i.e., without directors who are members of management). The independent directors also meet in a separate executive session consisting solely of independent directors at least once a year.

Director Compensation
Only directors who are neither an employee of the Company or a subsidiary nor a spouse of an employee receive compensation for serving on the Board. Director fees are nominal and are limited to immediate compensation.

Orientation and Continuing Education
All new directors receive an orientation from the Chief Executive Officer and are expected to maintain the necessary level of expertise to perform his or her responsibilities as a director. The Company does not maintain any formal orientation or continuing education programs.

Management Succession
The Company does not anticipate that the Chief Executive Officer will retire other than due to disability. The Chief Executive Officer reports annually to the Board on executive management succession planning and makes available, on a continuing basis, his recommendation on succession in the event he were disabled.

Annual Performance Evaluation
Each of the Audit Committee and the Governance, Compensation and Nominating Committee separately conducts an annual evaluation of its performance relative to the requirements of its Charter and reports its conclusions to the Board. The Board annually conducts a self-evaluation of its performance based in part on the reports of these two Committees.

Public Disclosure of Corporate Governance Policies
The Company posts on its website copies of the current version of these guidelines, the Company’s Code of Business Conduct and Ethics and the charters of the Audit Committee and the Governance, Compensation and Nominating Committee of the Board, and discloses in its annual report that such information is available on its website or in print to any shareholder that requests it.
Excerpts from 2002 Chairman’s letter in relation to Corporate governance.
In theory, corporate boards should have prevented this deterioration of conduct. I last wrote about the responsibilities of directors in the 1993 annual report. There, I said that directors “should behave as if there was a single absentee owner, whose long-term interest they should try to further in all proper ways.” This means that directors must get rid of a manager who is mediocre or worse, no matter how likable he may be. Directors must react as did the chorus-girl bride of an 85-year old multimillionaire when he asked whether she would love him if he lost his money. “Of course,” the young beauty replied, “I would miss you, but I would still love you.”

In the 1993 annual report, I also said directors had another job: “If able but greedy managers overreach and try to dip too deeply into the shareholders’ pockets, directors must slap their hands.” Since I wrote that, over-reaching has become common but few hands have been slapped.

The current cry is for “independent” directors. It is certainly true that it is desirable to have directors who think and speak independently – but they must also be business-savvy, interested and shareholder-oriented. In my 1993 commentary, those are the three qualities I described as essential.

A few years ago, my daughter was asked to become a director of a family of funds managed by a major institution. The fees she would have received as a director were very substantial, enough to have increased her annual income by about 50% (a boost, she will tell you, she could use!). Legally, she would have been an independent director. But did the fund manager who approached her think there was any chance that she would think independently as to what advisor the fund should employ? Of course not. I am proud to say that she showed real independence by turning down the offer. The fund, however, had no trouble filling the slot (and – surprise – the fund has not changed managers).

This costly charade should cease. Directors should not serve on compensation committees unless they are themselves capable of negotiating on behalf of owners. They should explain both how they think about pay and how they measure performance. Dealing with shareholders’ money, moreover, they should behave as they would were it their own.

Directors should stop such piracy. There’s nothing wrong with paying well for truly exceptional business performance. But, for anything short of that, it’s time for directors to shout “Less!” It would be a travesty if the bloated pay of recent years became a baseline for future compensation. Compensation committees should go back to the drawing boards.

Excerpts from 2003 Chairman’s letter in relation to Corporate governance.
In addition, director fees at Berkshire are nominal (as my son, Howard, periodically reminds me). Thus, the upside from Berkshire for all eleven is proportionately the same as the upside for any Berkshire shareholder. And it always will be.

The downside for Berkshire directors is actually worse than yours because we carry no directors and officers liability insurance. Therefore, if something really catastrophic happens on our directors’ watch, they are exposed to losses that will far exceed yours.

The bottom line for our directors: You win, they win big; you lose, they lose big. Our approach might be called owner-capitalism. We know of no better way to engender true independence.

(b) Audit Committee Charter

Committee Membership:
The Audit Committee of Berkshire Hathaway Inc. (the “Company”) shall be comprised of at least three directors, each of whom the Board has determined has no material relationship with the Company and each of whom is otherwise “independent” under the rules of the New York Stock Exchange, Inc. and Rule 10A-3 under the Securities Exchange Act of 1934. The Board shall also determine that each member is “financially literate,” and that one member of the Audit Committee has “accounting or related financial management expertise,” as such qualifications are interpreted by the Board of Directors in its business judgment, and whether any member of
the Audit Committee is an “audit committee financial expert,” as defined by the rules of Securities and Exchange Commission (the “SEC”). If the Board has determined that a member of the Audit Committee is an audit committee financial expert, it may presume that such member has accounting or related financial management expertise.

No director may serve as a member of the Audit Committee if such director serves on the audit committees of more than two other public companies unless the Board of Directors determines that such simultaneous service would not impair the ability of such director to effectively serve on the Audit Committee, and discloses this determination in the Company’s annual proxy statement.

Members shall be appointed by the Board and shall serve at the pleasure of the Board and for such term or terms as the Board may determine.

Excerpt from 2002, Warren Buffett’s chairman’s letter
The key job of the audit committee is simply to get the auditors to divulge what they know.

In my opinion, audit committees can accomplish this goal by asking four questions of auditors, the answers to which should be recorded and reported to shareholders. These questions are:

1. If the auditor were solely responsible for preparation of the company’s financial statements, would they have in any way been prepared differently from the manner selected by management? This question should cover both material and nonmaterial differences. If the auditor would have done something differently, both management’s argument and the auditor’s response should be disclosed. The audit committee should then evaluate the facts.

2. If the auditor were an investor, would he have received – in plain English – the information essential to his understanding the company’s financial performance during the reporting period?

3. Is the company following the same internal audit procedure that would be followed if the auditor himself were CEO? If not, what are the differences and why?

4. Is the auditor aware of any actions – either accounting or operational – that have had the purpose and effect of moving revenues or expenses from one reporting period to another?

If the audit committee asks these questions, its composition – the focus of most reforms – is of minor importance. In addition, the procedure will save time and expense. When auditors are put on the spot, they will do their duty. If they are not put on the spot . . . well, we have seen the results of that.

The questions we have enumerated should be asked at least a week before an earnings report is released to the public. That timing will allow differences between the auditors and management to be aired with the committee and resolved. If the timing is tighter – if an earnings release is imminent when the auditors and committee interact – the committee will feel pressure to rubberstamp the prepared figures. Haste is the enemy of accuracy.

(c) Governance, Compensation and Nominating Committee Charter
ROLE

The role of the Governance, Compensation and Nominating Committee (the “Committee”) of Berkshire Hathaway Inc. is to assist the Board of Directors (the “Board”) of the Company by:

1. Recommending to the Board corporate governance guidelines applicable to the Company;
2. Identifying, reviewing, and evaluating individuals qualified to become members of the Board;
3. Setting the compensation of the Chief Executive Officer and performing other compensation oversight;
4. Reviewing and recommending the nomination of Board members; and
5. Assisting the Board with other related tasks, as assigned from time to time.
Excerpt from 2005, Warren Buffett’s chairman’s letter

Too often, executive compensation in the U.S. is ridiculously out of line with performance. That won’t change, moreover, because the deck is stacked against investors when it comes to the CEO’s pay. The upshot is that a mediocre-or-worse CEO – aided by his handpicked VP of human relations and a consultant from the ever-accommodating firm of Ratchet, Ratchet and Bingo – all too often receives gobs of money from an ill-designed compensation arrangement.

Getting fired can produce a particularly bountiful payday for a CEO. Indeed, he can “earn” more in that single day, while cleaning out his desk, than an American worker earns in a lifetime of cleaning toilets. **Forget the old maxim about nothing succeeding like success: Today, in the executive suite, the all-too-prevalent rule is that nothing succeeds like failure.**

Huge severance payments, lavish perks and outsized payments for ho-hum performance often occur because comp. committees have become slaves to comparative data. The drill is simple: Three or so directors – not chosen by chance – are bombarded for a few hours before a board meeting with pay statistics that perpetually ratchet upwards. Additionally, the committee is told about new perks that other managers are receiving. In this manner, outlandish “goodies” are showered upon CEOs simply because of a corporate version of the argument we all used when children: “But, Mom, all the other kids have one.” When comp committees follow this “logic,” yesterday’s most egregious excess becomes today’s baseline.

Comp. committees should adopt the attitude of Hank Greenberg, the Detroit slugger and a boyhood hero of mine. Hank’s son, Steve, at one time was a player’s agent. Representing an outfielder in negotiations with a major league club, Steve sounded out his dad about the size of the signing bonus he should ask for. Hank, a true pay-for-performance guy, got straight to the point, “What did he hit last year?” When Steve answered “.246,” Hank’s comeback was immediate: “Ask for a uniform.”

**OWNER RELATED BUSINESS PRINCIPLES**

In June 1996, Berkshire’s chairman Warren E. Buffett, issued a booklet titled “An owner’s Manual” to Berkshire’s Class A and Class B shareholders. The purpose of the manual was to explain Berkshire’s economic principles of operation. The 13 owner related principles would help new shareholders understand company’s managerial approach. They are as under:

1. **Although our form is corporate, our attitude is partnership.** Charlie Munger and I think of our shareholders as ownerpartners, 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.

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.

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.

   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.
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.

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.**

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.”)

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.

   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.

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.

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.**

   Nevertheless, gin rummy managerial behavior 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.
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.

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.**

**ACQUISITION CRITERIA**

The company publicly publicise the criteria fixed for business acquisition.

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.”

**ABOUT HIS SENSE OF HUMOUR**

**Excerpts from 2005 chairman’s letter**

(a) The attitude of our managers vividly contrasts with that of the young man who married a tycoon’s only child, a decidedly homely and dull lass. Relieved, the father called in his new son-in-law after the wedding and began to discuss the future:

“Son, you’re the boy I always wanted and never had. Here’s a stock certificate for 50% of the company. You’re my equal partner from now on.”

“Thanks, dad.”

“Now, what would you like to run? How about sales?”
“I'm afraid I couldn't sell water to a man crawling in the Sahara.”

“Well then, how about heading human relations?”

“I really don’t care for people.”

“No problem, we have lots of other spots in the business. What would you like to do?”

“Actually, nothing appeals to me. Why don’t you just buy me out?”

(b) To avoid the fate of the elderly couple who had been romantically challenged for some time. As they finished dinner on their 50th anniversary, however, the wife – stimulated by soft music, wine and candlelight – felt a long-absent tickle and demurely suggested to her husband that they go upstairs and make love. He agonized for a moment and then replied, “I can do one or the other, but not both.”

ABOUT HIS PROFUSE PRAISE OF HIS EMPLOYEES

(a) Excerpt from 2002 chairman’s letter

(i) Ajit Jain’s reinsurance division was the major reason our float cost us so little last year. If we ever put a photo in a Berkshire annual report, it will be of Ajit. In color!

Ajit’s operation has amassed $13.4 billion of float, more than all but a handful of insurers have ever built up. He achieved this from a standing start in 1986, and even now has a workforce numbering only 20. And, most important, he has produced underwriting profits.

If you see Ajit at our annual meeting, bow deeply.

(ii) We continue to be blessed with an extraordinary group of managers, many of whom haven’t the slightest financial need to work. They stick around, though: In 38 years, we’ve never had a single CEO of a subsidiary elect to leave Berkshire to work elsewhere. Counting Charlie, we now have six managers over 75, and I hope that in four years that number increases by at least two (Bob Shaw and I are both 72). Our rationale: “It’s hard to teach a new dog old tricks.”

(iii) Thank Tony Nicely for all of this. As anyone who knows him will attest, Tony has been in love with GEICO for 41 years – ever since he went to work for the company at 18 – and his results reflect this passion. He is proud of the money we save policyholders – about $1 billion annually versus what other insurers, on average, would have charged them. He is proud of the service we provide these policyholders: In a key industry survey, GEICO was recently ranked above all major competitors. He is proud of his 19,162 associates, who last year were awarded profit-sharing payments equal to 19% of their base salary because of the splendid results they achieved. And he is proud of the growing profits he delivers to Berkshire shareholders.

(b) Excerpt from Annual Report 2005

(i) Our retailing category includes See’s Candies, a company we bought early in 1972 (a date making it our oldest non-insurance business). At that time, Charlie and I immediately decided to put Chuck Huggins, then 46, in charge. Though we were new at the game of selecting managers, Charlie and I hit a home run with this appointment. Chuck’s love for the customer and the brand permeated the organization, which in his 34-year tenure produced a more-than-tenfold increase in profits. This gain was achieved in an industry growing at best slowly and perhaps not at all. (Volume figures in this industry are hard to pin down.)

At yearend, Chuck turned the reins at See’s over to Brad Kinstler, who previously had served Berkshire well while running Cypress Insurance and Fechheimer’s. It’s unusual for us to move managers around, but Brad’s record made him an obvious choice for the See’s job. I hope Chuck and his wife, Donna, are at the annual meeting. If they are, shareholders can join Charlie and me in giving America’s number one candy maker a richly-deserved round of applause.
Credit GEICO – and its brilliant CEO, Tony Nicely – for our stellar insurance results in a disasterridden year. One statistic stands out: In just two years, GEICO improved its productivity by 32%. Remarkably, employment fell by 4% even as policy count grew by 26% – and more gains are in store. When we drive unit costs down in such a dramatic manner, we can offer ever-greater value to our customers. The payoff: Last year, GEICO gained market-share, earned commendable profits and strengthened its brand. 

If you have a new son or grandson in 2006, name him Tony.

HIS SUGGESTION TO INVESTORS

Excerpt from 2002 letter to shareholders

First, beware of companies displaying weak accounting.

Trumpeting EBITDA (earnings before interest, taxes, depreciation and amortization) is a particularly pernicious practice. Doing so implies that depreciation is not truly an expense, given that it is a "non-cash" charge. That’s nonsense. In truth, depreciation is a particularly unattractive expense because the cash outlay it represents is paid up front, before the asset acquired has delivered any benefits to the business.

Second, unintelligible footnotes usually indicate untrustworthy management. If you can’t understand a footnote or other managerial explanation, it’s usually because the CEO doesn’t want you to. Enron’s descriptions of certain transactions still baffle me.

Finally, be suspicious of companies that trumpet earnings projections and growth expectations. Businesses seldom operate in a tranquil, no-surprise environment, and earnings simply don’t advance smoothly (except, of course, in the offering books of investment bankers).

Charlie and I not only don’t know today what our businesses will earn next year – we don’t even know what they will earn next quarter. We are suspicious of those CEOs who regularly claim they do know the future – and we become downright incredulous if they consistently reach their declared targets. Managers that always promise to “make the numbers” will at some point be tempted to make up the numbers.

ANNUAL MEETING A WORLD FAMOUS EVENT

The annual meeting for 2007 is to be held from May 4, 2007 till May 6, 2007, at Quest Center Omaha, 455, North, 10th Street, Downtown, Omaha. The 1,94,300 square foot hall adjoining the meeting area will be filled with the products of Berkshire subsidiaries.

Mr.Buffett answering shareholder’s questions
On Friday, the May 4th, **Shareholder's cocktail reception** will commence from 6 pm till 10.00 pm at Borsheim's.

On Saturday, May 5th **doors for Annual Meeting** will open from 7.00 a.m. **Company Movie** will be shown at 8.30 a.m. and thereafter **Mr. Buffett and his partner Mr.Charlie** will answer shareholders questions from 9.30 a.m. till 3.00 p.m. Between 4.00 p.m. to 5.30 p.m. on the same day **International meet and great of overseas shareholders will take place**.

Between 5.30 p.m. to 8.00 p.m. a special affair for shareholders will take place at Berkshire Backyard, where Mr. Buffett with his shareholders will be eating barbeque, **drinking cherry coke (in which BH holds 8.4% shares)** and counting sales.

On Sunday, May 6th it is **exclusive shareholder's shopping day at Borsheim's** the company's Jewelry business (In words of Mr. Buffett “If you don't know jewelry, know the Jeweler”) between 9.00 a.m. till 4.00 p.m.

Between 4.00 p.m. till 10.00 p.m. **shareholder's night is celebrated at Gorats' Steakhouse**.

Shareholders are **showered with discount coupons**, which they have to encash between 4th May till 8th and sometimes upto 13th May.

**THE MANAGING OF BERKSHIRE**


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 one or more foundations**. In this way, Berkshire will be left with a long-term, very substantial shareholder, guided by the same philosophy and objectives that now set our course.

The Buffett family will not be involved in managing the business, only in picking and overseeing the managers who do. Just who those managers will be, of course, depends on the date of my death. But I can anticipate what the management structure will be: **Essentially my job will be split into two parts, with one executive becoming responsible for investments and another, who will be CEO, for operations**.

**All candidates currently work for Berkshire and are people in whom I have total confidence.**

I will continue to keep the directors posted on the succession issue. Since Berkshire stock will make up virtually my entire estate and will account for a similar portion of the assets of the foundation 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.

**As appearing in 2005 Chairman's letter to shareholders**

**Management Succession**

Moreover, we have **three managers at Berkshire who are reasonably young and fully capable of being CEO**.

Berkshire’s board has fully discussed each of the three CEO candidates and has unanimously agreed on the person who should succeed me if a replacement were needed today. The directors stay updated

**Every share of Berkshire that I own is destined to go to philanthropies**, and I want society to reap the maximum good from these gifts and bequests.
And finally, Warren Buffett turns World’s largest Philanthropist at Age of 76

Through letters dated June 26, 2006, addressed to five foundations, Mr. Buffett earmarked about 21.5 million B shares to the gifted as charitable to the following foundations:

<table>
<thead>
<tr>
<th>Foundation</th>
<th>Shares</th>
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<tr>
<td>Bill and Melinda Gates Foundation (Bill Gates and his wife Melinda)</td>
<td>10 million B shares</td>
</tr>
<tr>
<td>Susan Thomson Buffett Foundation (earlier known as Buffett foundation, renamed recently after late wife Susan who died in 2004 at age of 72 years)</td>
<td>1 million B shares</td>
</tr>
<tr>
<td>Novo Foundation (Son, Mr. Peter A. Buffett)</td>
<td>3.5 million B shares</td>
</tr>
<tr>
<td>Susan A. Buffett Foundation (daughter, Ms. Susan A. Buffett)</td>
<td>3.5 million B shares</td>
</tr>
<tr>
<td>Howard G. Buffett Foundation (Son, Mr. Howard G. Buffett)</td>
<td>3.5 million B shares</td>
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The shares are to be gifted every year 5% of reduced balance. **Thus, the entire gifting will take place over next 25 years.**

**AND MORE ABOUT WARREN BUFFETT AND HIS COMPANY, YOU WOULD LOVE TO KNOW AND ULTIMATELY SALUTE HIM**

1. Warren Buffett is 76 years of age whereas his partner and vice-chairman Charlie Munger is 83 years of age.
2. Berkshire has not declared a cash dividend since 1967.
3. Berkshire has 68 distinct business employing 1,92,012 employees of which only 17 are at corporate office, located at Omaha.
4. During 2005-06 school year, about 35 university classes in aggregate 2000 students came to Omaha for sessions with Warren Buffett and had lunch at his favourite steakhouse, Gorats.
5. The company does not purchase directors and officers liability insurance for its directors or officers.
6. Annual Meeting last over three days.
7. Approximately 21,000 shareholders out of 23,000 attended the 2005 Annual general Meeting. More than 400 were overseas shareholders from many dozen of countries.
The consolidated revenues for year 2005 of Berkshire Hathaway Inc. and its subsidiaries was US $81.66 billion, net earnings came to US $8.528 billion. The net earnings per share came to US $5,538 for 2005 which was US $2,795 in 2002.

The low and high share price of class A and class B in 2005 ranged as under:

<table>
<thead>
<tr>
<th>Class</th>
<th>Low</th>
<th>High</th>
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<tr>
<td>Class A</td>
<td>78,800</td>
<td>92,000</td>
</tr>
<tr>
<td>Class B</td>
<td>2,612</td>
<td>3,067</td>
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</tbody>
</table>

The number of shareholders for Class A were 6800, whereas for Class B were 16,200 on March 1, 2006.

Berkshire Hathaway is listed on New York Stock exchange. Average volume of Class A shares is 400 shares; The share price for Class A share was US $95,300, per share as on August 18, 2006 and the total market capital is above US $146 billion, including Class B shares. Inspite of such high market cap, the stock doesnot figure in S & P 500, mainly due to poor liquidity and high promoter's holdings.

Berkshire Hathaway is ranked 13th amongst fortune 500 America’s largest Corporation and 42nd amongst fortune Global 500.

Core business is insurance. The US $20 million of “float” (the money that doesnot belong but is temporarily held) that was in 1967 has increased to US $49 billion in 2005.

Warrant Buffett’s holding in Berkshire Hathaway is close to 31%, worth US $44 billion, making him second richest man on earth. Out of this, US $40 billion constituting about 85% of his total holding is destined for charity / donation. This will be largest philanthropic gift in history.

Berkshire Hathaway also sells Active-Wear Collection under its brand and Warren Buffett’s name such as Gold Vests, Hat, Polo shirts, T-shirts, Towels, Blankets, etc.

Warren Buffett was paid salary of US $1,00,000 for the year 2005. All other compensation from non-subsidiary companies in which Berkshire Hathaway has significant investments was US $2,09,000 for the year 2005. Whereas the average CEO of an S&P 500 company earned around US $9 million in total compensation in fiscal 2003.

BH’s hop holdings includes:

<table>
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<tr>
<th>Company Name</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>American Express Company</td>
<td>(12.2%)</td>
</tr>
<tr>
<td>Ameriprise Financial, Inc.</td>
<td>(12.1%)</td>
</tr>
<tr>
<td>Anheuser-Busch Cos., Inc.</td>
<td>(5.6%)</td>
</tr>
<tr>
<td>M&amp;T Bank Corporation</td>
<td>(6.7%)</td>
</tr>
<tr>
<td>Moody’s Corporation</td>
<td>(16.2%)</td>
</tr>
<tr>
<td>PetroChina “H“ shares (or equivalents)</td>
<td>(1.3%)</td>
</tr>
<tr>
<td>The Procter &amp; Gamble Company</td>
<td>(3.0%)</td>
</tr>
<tr>
<td>Wal-Mart Stores, Inc.</td>
<td>(0.5%)</td>
</tr>
<tr>
<td>The Washington Post Company</td>
<td>(18.0%)</td>
</tr>
<tr>
<td>Wells Mountains Insurance</td>
<td>(5.7%)</td>
</tr>
<tr>
<td>White Mountains Insurance</td>
<td>(16.0%)</td>
</tr>
</tbody>
</table>
"Why not invest your assets in the companies you really like? As Mae West said, ""Too much of a good thing can be wonderful".""

Only buy something that you'd be perfectly happy to hold if the market shut down for 10 years.

I look for businesses in which I think I can predict what they're going to look like in ten to fifteen years time. Take Wrigley's chewing gum. I don't think the internet is going to change how people chew gum.

"If you are a know-something investor, able to understand business economics and to find five to ten sensibly priced companies that possess important long-term competitive advantages, conventional diversification (broadly based active portfolios) makes no sense to you."

"We have embraced the 21st century by entering such cutting-edge industries as brick, carpet, insulation and paint. Try to control your excitement."

"In the search for companies to acquire, we adopt the same attitude one might find appropriate in looking for a spouse: it pays to be active, interested, and open-minded, but it does not pay to be in a hurry."

"Stocks can't outperform businesses indefinitely. Indeed, because of the heavy transaction and investment management costs they bear, stockholders as a whole and over the long term must inevitably underperform the companies they own. If American business, in aggregate, earns about 12% on equity annually, investors must end up earning significantly less. Bull markets can obscure mathematical laws, but they cannot repeal them."

"It's far better to buy a wonderful company at a fair price, than a fair company at a wonderful price. Now, when buying companies or common stocks, we look for first-class businesses accompanies by first-class managements."

With enough inside information and a million dollars you can go broke in a year.

The first rule is not to lose. The second rule is not to forget the first rule.

"The market, like the Lord, helps those who help themselves. But, unlike the Lord, the market does not forgive those who know not what they do."

You don't need to be a rocket scientist. Investing is not a game where the guy with the 160 IQ beats the guy with the 130 IQ.
"You should invest in a business that even a fool can run, because someday a fool will."

You go to bed feeling very comfortable just thinking about two and a half billion males with hair growing while you sleep. No one at Gillette has trouble sleeping.

"If you gave me $100 billion and said take away the soft drink leadership of Coca-Cola in the world, I'd give it back to you and say it can't be done."

Most people get interested in stocks when everyone else is. The time to get interested is when no one else is. You can't buy what is popular and do well.

"Diversification may preserve wealth, but concentration builds wealth."

"To be successful, you should concentrate on the world of companies, not arcane accounting mathematics."

"With each investment you make, you should have the courage and the conviction to place at least ten per cent of your net worth in that stock."

It's easier to create money than to spend it.

I've often felt there might be more to be gained by studying business failures than business successes.

"It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently."

I read annual reports of the company I'm looking at and I read the annual reports of the competitors - that is the main source of material.

"A pin lies in wait for every bubble and when the two eventually meet, a new wave of investors learns some very old lessons."

"A company that wants to use its own stock as currency for an acquisition has no problems if the stock is selling in the market at full intrinsic value. But suppose it is selling at only half intrinsic value. In that case it is faced with the unhappy prospect of using a substantially undervalued currency to pay for a fully valued property [the negotiated price of the target company]. In effect the acquirer must give up $2 of value to receive $1 of value. Under such circumstances, a marvellous business purchased at a fair
sales price becomes a terrible buy. For gold valued as gold cannot be purchased intelligently through the utilization of gold valued as lead."

"Occasional outbreaks of those two super-contagious diseases, fear and greed, will forever occur in the investment community. The timing of these epidemics is equally unpredictable, both as to duration and degree. Therefore we never try to anticipate the arrival or departure of either. We simply attempt to be fearful when others are greedy and to be greedy only when others are fearful."

I wouldn't mind going to jail if I had three cellmates who played bridge.

"Ben Graham wasn't about brilliant investments and he wasn't about fads of fashion. He was about sound investing, and I think sound investing can make you very wealthy if you're not in too big of a hurry. And it never makes you poor, which is even better."

"If the business does well, the stock eventually follows."

"When managers want to get across the facts of a business to you, it can be done within the rules of accounting. Unfortunately, when they want to play games, at least in some industries, it can also be done within the rules of accounting. If you can't recognize the differences, you shouldn't be in the equity-picking business."

"Draw a circle around the businesses you understand and then eliminate those that fail to qualify on the basis of value, good management and limited exposure to hard times."

I'd rather have a $10 million business making 15 per cent than a $100 million business making 5 per cent.
Mr. Warren Buffett poses with a shareholder in front of Berkshire's plane.

Famous for his Unpretentious and frugal lifestyle

Mr. Buffett lives in mighty modest digs, given the size of his fortune. He still resides in the gray stucco home he bought in 1958 for US $ 31,500. Totaling about 6,000 square feet, in 2003 the Happy Hollow house was assessed at just US $ 7,00,000.