EXXON MOBIL CORP
Form 11-K
June 14, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11 K

	[x] ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934	

For the fiscal year ended December 31, 2017

OR

	[ ] TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934	

For the transition period from __________ to ___________

Commission file number 1-2256

	A. Full title of the plan and the address of the plan, if different from that of the issuer named below:	

EXXONMOBIL SAVINGS PLAN

	B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:	

EXXON MOBIL CORPORATION

5959 Las Colinas Boulevard

Irving, Texas 75039-2298

EXXONMOBIL SAVINGS PLAN

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EXXONMOBIL SAVINGS PLAN
STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
(millions of dollars)

	December 31, 2017	December 31, 2016
Assets		
Investments, at fair value (Note 5):		
Exxon Mobil Corporation common stock	10,060	11,670
Other investments	10,504	9,603
Other investments on loan	-	47
Total investments	20,564	21,320
Receivables:		
Notes receivable from participants	178	192
Accrued interest	-	1
Other receivables	6	6
Total receivables	184	199
Total assets	20,748	21,519
Liabilities		
Payables and accrued liabilities	61	45
Payable for cash collateral on securities on loan	-	48
Total liabilities	61	93
Net assets available for benefits	20,687	21,426

The accompanying notes are an integral part of these financial statements.

EXXONMOBIL SAVINGS PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 2017
(millions of dollars)

Contributions:	
Employer	273
Participant	442
Transfers-in at fair value	110
Total contributions	825
Investment income:	
Interest	69
Dividends	383
Net appreciation in fair value of investments	477
Net investment income	929
Interest income on notes receivable from participants	7
Benefit payments	(2,500)
Net decrease	(739)
Net assets available for benefits:	
Beginning of year	21,426
End of year	20,687

The accompanying notes are an integral part of these financial statements.

EXXONMOBIL SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS

Note 1: Description of the Plan

General

Active participants in the ExxonMobil Savings Plan ("Plan") are eligible employees of Exxon Mobil Corporation ("ExxonMobil" or the “Company") and certain affiliated employers. The terms and conditions of the Plan are contained in the ExxonMobil Benefit Plans Common Provisions document, the ExxonMobil Savings Plan document, and the ExxonMobil Savings Trust document (collectively, the "Plan Document"). The Plan is an "employee pension benefit plan" described in Section 3(2) of the Employee Retirement Income Security Act of 1974 ("ERISA"), a "defined contribution plan" described in Section 3(34) of ERISA, and a non-leveraged Employee Stock Ownership Plan. The notes to the financial statements give a general description of the Plan. Participants should refer to the Plan Document for a more complete discussion of the Plan's provisions.

Contributions

The Plan permits participant contributions that range from 6 percent to 20 percent of each participant’s eligible pay. The Company matches only the minimum 6 percent contribution in an amount equal to 7 percent of a participant’s eligible pay.

Employees who are at least age 50 during the plan year and who maximize the combination of their regular pretax and Roth contributions may elect to make additional contributions.

Vesting

Participants are immediately vested in their contributions and all earnings. Company contributions vest at 100 percent upon the earliest of completion of 3 years of vesting service, reaching age 65 while employed, or death while an employee.

Forfeitures

During 2017, employer contributions totaling $1 million were forfeited by terminating employees and used to offset employer contributions.

Other Plan Provisions

Other Plan provisions including eligibility, enrollment, participation, forfeiture, loans, benefit payments (including withdrawals and distributions), and investment options are described in the Plan Document.

Plan Termination

The Company may terminate or amend the Plan at any time. In the event of termination, the net assets of the Plan will be distributed in accordance with ERISA.

EXXONMOBIL SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS

Note 2: Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of the Plan are presented on the accrual basis. Benefit payments are reported when paid.

Investment Valuation and Income Recognition

Investments are stated at fair value as described in Note 5.

Under the terms of its trust agreement, the Plan engaged in an authorized form of security lending activities during the years ended December 31, 2017 and 2016. In accordance with the Savings Plan Securities Lending Agreement with The Northern Trust Company, the market value of the collateral held at the time of trade execution is required to be at least 102 percent of the market value of securities on loan or at least 105 percent if the collateral held and securities on loan are denominated in different currencies. The fair value of U.S. Government securities on loan was $0 million and $47 million, at December 31, 2017 and 2016, respectively. The securities on loan are reflected in the Statements of Net Assets Available for Benefits at December 31, 2017 and 2016 and the Schedule of Assets (Held At End Of Year). The value of cash collateral obtained and reinvested in short term investments is reflected as a liability on the Plan’s financial statements.

Purchases and sales of securities are recorded on a trade-date basis. Dividends are recorded on the ex-dividend date.

Net appreciation / depreciation in the current value of investments includes realized gains and losses on investments sold or disposed of during the year and unrealized gains and losses on investments held at year end.

Transfers-in at fair value include participant-initiated rollovers of certain distributions from other tax-qualified plans into the Plan.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets available for benefits, liabilities and disclosure of contingent liabilities at the date of the financial statements, and the reported amounts of changes in net assets available for benefits during the reporting period. Actual results could differ from those estimates.

Risks and Uncertainties

The Plan participants invest in various investment options offered by the Plan. Investments in these Plan-offered options are subject to various risks, such as interest rate, market value, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Statements of Net Assets Available for Benefits.

EXXONMOBIL SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS

Note 2: Summary of Significant Accounting Policies (continued)

Expenses

Investment income from all sources is stated net of brokerage fees on purchases and sales of ExxonMobil common stock, administrative expenses and investment management fees. Fees for delivery of checks that are expedited upon request by participants are charged to the participant's account. All other administrative fees are paid by the Company. Administrative expenses are recorded when incurred.

Note 3: Related Party and Party in Interest Transactions

During 2017, certain Plan investments were units of various funds managed by The Northern Trust Company. The Northern Trust Company also provided custodial services to the Plan and acted as securities lending agent during the plan year and, therefore, purchases and sales of these investments qualified as party in interest transactions. The Plan holds Exxon Mobil Corporation common stock. Exxon Mobil Corporation is the employer of Plan participants and is the Plan sponsor, and any transactions in Exxon Mobil Corporation common stock qualify as party in interest transactions. In 2017, the Plan entered into a short-term, interest-free, and unsecured loan agreement with Exxon Mobil Corporation to provide liquidity to the Plan, if needed, to fund ordinary operating expenses such as benefit payments. All amounts drawn under the loan agreement were repaid as of December 31, 2017. The lending of money from Exxon Mobil Corporation to the Plan qualifies as a party in interest transaction.

Notes receivable from participants (participant loans) also qualify as party in interest transactions.

Note 4: Tax Status

The Internal Revenue Service has determined and informed the Plan administrators by a letter dated August 7, 2017, that the Plan and related trust are designed in accordance with the applicable sections of the Internal Revenue Code (“IRC”). The Plan has been amended since receiving the determination letter. The Plan administrators and legal counsel believe the Plan is currently designed and is being operated in compliance with the applicable requirements of the IRC. The Plan is subject to audit by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Note 5: Fair Value Measurements

The authoritative guidance for fair value measurements provides a framework for measuring fair value. The framework establishes a three-level fair value hierarchy based on the nature of the information used to measure fair value. The terms “Level 1” and “Level 2” are accounting terms that refer to different methods of valuing assets. The terms do not represent the relative risk or credit quality of an investment. The fair value hierarchies for the Plan assets are not a measure of the ability of the Plan to meet Plan benefit obligations.

The following tables set forth by level, within the fair value hierarchy, the Plan's assets at fair value:

EXXONMOBIL SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS

Note 5: Fair Value Measurements (continued)

(millions of dollars)		Fair Value Measurements at December 31, 2017 Using			
Description of investments	Value	Quoted Prices In Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)	
ExxonMobil common stock	10,060	10,060	(1)		
U.S. Government Securities	2,005			2,005	(2)
Total	12,065	10,060		2,005	
Common collective trusts (at net asset value)*:					
S&P 500 Fund	3,778(3)				
Small & Mid Cap Fund	2,311(3)				
World Ex-US Equity Fund	1,440(3)				
Aggregate Bond Fund	885(4)				
Short term investments	85(5)				
Total	20,564				

(1) For ExxonMobil common stock, fair value is based on observable quoted prices on an active exchange.

(2) For U.S. government securities, fair value is based on observable inputs of comparable market transactions.

(3) Investments in common and preferred stocks held in the form of units in common collective trusts are redeemable daily at the unit value, including the measurement date. The fair value of the underlying securities owned by the common collective trusts is based on observable quoted prices on an active exchange.

(4) Investments in debt securities and fixed income assets held in the form of units in common collective trusts are redeemable daily at the unit value, including the measurement date.

(5) Short term investments held in the form of units in common collective trusts are redeemable daily at the unit value, including the measurement date.

* Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts in the Statements of Net Assets.

EXXONMOBIL SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS

Note 5: Fair Value Measurements (continued)

(millions of dollars)		Fair Value Measurements at December 31, 2016 Using			
Description of investments	Value	Quoted Prices In Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)	
ExxonMobil common stock	11,670	11,670	(1)		
U.S. Government Securities	2,319			2,319	(2)
Corporate Debt Securities	103			103	(2)
Total	14,092	11,670		2,422	
Common collective trusts (at net asset value)*:					
S&P 500 Fund	3,239(3)				
Small & Mid Cap Fund	2,038(3)				
World Ex-US Equity Fund	1,060(3)				
Aggregate Bond Fund	781(4)				
$	25,319	$	1,281	$	26,600

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 by the major rating agencies. Non-investment grade securities represent securities that are rated below BBB- or Baa3. Fair value reflects quoted market prices where available or, if not available, prices obtained from independent

pricing services.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

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 totaled approximately $49.5 billion at June 30, 2006, $49.3 billion at December 31, 2005 and $46.5 billion at June 30, 2005. The cost of float, as represented by the ratio of pre-tax underwriting gain or loss to average float, was negative in both the first six months of 2006 and for the full year of 2005, as Berkshire s insurance businesses generated pre-tax underwriting gains.

Utilities and Energy

Revenues and earnings from utilities and energy businesses for the second quarter and first six months of 2006 and 2005 are summarized below. Amounts are in millions.

	Second Quarter				First Six Months			
	Revenues		Earnings		Revenues		Earnings	
	2006	2005	2006	2005	2006	2005	2006	2005
U.S. electricity and gas generation and distribution	$ 1,622	$ 620	$ 210	$ 59	$ 2,740	$ 1,476	$ 367	$ 158
Natural gas pipelines	189	141	71	87	482	421	236	247
U.K. electricity distribution	216	215	117	115	426	454	231	241
Real estate brokerage	518	554	35	51	873	916	35	59
Other	143	120	108	67	360	220	271	129
Interest expense			(263)	(179)			(444)	(366)
	$ 2,688	$ 1,650	278	200	$ 4,881	$ 3,487	696	468
Income taxes and minority interests			120	100*			305	227*
			$ 158	$ 100			$ 391	$ 241

* *Includes an income tax charge of $9 million for the second quarter and $22 million for the first six months of 2005 related to Berkshire s accounting for its investments in MidAmerican*

under the equity method.

Berkshire s 2005 Consolidated Financial Statements reflect Berkshire s share of MidAmerican s net earnings as determined under the equity method. In 2006, MidAmerican s revenues and expenses are included in Berkshire s Consolidated Financial Statements. Interest expense on debt securities held by Berkshire and other Berkshire subsidiaries has been eliminated. For comparative purposes, revenues and earnings of MidAmerican for 2005 are provided in the table above. Revenues and earnings of the utilities and energy businesses are, to some extent, seasonal depending on weather-induced demand. Revenues from electricity sales can be higher in the June-September period and revenues from gas sales and pipelines can be greater in the November-March period. Real estate brokerage revenues tend to be greater in the second and third quarters.

Revenues in 2006 from the U.S. electricity and gas generation and distribution business increased $1,002 million (162%) in the second quarter and $1,264 million (86%) for the first six months over the comparable 2005 periods. The increases were primarily attributable to (1) the acquisition of PacifiCorp on March 21, 2006 ($860 million for the second quarter and $936 million for the first six months) and (2) higher regulated wholesale electricity sales, due to higher prices and unit sales. In addition, non-regulated energy sales increased in 2006 periods due primarily to a change in management s strategy related to certain end-use natural gas contracts, which resulted in prospective revenues and costs being recorded on a gross rather than net basis.

Pre-tax earnings of utilities and energy businesses for the second quarter and first six months of 2006 increased $78 million (39%) and $228 million (49%), respectively, over the comparable 2005 periods. Pre-tax earnings in the second quarter and first six months of 2006 from U.S. electricity and gas generation and distribution business increased approximately $151 million and $209 million, respectively, as compared to 2005 periods. The increases were due primarily to the inclusion of PacifiCorp ($131 million for the second quarter and $153 million for the first six months of 2006) and to higher operating margins on retail and wholesale electricity sales. Earnings from other activities in 2006 included a pre-tax gain of $28 million for the second quarter and $117 million for the first six months from the disposal of equity securities. Partially offsetting the aforementioned increases in pre-tax earnings was increased interest expense in 2006 ($84 million for the second quarter and $78 million for the first six months). Interest expense in 2006 includes interest expense of PacifiCorp as well as interest on $1.7 billion of MidAmerican s 6.125% bonds due 2036 issued in late March 2006.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Manufacturing, Services and Retailing

A comparison of second quarter and first six months revenues and pre-tax earnings of Berkshire s diverse manufacturing, services and retailing businesses follows. Amounts are in millions.

	Second Quarter				First Six Months			
	Revenues		Earnings		Revenues		Earnings	
	2006	2005	2006	2005	2006	2005	2006	2005
Apparel	$ 592	$ 597	$ 65	$ 92	$ 1,124	$ 1,156	$ 116	$ 164
Building products	1,332	1,245	245	219	2,530	2,354	436	394
Flight services	1,138	917	110	51	2,057	1,684	131	58
McLane Company	6,291	5,869	56	59	12,398	11,521	111	128
Retail	691	637	40	39	1,346	1,240	77	68
Shaw Industries	1,539	1,432	169	139	2,978	2,726	324	227
Other businesses	1,386	748	211	113	2,620	1,463	341	194
	$ 12,969	$ 11,445	$ 896	$ 712	$ 25,053	$ 22,144	$ 1,536	$ 1,233
Income taxes and minority interests			342	260			604	456
			$ 554	$ 452			$ 932	$ 777

Apparel

Apparel business revenues in the second quarter and first six months of 2006 decreased $5 million (1%) and $32 million (3%), respectively, compared with 2005 periods. In 2006, clothing revenues declined $8 million for the second quarter and $61 million for the first six months from 2005 and was partially offset by increased footwear revenues. Pre-tax earnings of apparel businesses in the second quarter and first six months of 2006 were $65 million and $116 million, respectively, decreases of $27 million (29%) and $48 million (29%), respectively, from 2005. The declines in pre-tax earnings were attributable to lower earnings from clothing, reflecting lower average net selling prices and product mix changes as well as higher advertising costs and facilities closure costs related to certain of Fruit of the Loom s manufacturing facilities. As discussed in Note 3 to the Interim Consolidated Financial Statements, during the second quarter Berkshire agreed to acquire Russell Corporation (Russell), a manufacturer of athletic uniforms, apparel, athletic footwear, sporting goods, athletic equipment, and accessories for a variety of sports, outdoor and fitness activities. The acquisition of Russell was completed on August 2, 2006. For the year ending December 31, 2005, Russell reported revenues of approximately $1.4 billion and pre-tax earnings of approximately $43 million.

Building Products

Revenues and pre-tax earnings for the second quarter and first six months of 2006 of the building products group increased over revenues and pre-tax earnings for the corresponding 2005 periods. Increased revenues were generated by all of the major businesses included in this segment. The increase in revenues in 2006 is primarily attributable to higher average selling prices and increased unit volume for insulation products, connector plates, and truss machinery. Selling price increases have generally been in response to raw material and energy cost inflation, which has driven manufacturing and delivery costs higher.

The increase in pre-tax earnings in the first six months of 2006 over 2005 periods was primarily attributable to general increases in volume. However, escalating costs for raw materials, labor and fuel related costs as well as product mix changes produced declines in 2006 pre-tax earnings from the paint/coatings business of Benjamin Moore of $15 million (27%) for the second quarter and $10 million (12%) for the first six months compared with 2005. During the second quarter of 2006, residential housing construction continued to show signs of weakness in certain areas of the U.S. Changes in housing construction conditions as well as sources and prices of raw materials and energy can have a significant effect on the operating results of the building products group.

Flight Services

Flight services revenues in the second quarter and first six months of 2006 increased $221 million (24%) and $373 million (22%) over 2005 periods. Revenues from NetJets fractional aircraft ownership business for the first six months of 2006 increased $347 million (26%) over 2005, reflecting a 23% increase in flight operations and management service

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Manufacturing, Services and Retailing (Continued)

Flight Services (Continued)

revenues and increased fractional aircraft sales. In 2006, occupied flight hours increased 16% and average hourly rates increased as well. The number of aircraft managed within the NetJets program over the past twelve months has increased 12.6%. Revenues for the second quarter and first six months of 2006 from training (FlightSafety) increased 8% over the comparable 2005 periods. The revenue increases were primarily due to increased corporate aviation demand and price increases. In 2006, pre-tax earnings of the flight services businesses totaled $110 million in the second quarter and $131 million for the first six months compared to $51 million for the second quarter and $58 million for the first six months of 2005. The NetJets fractional ownership business generated a pre-tax gain of $48 million for the second quarter and $29 million for the first six months of 2006. In 2005, this business produced pre-tax losses of $1 million for the second quarter and $31 million for the first six months. The improvement in operating results at NetJets reflected a comparative decline in losses from subcontracted flights ($27 million decline for the first six months) which are necessary to meet peak customer demand, increased management and usage revenues and increased margins from fractional aircraft sales, somewhat offset by higher interest, depreciation and payroll expenses. Pre-tax earnings from FlightSafety training services for the first six months of 2006 increased $13 million versus 2005.

McLane Company

Revenues from the McLane distribution business increased $422 million (7%) for the second quarter of 2006 and $877 million (8%) for the first six months over the comparable 2005 periods. Pre-tax earnings of $56 million for the second quarter and $111 million for the first six months of 2006 decreased $3 million (5%) and $17 million (13%) from the comparable 2005 periods. McLane s business is marked by high sales volume and low profit margins and has been subject to increased price competition in recent periods. Approximately one-third of McLane s total sales are to Wal-Mart. The increases in revenues in 2006 were primarily due to growth in the grocery business and were partially offset by a reduction in the restaurant food service business due to the loss of a large customer in mid-2005. The net increase in revenues in 2006 was offset by a 0.25% reduction in gross margin percentage primarily attributable to increased competition. Pre-tax earnings in 2005 included a $10 million gain from a litigation settlement in the first quarter.

Retail

Berkshire s retail operations consist of several home furnishings and jewelry retailers. Revenues of the home furnishings businesses in the second quarter and first six months of 2006 increased $45 million (10%) and $91 million (10%), respectively, over 2005. Revenues for the first six months of 2006 included sales from two new RC Willey stores of $30 million. Aggregate same store sales of home furnishings businesses for the first six months of 2006 increased approximately 7% compared to 2005. Revenues from jewelry businesses were $182 million and $346 million for the second quarter and first six months of 2006, representing increases of $9 million (5%) and $15 million (4%), respectively, over the corresponding 2005 periods. Pre-tax earnings of the retail group for the second quarter were $40 million and for the first six months of 2006 were $77 million, increases of $1 million (3%) and $9 million (13%) over corresponding 2005 periods. The comparative increase in pre-tax earnings was produced by the home furnishings operations and was partially offset by slight decreases at the jewelry businesses as well as costs incurred in connection with opening a new RC Willey store in Sacramento, California.

Shaw Industries

Revenues of Shaw Industries in the second quarter and first six months of 2006 increased $107 million (7%) and $252 million (9%) over the corresponding 2005 periods. For the first six months of 2006, the increases were primarily due to increased average net selling prices for carpet, partially offset by a 2% reduction in volume. Pre-tax earnings for the second quarter and first six months of 2006 increased $30 million (22%) and $97 million (43%) over the corresponding 2005 periods. Since the beginning of 2004, manufacturing costs have risen significantly, primarily from higher costs of petrochemical-based raw materials. Selling price increases generally lag cost increases and operating margins have been generally depressed over that period. Raw material costs have stabilized somewhat and the effects

of recent price increases helped produce higher operating margins. In addition, Shaw benefited from the integration of carpet backing and nylon-fiber manufacturing operations acquired in the fourth quarter of 2005. These two acquisitions allow Shaw to internally produce most of its carpet-backing needs and to secure a more stable source of raw material and are expected to result in relatively lower production costs in the future.

Other Businesses

Aggregate revenues of Berkshire s other numerous and diversified businesses in the second quarter and first six months of 2006 increased $638 million and $1,157 million, respectively, over 2005. Pre-tax earnings of the group increased $98 million for the second quarter and $147 million for the first six months. These increases were primarily attributable to the inclusion of the results of Forest River and Business Wire. Berkshire acquired Forest River, a leading manufacturer of leisure vehicles in the U.S., on August 31, 2005 and Business Wire, a leading global distributor of corporate news, multimedia and regulatory filings, on February 28, 2006.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Finance and Financial Products

A summary of revenues and earnings from Berkshire s finance and financial products businesses for the second quarter and first six months of 2006 and 2005 follows. Amounts are in millions.

	Second Quarter				First Six Months			
	Revenues		Earnings		Revenues		Earnings	
	2006	2005	2006	2005	2006	2005	2006	2005
Manufactured housing and finance	$ 912	$ 770	$ 141	$ 116	$ 1,771	$ 1,431	$ 259	$ 204
Furniture/transportation equipment leasing	217	209	41	37	430	403	79	69
Other	216	127	161	46	366	291	256	125
	$ 1,345	$ 1,106	343	199	$ 2,567	$ 2,125	594	398
Income taxes and minority interests			128	75			222	150
			$ 215	$ 124			$ 372	$ 248

Revenues in the second quarter and first six months of 2006 from manufactured housing and finance activities (Clayton Homes) increased $142 million (18%) and $340 million (24%), respectively, over 2005. For the first six months of 2006, manufactured housing sales increased ($254 million) compared to 2005 as a result of increases in both units sold (19%) and average prices (11%). Additionally, interest income generated from installment loans originated and purchased increased $84 million in the first six months of 2006 over 2005 due to comparatively higher average installment loan balances primarily from loan portfolio acquisitions during the first six months of 2005. As a result, pre-tax earnings from Clayton of $141 million for the second quarter of 2006 and $259 million for the first six months of 2006, increased $25 million (22%) and $55 million (27%), respectively, over the corresponding 2005 periods.

Pre-tax earnings from furniture and transportation equipment leasing activities for the first six months of 2006 increased $10 million over 2005, reflecting higher rental income, partially offset by higher depreciation and other operating expenses. Pre-tax earnings from other finance activities in the first six months of 2006 was $256 million, an increase of $131 million over 2005. Approximately 50% of the increase was due to lower pre-tax losses of the General Re derivatives business, as remaining derivative positions continue to run-off, and from an increase in Berkshire s earnings from its investment in Value Capital. The General Re derivatives business has reduced its open trades from over 23,000 when the run-off program began in 2002 to 317 at June 30, 2006. Value Capital is in the process of liquidation and Berkshire s investment at June 30, 2006 has been reduced to $37 million as a result of receiving a $336 million distribution during the second quarter. The remaining increase relates to a fee of $67 million from USG Corporation (USG) in connection with an Equity Commitment Agreement that Berkshire entered into with USG. In connection with the Equity Commitment Agreement, Berkshire agreed to purchase no less than 6.5 million and up to 44.9 million additional shares of USG common stock to facilitate a rights offering whereby USG issued to each of its shareholders the right to purchase one common share of USG common stock for each share owned for $40.00 per share. The rights offering expired on July 27, 2006. On August 2, 2006, Berkshire acquired 6.97 million additional shares of USG common stock for an aggregate cost of $278.8 million.

Investment and Derivative Gains/Losses

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

	Second Quarter		First Six Months	
	2006	2005	2006	2005
Investment gains/losses from -				
Sales and other disposals of investments	$ 294	$ 354	$ 733	$ 631
Life settlement contracts	90	(26)	92	(52)
Other	(115)	(20)	(108)	(25)
Derivative gains/losses from -				
Foreign currency forward contracts	87	(619)	238	(926)
Other	103	66	309	7
Gains/losses before income taxes and minority interests	459	(245)	1,264	(365)
Income taxes and minority interests	165	(85)	444	(128)
Net gains/losses	$ 294	$ (160)	$ 820	$ (237)

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 accumulated other comprehensive income.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Investment and Derivative Gains/Losses (Continued)

As discussed in Note 13 to the Interim Consolidated Financial Statements, Berkshire adopted FTB 85-4-1 in the first quarter of 2006. As a result, the carrying value of investments in life settlement contracts was increased $277 million through the application of the investment (or cost) method. The cumulative after tax effect of the increase in carrying value as of December 31, 2005 of $180 million was credited directly to retained earnings as of the beginning of 2006. The pre-tax gain for the second quarter of 2006 reflects the disposition of a portfolio of life settlement contracts.

Prior to 2006, life settlement contract investments were carried at the cash surrender value of the underlying life insurance contract (often a small fraction of the cost of acquiring the policy). The excess of the cash paid to purchase these contracts over the cash surrender value at the purchase date was recognized as a loss immediately and future periodic maintenance costs, such as premiums necessary to keep the underlying policies in force, were charged to earnings immediately when incurred.

Derivative gains and losses from foreign currency forward contracts arise as the value of the U.S. dollar changes against certain foreign currencies. Small changes in certain foreign currency exchange rates produce material changes in the fair value of these contracts and consequently can produce exceptional volatility in reported earnings. During the first six months of 2006, the notional value of open contracts declined approximately $12.6 billion to $1.2 billion as of June 30, 2006. The notional value of open contracts at June 30, 2005 was approximately $21.5 billion. During the first six months of 2005, the value of most foreign currencies decreased relative to the U.S. dollar and, accordingly, forward contracts produced pre-tax losses.

Berkshire has also entered into other derivative contracts pertaining to credit default risks of other entities as well as equity price risk associated with major equity indexes. Such contracts are carried at estimated fair value and the change in estimated fair value is included in earnings in the period of the change. These contracts are not traded on an exchange and independent market prices are not consistently available. Accordingly, considerable judgment is required in estimating fair value.

Financial Condition

Berkshire s balance sheet continues to reflect significant liquidity and a strong capital base. Consolidated shareholders equity at June 30, 2006 was $97.6 billion and $91.5 billion at December 31, 2005. Cash and investments of insurance and other businesses was approximately $116.9 billion at June 30, 2006 (including cash and cash equivalents of $37.3 billion) and $115.6 billion at December 31, 2005 (including cash and cash equivalents of $40.5 billion).

On March 21, 2006, PacifiCorp was acquired for approximately $5.1 billion in cash. On March 24, 2006, MidAmerican Energy Holdings Company (MidAmerican) issued $1.7 billion of senior notes due in 2036. Berkshire has not provided and does not intend to guaranty debt issued by the entities comprising the utilities and energy businesses. However, Berkshire has made a commitment that allows MidAmerican to request up to $3.5 billion of capital until February 28, 2011 to pay its debt obligations or to provide funding to its regulated subsidiaries.

On July 5, 2006, Berkshire acquired 80% of Iscar Metalworking Companies (IMC) for $4 billion in cash. On August 2, 2006, Berkshire completed the acquisition of Russell for $600 million in cash. In addition, it is expected that approximately $520 million of term debt and revolving credit loans of Russell will be repaid during the third quarter of 2006. Berkshire utilized existing cash balances to fund the IMC and Russell acquisitions and intends to use existing cash to repay the Russell obligations.

Berkshire maintains a large amount of shareholder capital in insurance subsidiaries for strategic purposes and in support of reserves for unpaid losses. Insurance businesses are subject to regulation. In the United States, in particular, dividend payments by insurance companies are subject to prior approval by state regulators. For the six months ending June 30, 2006, insurance subsidiaries paid dividends of $5.5 billion to Berkshire.

During the first six months of 2006, capital expenditures of the utilities and energy businesses were $917 million. Forecasted capital expenditures, construction and other development costs for the year ending December 31, 2006 are approximately $2.4 billion. Capital expenditure needs are reviewed regularly by management and may change

significantly as a result of such reviews. MidAmerican expects to fund these capital expenditures with cash flows from operations and the issuance of debt.

Assets of the finance and financial products businesses were $23.8 billion at June 30, 2006 and $24.5 billion as of December 31, 2005, consisting primarily of loans and finance receivables, fixed maturity investment securities and cash and cash equivalents. Liabilities were $18.7 billion as of June 30, 2006 and $20.3 billion as of December 31, 2005 and include notes and other borrowings of $10.8 billion at June 30, 2006 and $10.9 billion at December 31, 2005. Notes payable include $8.85 billion of medium term notes issued by Berkshire Hathaway Finance Corporation (BHFC). The notes mature at various dates beginning in 2007 ($700 million par) through 2015. The proceeds from these notes were used to finance originated and acquired loans of Clayton. Full and timely payment of principal and interest on the notes issued by BHFC is guaranteed by Berkshire.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

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. Certain obligations reflected in the Consolidated Balance Sheets, such as notes payable, require future payments on contractually specified dates and in fixed and determinable amounts. The timing and amount of the payment of other obligations such as unpaid property and casualty loss reserves are contingent upon the outcome of future events. Other obligations pertain to the acquisition of goods or services in the future, which are not currently reflected in the financial statements, such as minimum rentals under operating leases. Berkshire s consolidated contractual obligations as of June 30, 2006 did not change materially from those disclosed in Contractual Obligations, included in Management s Discussion and Analysis of Financial Condition and Results of Operations contained in Berkshire s Annual Report on Form 10-K for the year ending December 31, 2005, except as discussed in the following paragraphs.

As described earlier, Berkshire entered into an agreement whereby it was contingently obligated to purchase no less than 6.5 million and up to 44.9 million newly issued shares of USG in connection with a USG rights offering. The potential maximum amount of this commitment was $1.8 billion. The rights offering expired on July 27, 2006 and Berkshire acquired additional shares of USG for total consideration of $278.8 million.

As a result of Berkshire s consolidation of MidAmerican in 2006, Berkshire s consolidated contractual obligations have changed significantly from December 31, 2005. The table below summarizes the contractual obligations of MidAmerican as of June 30, 2006. The actual timing and amount of payments may differ materially from the amounts shown in the table. Amounts are in millions.

	Estimated payments due by period				
	Total	2006	2007-2008	2009-2010	After 2010
Notes payable and other borrowings, including interest	$ 29,888	$ 1,103	$ 4,931	$ 2,089	$ 21,765
Operating leases	435	48	161	93	133
Purchase obligations	11,448	926	2,731	1,895	5,896
Total	$ 41,771	$ 2,077	$ 7,823	$ 4,077	$ 27,794

Critical Accounting Policies

In applying certain accounting policies, Berkshire s management is required to make estimates and judgments regarding transactions that have occurred and ultimately will be settled several years in the future. Amounts recognized in the financial statements from such estimates are necessarily based on assumptions about numerous factors involving varying, and possibly significant, degrees of judgment and uncertainty. Accordingly, the amounts currently recorded in the financial statements may prove, with the benefit of hindsight, to be inaccurate. The balance sheet items most significantly affected by these estimates are property and casualty insurance and reinsurance related liabilities, deferred charges on retroactive reinsurance, and goodwill.

Berkshire s Consolidated Balance Sheet as of June 30, 2006 includes estimated liabilities for unpaid losses from property and casualty insurance and reinsurance contracts of $47.7 billion ($48.0 billion at December 31, 2005) and reinsurance recoverables of $2.8 billion ($3.0 billion at December 31, 2005). Due to the inherent uncertainties in the process of establishing these amounts, the actual ultimate claim amounts will likely differ from the currently recorded amounts. A small percentage change in estimates of this magnitude will result in a material effect on reported earnings. For instance, a 1% change in the June 30, 2006 net estimate would produce a $450 million change in pre-tax earnings. Future effects from changes in these estimates will be recorded as a component of losses incurred in the period of the change. Unamortized deferred charges on retroactive reinsurance policies assumed totaled $2.3 billion at June 30, 2006. Significant changes in either the timing or ultimate amount of loss payments may have a significant

effect on unamortized deferred charges and the amount of periodic amortization.

Berkshire s Consolidated Balance Sheet as of June 30, 2006 includes goodwill of acquired businesses of approximately $29.9 billion. Such amount includes $5.5 billion of goodwill related to MidAmerican. A significant amount of judgment is required in performing goodwill impairment tests. Such tests include periodically estimating and reviewing the fair value of Berkshire s reporting units. There are several methods of estimating a reporting unit s fair value, including market quotations, asset and liability fair values and other valuation techniques, such as discounted projected future net earnings and multiples of earnings. If the carrying amount of a reporting unit, including goodwill, exceeds the estimated fair value, then individual assets, including identifiable intangible assets, and liabilities of the reporting unit are estimated at fair value. The excess of the estimated fair value of the reporting unit over the estimated fair value of net assets would establish the implied value of goodwill. The excess of the recorded amount of goodwill over the implied value is then charged to earnings as an impairment loss.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Critical Accounting Policies (Continued)

Berkshire s consolidated financial position reflects very significant amounts of invested assets. A substantial portion of these assets are carried at fair values based upon current market quotations and, when not available, based upon fair value pricing models. Certain of Berkshire s fixed maturity securities are not actively traded in the financial markets. Further, Berkshire s finance businesses maintain significant balances of finance receivables, which are carried at amortized cost. Considerable judgment is required in determining the assumptions used in certain pricing 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.

In connection with Berkshire s consolidation of MidAmerican, accounting policies regarding regulatory assets and liabilities and the evaluation of long-lived assets have gained importance. Reference is made to Note 7 to the Interim Consolidated Financial Statements with respect to the discussion that follows.

MidAmerican Energy Company, PacifiCorp, Kern River and Northern Natural Gas prepare financial statements in accordance with the provisions of SFAS No. 71, Accounting for the Effects of Certain Types of Regulation (SFAS 71), which differs in certain respects from the application of GAAP by non-regulated businesses. In general, SFAS 71 recognizes that accounting for rate-regulated enterprises should reflect the economic effects of regulation.

Long-lived assets of utilities and energy businesses consist primarily of property, plant and equipment. Long-lived assets are evaluated for impairment when events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Upon the occurrence of a triggering event, the carrying amount of a long-lived asset is reviewed to assess whether the recoverable amount has declined below its carrying amount. The recoverable amount is the estimated recoverable net future cash flows from the future use of the asset, undiscounted and without interest, plus the asset s estimated residual value upon disposal. Where the recoverable amount is less than the carrying value, an impairment loss is recognized to write down the asset to its fair value based on discounted estimated cash flows from the future use of the asset.

The estimate of cash flows arising from future use of the asset in the impairment analysis requires judgment regarding the expected recoveries from the future use. Any changes in the estimates of cash flows arising from the future use or the residual value of the asset upon disposal based on changes in market conditions, changes in the use of the asset, management s plans, the determination of the useful life of the asset and technology changes in the industry could significantly change the estimated fair value or recoverable amount of the asset and the resulting impairment loss. The determination of whether impairment has occurred is primarily based on an estimate of undiscounted cash flows attributable to the asset as compared to the carrying value of the asset. An impairment analysis of generating facilities requires estimates of possible future market prices, load growth, competition and many other factors over the lives of the facilities. A resulting impairment loss is highly dependent on these underlying assumptions.

For additional information on Berkshire s critical accounting estimates, reference is made to Critical Accounting Policies in Management s Discussion and Analysis of Financial Condition and Results of Operations contained in Berkshire s Annual Report on Form 10-K for the year ending December 31, 2005. Information concerning recently issued accounting pronouncements which are not yet effective is included in Note 14 to the Interim Consolidated Financial Statements.

Forward-Looking Statements

Investors are cautioned that certain statements contained in this document as well as some statements in periodic press releases and some oral statements of Berkshire officials during presentations about Berkshire, 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 expressions. In addition, any statements concerning future financial performance (including future revenues, earnings or growth rates), ongoing business strategies or prospects, and possible future Berkshire 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 Berkshire, economic and market factors and the industries in which Berkshire does business, among other things. These statements are not guaranties of future performance and Berkshire has no specific intention to update these statements.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Forward-Looking Statements (Continued)

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 Berkshire 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 or hurricane 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, especially those affecting the property and casualty insurance industry.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Reference is made to Berkshire s most recently issued Annual Report and in particular the Market Risk Disclosures included in Management s Discussion and Analysis of Financial Condition and Results of Operations. As of June 30, 2006, there are no material changes in the market risks described in Berkshire s most recently issued Annual Report on Form 10-K for the year ending December 31, 2005, except as discussed in the following paragraph.

Through MidAmerican, Berkshire is exposed to market risks associated with electric and natural gas commodity prices as well as fuel costs to generate electricity. In addition, MidAmerican s regulated utility subsidiaries may be required to purchase additional electricity beyond their generating capacity to meet customer needs. Such risks are mitigated to the extent that the costs of commodities are recoverable through regulated rates charged to customers. Derivative instruments are also utilized to further mitigate commodity price risks and to help balance energy supplies with customer demands.

Item 4. Controls and Procedures

As of the end of the period covered by this Quarterly Report on Form 10-Q, the Corporation carried out an evaluation, under the supervision and with the participation of the Corporation s management, including the Chairman (Chief Executive Officer) and the Vice President-Treasurer (Chief Financial Officer), of the effectiveness of the design and operation of the Corporation s disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chairman (Chief Executive Officer) and the Vice President-Treasurer (Chief Financial Officer) concluded that the Corporation s disclosure controls and procedures are effective in timely alerting them to material information relating to the Corporation (including its consolidated subsidiaries) required to be included in the Corporation s periodic SEC filings. During the quarter, there have been no significant changes in the Corporation s internal control over financial reporting or in other factors that could significantly affect internal control over financial reporting except that the Corporation s General Re subsidiary completed its migration to a new financial reporting system as of June 30, 2006. This implementation was subject to various testing and review, including parallel testing in conjunction with the previous financial reporting system. Implementation of this new financial reporting system necessarily involves changes to General Re s financial reporting procedures and controls. The Corporation s management believes that appropriate internal controls are in place with the new financial reporting system.

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Part II Other Information

Item 1. Legal Proceedings

a) Governmental Investigations

In October 2003, General Reinsurance Corporation (General Reinsurance), a wholly owned subsidiary of General Re Corporation (General Re) and an indirectly wholly owned subsidiary of Berkshire, and four of its current and former employees, including its former president, received subpoenas for documents from the U.S. Attorney for the Eastern District of Virginia, Richmond Division (the EDVA U.S. Attorney) in connection with the EDVA U.S. Attorney s investigation of Reciprocal of America (ROA). ROA was a Virginia-based reciprocal insurer of physician, hospital and lawyer professional liability risks.

General Reinsurance is continuing to cooperate fully with the EDVA U.S. Attorney and the Department of Justice in Washington (the DOJ) in their ongoing investigation regarding ROA and, in part, its transactions with General Reinsurance. The EDVA U.S. Attorney and the DOJ have continued to request additional information from General Reinsurance regarding ROA and its affiliate, First Virginia Reinsurance, Ltd. (FVR) and General Reinsurance s transactions with ROA and FVR. The EDVA U.S. Attorney and the DOJ have also interviewed a number of current and former officers and employees of General Re and General Reinsurance. In August 2005, the EDVA U.S. Attorney issued an additional subpoena to General Reinsurance regarding General Reinsurance s transactions with ROA and FVR. One of the individuals originally subpoenaed in October 2003 has been informed by the EDVA U.S. Attorney that this individual is a target of the EDVA U.S. Attorney s investigation. General Reinsurance has also been sued in a number of civil actions related to ROA, as described below.

General Re, Berkshire, and certain of Berkshire s other insurance subsidiaries, including National Indemnity Company (NICO) have also been continuing to cooperate fully with the U.S. Securities and Exchange Commission (SEC), the DOJ and the New York State Attorney General (NYAG) in their ongoing investigations of non-traditional products. The EDVA U.S. Attorney and the DOJ have also been working with the SEC and the NYAG in connection with these investigations. General Re originally received subpoenas from the SEC and NYAG in January 2005. General Re, Berkshire 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, General Re and Berkshire have been responding to requests from the government for information relating to certain transactions that may have been accounted for incorrectly by counterparties of General Reinsurance (or its subsidiaries or affiliates). Berkshire understands that the government is evaluating the actions of General Re and its subsidiaries, as well as those of their counterparties to determine whether General Re or its subsidiaries conspired with others to misstate counterparty financial statements or aided and abetted such misstatements by the counterparties. The SEC, NYAG, DOJ and the EDVA U.S. Attorney have 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, and have indicated they plan to interview additional individuals.

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

In May 2005, General Re terminated the consulting services of its former Chief Executive Officer, Ronald Ferguson, after Mr. Ferguson invoked the Fifth Amendment in response to questions from the SEC and DOJ relating to their investigations. In June 2005, John Houldsworth, the former Chief Executive Officer of Cologne Reinsurance Company (Dublin) Limited (CRD), a subsidiary of General Re, pleaded guilty to a federal criminal charge of conspiring with others to misstate certain AIG financial statements and entered into a partial settlement agreement with the SEC with respect to such matters. Mr. Houldsworth, who had been on administrative leave, was terminated

following this announcement. In June 2005, Richard Napier, a former Senior Vice President of General Re who had served as an account representative for the AIG account, also pleaded guilty to a federal criminal charge of conspiring with others to misstate certain AIG financial statements and entered into a partial settlement agreement with the SEC with respect to such matters. General Re terminated Mr. Napier following the announcement of these actions.

Item 1. Legal Proceedings (Continued)

In September 2005, Ronald Ferguson, Joseph Brandon, the Chief Executive Officer of General Re, Christopher Garand, a former Senior Vice President of General Reinsurance, and Robert Graham, a former Senior Vice President and Assistant General Counsel of General Reinsurance, each received a Wells notice from the SEC. In addition to Messrs. Houldsworth, Napier, Brandon, Ferguson, Garand and Graham, Elizabeth Monrad, the former Chief Financial Officer of General Re, also received a Wells notice from the SEC in May 2005 in connection with its investigation.

On February 2, 2006, the DOJ announced that a federal grand jury had indicted three former executives of General Re on charges related to the AIG Transaction. The indictment charges Mr. Ferguson, Ms. Monrad and Mr. Graham, along with one former officer of AIG, with one count of conspiracy to commit securities fraud, four counts of securities fraud, two counts of causing false statements to be made to the SEC, four counts of wire fraud and two counts of mail fraud in connection with the AIG Transaction. The SEC also announced on February 2, 2006 that it had filed an enforcement action against Mr. Ferguson, Ms. Monrad, Mr. Graham, Mr. Garand and the same former AIG officer, for 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 complaint seeks permanent injunctive relief, disgorgement of any ill-gotten gains, civil penalties and orders barring each defendant from acting as an officer or director of a public company. Each of the individuals indicted by the federal grand jury was arraigned on February 16, 2006 and each individual pleaded not guilty to all charges. Trial in this matter is set for March 1, 2007. In July 2006, Mr. Garand was informed that he is a target of the DOJ s investigation of the AIG Transaction.

On February 9, 2006, AIG announced that it had reached a resolution of claims and matters under investigation with the DOJ, the SEC, the NYAG and the New York State Department of Insurance in connection with the accounting, financial reporting and insurance brokerage practices of AIG and its subsidiaries, including claims and matters under investigation relating to the AIG Transaction, as well as claims relating to the underpayment of certain workers compensation premium taxes and other assessments. AIG announced that it will make payments totaling approximately $1.64 billion as a result of these settlements.

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

In December 2004, the Financial Services Authority (FSA) advised General Reinsurance s affiliate Faraday Group (Faraday) that it was investigating Milan Vukelic, the then Chief Executive Officer of Faraday with respect to transactions entered into between General Reinsurance Australia Limited (GRA), a subsidiary of General Reinsurance and companies affiliated with FAI Insurance Limited in 1998. Mr. Vukelic previously served as the head of General Re s international finite business unit. In April 2005, the FSA advised General Reinsurance that it was investigating Mr. Vukelic and John Byrne, successor to Mr. Vukelic as head of General Re s international finite business unit until October 2004, with respect to certain finite risk reinsurance transactions, including transactions between CRD and several other insurers. In May 2005, Mr. Vukelic was placed on administrative leave and in July 2005 his employment was terminated. In addition, the FSA has requested that General Reinsurance affiliates based in the United Kingdom provide information relating to the transactions involved in their investigations. In July 2006, the FSA issued an agreed-upon prohibition order to Mr. Byrne (the Byrne Order), prohibiting him from performing in the UK any controlled function in relation to any regulated activity of the FSA. The Byrne Order states, among other things, that Mr. Byrne was involved in arranging and structuring transactions that allowed certain counterparties of General Re s non-U.S. subsidiaries to misrepresent their financial position to regulators, auditors, tax authorities and others, including investors, and that Mr. Byrne knew the counterparties would be likely to engage in such misrepresentations. Berkshire understands that the FSA continues to investigate the role of certain of General Re s non-U.S. subsidiaries and of individuals in these transactions. In connection with the Byrne Order, CRD entered into a related settlement agreement with the FSA in which it agreed not to make any public statement inconsistent with the facts and matters set out in the FSA s final notice related to the Byrne Order. General Re and its affiliates are cooperating fully with the

FSA in these matters.

On April 14, 2005, the Australian Prudential Regulation Authority (APRA) announced an investigation involving financial or finite reinsurance transactions by GRA. An inspector appointed by APRA under section 52 of the Insurance Act 1973 has been conducting an investigation, including a request for the production of documents of GRA s financial or finite reinsurance business. The inspector examined four directors of GRA in June 2006. GRA has been cooperating fully with this investigation. On or about the date of the Byrne Order, APRA accepted an enforceable undertaking from Mr. Byrne, prohibiting him from being or acting as a director or senior manager of a general insurer, non-operating holding company or agent of a foreign insurer in Australia for a five year period.

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.

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Item 1. Legal Proceedings (Continued)

General Reinsurance s subsidiary, Kolnische Ruckversicherungs-Gesellschaft AG (Cologne Re), is also cooperating fully with requests for information from the German Federal Financial Supervisory Authority regarding the activities of Cologne Re relating to finite reinsurance and regarding transactions between Cologne Re or its subsidiaries, including CRD, and certain counterparties.

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

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

b) Civil Litigation

Litigation Related to ROA

General Reinsurance and four of its current and former employees, along with numerous other defendants, have been sued in a number of civil actions related to ROA pending in federal courts. Plaintiffs assert various claims in these civil actions, including breach of contract, unjust enrichment, fraud, conspiracy, and violations of the Racketeer and Corrupt Influenced Organizations Act against General Reinsurance arising from various reinsurance transactions General Reinsurance had with ROA and related entities.

Nine putative class actions were 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 indefinite amount. General Reinsurance is also a defendant in actions brought by the Virginia Commissioner of Insurance, as Deputy Receiver of ROA, the Tennessee Commissioner of Insurance, as Liquidator for three Tennessee risk retention groups, a federal lawsuit filed by a Missouri-based hospital group and a state lawsuit filed by an Alabama doctor that was 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 being sought exceed $200 million in the aggregate as against all defendants. Twelve of these cases are collectively assigned to the U.S. District Court for the Western District of Tennessee for pretrial proceedings and the remaining federal action filed in June 2006 in the federal court for the Eastern District of Kentucky is the subject of a transfer request pending before the Judicial Panel on Multidistrict Litigation. General Reinsurance has filed motions to dismiss all of the claims against it in all the cases pending in the Tennessee federal court. On June 12, 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 within 60 days of the order. The Virginia receiver has moved for reconsideration of the dismissal and for leave to amend his Complaint. The court has not yet ruled on General Reinsurance s motion to dismiss the complaints of the other plaintiffs. On June 27, 2006, the court held a hearing and announced an intention to allow document discovery to proceed in the coordinated cases. No order permitting that discovery to proceed has yet been entered. General Reinsurance has not filed a responsive pleading in the case currently pending in the Kentucky federal court.

General Reinsurance is also a defendant in two lawsuits pending in Alabama state courts. The first suit was filed in the Circuit Court of Montgomery County by a group of Alabama hospitals that are former members of the Alabama Hospital Association Trust (AHAT). This suit (the AHA Action) alleged violations of the Alabama Securities Act, conspiracy, fraud, suppression, unjust enrichment and breach of contract against General Reinsurance and virtually all of the defendants in the federal suits based on an alleged business combination between AHAT and ROA in 2001 and subsequent capital contributions to ROA in 2002 by the Alabama hospitals. The allegations of the AHA Action are largely identical to those set forth in the complaint filed by the Virginia receiver for ROA. General Reinsurance previously filed a motion to dismiss all of the claims in the AHA Action. The motion was granted in part by an order in March 2005, which dismissed the Alabama Securities Act claim against General Reinsurance and ordered plaintiffs to amend their allegations of fraud and suppression. Plaintiffs in the AHA Action filed their Amended and Restated

Complaint in April 2005, alleging claims of conspiracy, fraud, suppression and aiding and abetting breach of fiduciary duty against General Reinsurance. General Reinsurance filed a motion to dismiss all counts of the Amended and Restated Complaint in May 2005. On July 22, 2005, the Court denied General Reinsurance s motion to dismiss. General Reinsurance filed and served its answer and affirmative defenses to the Amended and Restated Complaint on September 1, 2005. Discovery has begun. The second suit, also filed in the Circuit Court of Montgomery County, was initiated by Baptist Health Systems, Inc. (BHS), a former member of AHAT, and alleged claims identical to those in the initial AHA Action, plus claims for breach of fiduciary duty and wantonness. These cases have been consolidated for pretrial purposes. BHS filed its First Amended Complaint in April 2005, alleging violations of the Alabama Securities Act, conspiracy, fraud, suppression, breach of fiduciary duty, wantonness and unjust

Item 1. Legal Proceedings (Continued)

enrichment against General Reinsurance. General Reinsurance filed a motion to dismiss all counts of the Amended and Restated Complaint in May 2005. On July 22, 2005, the Court granted General Reinsurance s motion to dismiss the Alabama Securities Act claim but denied the remainder of the motion to dismiss. General Reinsurance filed and served its answer and affirmative defenses to the Amended and Restated Complaint on September 1, 2005. Discovery has begun. The AHA Action and the BHS complaint claim damages in excess of $60 million in the aggregate as against all defendants. These cases are scheduled for trial on January 8, 2007.

Actions related to AIG

General Reinsurance received a Summons and a Consolidated Amended Class Action Complaint on April 29, 2005, in the matter captioned In re American International Group Securities Litigation, Case No. 04-CV-8141-(LTS), United States District Court, Southern District of New York. This is a putative class action asserted on behalf of investors who purchased publicly-traded securities of AIG between October 1999 and March 2005. On June 7, 2005, General Reinsurance received a second Summons and Class Action Complaint in a putative class action asserted on behalf of investors who purchased AIG securities between October 1999 and March 2005, captioned San Francisco Employees Retirement System, et al. vs. American International Group, Inc., et al., Case No. 05-CV-4270 (LTS), United States District Court, Southern District of New York. At a July 2005 conference, the court ruled that the plaintiffs in case no. 04-CV-8141 would be lead plaintiffs. On September 27, 2005, the plaintiffs in case no. 04-CV-8141 filed a Consolidated Second Amended Complaint (the Complaint). The Complaint asserts various claims against AIG, and various of its officers, directors, investment banks and other parties. Included among the defendants are General Reinsurance and Messrs. Ferguson, Napier and Houldsworth (whom the Complaint defines 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 promulgated under that Act through their activities in connection with the AIG transaction described in Governmental Investigations, above. The Complaint seeks damages and other relief in unspecified amounts. The General Re Defendants moved to dismiss the Complaint on the grounds that it failed to state a claim on which relief can be granted against these defendants. The motion was heard on April 20, 2006, and was denied by the Court. General Reinsurance has answered the Complaint, denying liability and asserting various affirmative defenses. No discovery has taken place, and no trial date has been scheduled.

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, naming Gen Re Corporation as a defendant. It is unclear whether the plaintiffs are asserting claims against General Reinsurance or its parent, General Re. This case is assigned to the same judge as the class actions described above. 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 against Gen Re Corporation focus on the late 2000 transaction with AIG described above, and the complaint purports to assert causes of action against Gen Re Corporation 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 against Gen Re Corporation. In August 2005, General Reinsurance received a Summons and First Amended Consolidated Shareholders Derivative Complaint in In re American International Group, Inc. Consolidated Derivative Litigation, Case No. 769-N, Delaware Chancery Court. The claims asserted in the Delaware complaint are substantially similar to those asserted in the New York derivative complaint described earlier in this paragraph, except that the Delaware complaint makes clear that the plaintiffs are asserting claims against both General Reinsurance and General Re. Proceedings in both the New York derivative suit and the Delaware derivative suit are stayed until August 31, 2006.

FAI/HIH Matter

In December 2003, the Liquidators of both FAI Insurance Limited (FAI) and HIH Insurance Limited (HIH) advised GRA and Cologne Re that they intended to assert claims arising from insurance transactions GRA entered into with FAI in May and June 1998. In August 2004, the Liquidators filed claims in the Supreme Court of New South

Wales in order to avoid the expiration of a statute of limitations for certain plaintiffs. The focus of the Liquidators allegations against GRA and Cologne Re are the 1998 transactions GRA entered into with FAI (which was acquired by HIH in 1999). The Liquidators contend, among other things, that GRA and Cologne Re engaged in deceptive conduct that assisted FAI in improperly accounting for such transactions as reinsurance, and that such deception led to HIH s acquisition of FAI and caused various losses to FAI and HIH. The Liquidator of HIH served its Complaint on GRA and Cologne Re in June 2006. A defense to the Complaint and the filing of cross claims are currently due on August 18, 2006. At that time, the Court will hold a directions hearing. The FAI Liquidator has until September 30, 2006 to serve his Complaint on GRA and Cologne Re.

Insurance Brokerage Antitrust Litigation

Berkshire, General Re and General Reinsurance are defendants in this multi-district litigation, In Re: Insurance Brokerage Antitrust Litigation, MDL No. 1663 (D.N.J.). In February 2005, the Judicial Panel on Multidistrict Litigation

Item 1. Legal Proceedings (Continued)

transferred several different cases to the District of New Jersey for coordination and consolidation. Each consolidated case concerned allegations of an industry-wide scheme on the part of commercial insurance brokers and insurance companies to defraud a purported class of insurance purchasers through bid-rigging and contingent commission arrangements. Berkshire, General Re and General Reinsurance were not parties to the original, transferred cases. On August 1, 2005, the named plaintiffs fourteen businesses, two municipalities, and three individuals filed their First Consolidated Amended Commercial Class Action Complaint, and Berkshire, General Re and General Reinsurance (along with a large number of insurance companies and insurance brokers) were named as defendants in the Amended Complaint. The plaintiffs claim that all defendants engaged in a pattern of racketeering activity, in violation of RICO, and that they conspired to restrain trade. They further allege that the broker defendants breached fiduciary duties to the plaintiffs, that the insurer defendants aided and abetted that breach, and that all defendants were unjustly enriched in the process. Plaintiffs seek treble damages in an unspecified amount, together with interest and attorneys fees and expenses. They also seek a declaratory judgment of wrongdoing as well as an injunction against future anticompetitive practices. On November 29, 2005, General Re, General Reinsurance and Berkshire, together with the other defendants, filed motions to dismiss the complaint. The Court held a hearing on July 26, 2006, and took the motions under the submission without specifying when the Court would rule. On February 1, 2006, plaintiffs filed a motion for leave to file a Second Consolidated Amended Complaint. Among other things, plaintiffs sought leave to add numerous new defendants, including several additional Berkshire subsidiaries including, among others, NICO. Berkshire opposed the motion for leave to amend, and the Court has denied the motion without prejudice to plaintiffs renewing it following a ruling on defendants motion to dismiss the First Consolidated Amended Complaint.

Berkshire cannot at this time predict the outcome of these matters, is unable to estimate a range of possible loss, if any, 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.

Item 1A. Risk Factors

Berkshire s significant business risks are described in Item 1A to Form 10-K for the year ending December 31, 2005 to which reference is made herein. During 2006, Berkshire s risk from unstable international economic and political conditions increased and is further discussed below. Also, due to the inclusion of MidAmerican Energy Holdings Company in Berkshire s consolidated financial statements as of January 1, 2006, certain risks unique to the utilities and energy business are included herein.

Unfavorable economic and political conditions in international markets could hurt Berkshire s businesses.

Historically, Berkshire has derived a relatively small amount of its revenues and earnings from international markets. In recent years, international business was concentrated in the insurance businesses, which are conducted primarily in Western Europe, the United Kingdom, Japan, Australia and other regions where relatively stable political and economic conditions have prevailed. As a result of Berkshire s acquisition of 80% of IMC on July 5, 2006, Berkshire is subject to increased risks from unstable political conditions and civil unrest in international markets. IMC s headquarters are located in Israel and substantial business operations are conducted in Israel and Korea.

Current unstable economic and political conditions, civil unrest and political activism, particularly in the Middle East, could adversely impact Berkshire s businesses, including internationally based businesses. Further, terrorism activities deriving from unstable conditions could produce significant losses to Berkshire s worldwide operations, including manufacturing, service and insurance operations based in the United States.

The instability that has persisted in the Middle East increased notably in recent weeks. Business operations could be adversely affected directly through the loss of human resources and destruction of production facilities. In addition, since a significant source of the world s oil is currently produced in the Middle East, the price of oil has increased in recent weeks from already historically high levels. Several of Berkshire s operations utilize petroleum based products in their manufacturing processes, including most significantly the production of carpet and paint products. Further, many of Berkshire s other manufacturing and service businesses are affected by fuel prices, which have added to the cost of shipping as well as to the cost of delivering services. Continuing unfavorable economic and political conditions in these markets, including war, civil unrest and governmental changes, could undermine consumer

confidence and reduce consumers purchasing power, thereby reducing product demand.

Risks unique to utilities and energy businesses.

For the most part, Berkshire s utilities and energy businesses, which generate and distribute electricity and natural gas, are highly regulated by numerous federal, state, and local governmental authorities in the United States, United Kingdom and other jurisdictions in which operations are conducted. Regulations govern the rates that may be charged to customers. Regulations also concern safety, environmental and operational compliance or remediation as well as other matters, for

Item 1A. Risk Factors (Continued)

Risks unique to utilities and energy businesses. (Continued)

which costs are incurred. Such costs may prove to be unrecoverable through rates. In the regulatory process, governmental bodies through regulation or expropriation may otherwise intercede in ways that ultimately prove financially detrimental to the business. Adverse new regulations or reinterpretations of existing regulations as well as the nature of the regulatory process can have a significant impact on periodic results of operations.

The nature of the utilities and energy business is that significant amounts of capital are employed to construct, operate and maintain sufficient electricity and gas generation and distribution systems. Usually, large amounts of borrowed funds are employed in the process. Such systems may need to be operational for very long periods of time in order to justify the financial cost. The risk of financial failure of capital projects is not necessarily recoverable through rates that are chargeable to customers.

Item 4. Submission of Matters to a Vote of Security Holders

At the annual meeting of shareholders of Berkshire Hathaway Inc. (Berkshire), held May 6, 2006, Berkshire s shareholders re-elected Berkshire s directors in an uncontested election. Proxies for the meeting had previously been solicited pursuant to Regulation 14A under the Securities Exchange Act of 1934.

Following are the votes cast for and against each director. There were no votes withheld, abstentions or broker non-votes.

Directors	For	Against
Warren E. Buffett	1,138,371.41	995.52
Howard G. Buffett	1,138,324.33	1,042.60
Malcolm G. Chace	1,135,588.64	3,778.29
William H. Gates III	1,138,679.22	687.71
David S. Gottesman	1,138,676.91	690.02
Charlotte Guyman	1,138,396.96	969.97
Donald R. Keough	1,135,956.84	3,410.09
Charles T. Munger	1,138,349.92	1,017.01
Thomas S. Murphy	1,136,365.94	3,000.99
Ronald L. Olson	1,138,294.61	1,072.32
Walter Scott, Jr.	1,136,540.43	2,826.50

Item 6. Exhibits

a. Exhibits

31.1 Rule 13a-14(a)/15d-14(a) Certifications

31.2 Rule 13a-14(a)/15d-14(a) Certifications

32.1 Section 1350 Certifications

32.2 Section 1350 Certifications

SIGNATURE

Pursuant to the requirement of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

BERKSHIRE HATHAWAY INC.
(Registrant)

Date August 4, 2006 /s/ Marc D. Hamburg

(Signature)
Marc D. Hamburg, Vice President
and Principal Financial Officer