

---

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

---

**FORM 10-Q**

---

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2018

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 001-14905

---

**BERKSHIRE HATHAWAY INC.**  
(Exact name of registrant as specified in its charter)

---

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**47-0813844**  
(I.R.S. Employer  
Identification Number)

**3555 Farnam Street, Omaha, Nebraska 68131**  
(Address of principal executive office)  
(Zip Code)

**(402) 346-1400**  
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

---

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer   
Non-accelerated filer

Accelerated filer   
Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

Number of shares of common stock outstanding as of July 26, 2018:

Class A —  
Class B —

734,527  
1,365,840,748

---

---

**BERKSHIRE HATHAWAY INC.**

|   | <u>Page No.</u> |
|---|-----------------|
| <b><u>Part I – Financial Information</u></b>  |                 |
| <b><u>Item 1. Financial Statements</u></b>  |                 |
| <u>Consolidated Balance Sheets—June 30, 2018 and December 31, 2017</u>  | 2-3             |
| <u>Consolidated Statements of Earnings—Second Quarter and First Six Months 2018 and 2017</u>                                  | 4               |
| <u>Consolidated Statements of Comprehensive Income— Second Quarter and First Six Months 2018 and 2017</u>                     | 5               |
| <u>Consolidated Statements of Changes in Shareholders’ Equity—First Six Months 2018 and 2017</u>                              | 5               |
| <u>Consolidated Statements of Cash Flows—First Six Months 2018 and 2017</u>   | 6               |
| <u>Notes to Consolidated Financial Statements</u>   | 7-25            |
| <b><u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u></b>                   | 26-44           |
| <b><u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>  | 45              |
| <b><u>Item 4. Controls and Procedures</u></b>   | 45              |
| <b><u>Part II – Other Information</u></b>   | 45              |
| <b><u>Item 1. Legal Proceedings</u></b>   | 45              |
| <b><u>Item 1A. Risk Factors</u></b>   | 45              |
| <b><u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds and Issuer Repurchases of Equity Securities</u></b> | 45              |
| <b><u>Item 3. Defaults Upon Senior Securities</u></b>   | 45              |
| <b><u>Item 4. Mine Safety Disclosures</u></b>   | 45              |
| <b><u>Item 5. Other Information</u></b>   | 45              |
| <b><u>Item 6. Exhibits</u></b>  | 46              |
| <b><u>Signature</u></b>   | 46              |

**Part I Financial Information**  
**Item 1. Financial Statements**  
**BERKSHIRE HATHAWAY INC.**  
**and Subsidiaries**  
**CONSOLIDATED BALANCE SHEETS**  
*(dollars in millions)*

|  | June 30,<br>2018<br>(Unaudited) | December 31,<br>2017 |
|--|---------------------------------|----------------------|
| <b>ASSETS</b>  |                                 |                      |
| <b><i>Insurance and Other:</i></b>                       |                                 |                      |
| Cash and cash equivalents*                               | \$ 57,918                       | \$ 25,460            |
| Short-term investments in U.S. Treasury Bills            | 45,243                          | 78,515               |
| Investments in fixed maturity securities                 | 18,524                          | 21,353               |
| Investments in equity securities                         | 174,033                         | 164,026              |
| Investment in The Kraft Heinz Company                    | 17,530                          | 17,635               |
| Receivables  | 31,280                          | 28,578               |
| Inventories  | 16,194                          | 16,187               |
| Property, plant and equipment                            | 23,948                          | 20,104               |
| Goodwill   | 54,955                          | 54,985               |
| Other intangible assets                                  | 31,925                          | 32,518               |
| Deferred charges under retroactive reinsurance contracts | 14,730                          | 15,278               |
| Other  | 11,619                          | 11,158               |
|  | <u>497,899</u>                  | <u>485,797</u>       |
| <b><i>Railroad, Utilities and Energy:</i></b>            |                                 |                      |
| Cash and cash equivalents*                               | 3,363                           | 2,910                |
| Property, plant and equipment                            | 129,216                         | 128,184              |
| Goodwill   | 24,772                          | 24,780               |
| Regulatory assets  | 2,929                           | 2,950                |
| Other  | 15,590                          | 15,589               |
|  | <u>175,870</u>                  | <u>174,413</u>       |
| <b><i>Finance and Financial Products:</i></b>            |                                 |                      |
| Cash and cash equivalents*                               | 3,280                           | 3,213                |
| Short-term investments in U.S. Treasury Bills            | 1,295                           | 5,856                |
| Loans and finance receivables                            | 14,211                          | 13,748               |
| Property, plant and equipment and assets held for lease  | 10,065                          | 9,931                |
| Goodwill   | 1,523                           | 1,493                |
| Other  | 7,789                           | 7,644                |
|  | <u>38,163</u>                   | <u>41,885</u>        |
|  | <u>\$ 711,932</u>               | <u>\$ 702,095</u>    |

\* Cash and cash equivalents includes U.S. Treasury Bills with maturities of three months or less when purchased of \$41.6 billion at June 30, 2018 and \$5.7 billion at December 31, 2017.

See accompanying Notes to Consolidated Financial Statements

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

|  | June 30,<br>2018<br>(Unaudited) | December 31,<br>2017 |
|--|---------------------------------|----------------------|
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |                                 |                      |
| <i>Insurance and Other:</i>  |                                 |                      |
| Unpaid losses and loss adjustment expenses   | \$ 62,737                       | \$ 61,122            |
| Unpaid losses and loss adjustment expenses under retroactive reinsurance contracts | 42,115                          | 42,937               |
| Unearned premiums  | 18,292                          | 16,040               |
| Life, annuity and health insurance benefits  | 18,061                          | 17,608               |
| Other policyholder liabilities   | 6,900                           | 7,654                |
| Accounts payable, accruals and other liabilities                                   | 26,384                          | 23,099               |
| Notes payable and other borrowings   | 25,158                          | 27,324               |
|  | <u>199,647</u>                  | <u>195,784</u>       |
| <i>Railroad, Utilities and Energy:</i>   |                                 |                      |
| Accounts payable, accruals and other liabilities                                   | 10,986                          | 11,334               |
| Regulatory liabilities   | 7,744                           | 7,511                |
| Notes payable and other borrowings   | 62,664                          | 62,178               |
|  | <u>81,394</u>                   | <u>81,023</u>        |
| <i>Finance and Financial Products:</i>   |                                 |                      |
| Accounts payable, accruals and other liabilities                                   | 1,662                           | 1,470                |
| Derivative contract liabilities  | 2,006                           | 2,172                |
| Notes payable and other borrowings   | 8,951                           | 13,085               |
|  | <u>12,619</u>                   | <u>16,727</u>        |
| Income taxes, principally deferred   | 56,514                          | 56,607               |
| Total liabilities  | <u>350,174</u>                  | <u>350,141</u>       |
| Shareholders' equity:  |                                 |                      |
| Common stock   | 8                               | 8                    |
| Capital in excess of par value   | 35,694                          | 35,694               |
| Accumulated other comprehensive income   | (3,808)                         | 58,571               |
| Retained earnings  | 327,963                         | 255,786              |
| Treasury stock, at cost  | (1,763)                         | (1,763)              |
| Berkshire Hathaway shareholders' equity  | <u>358,094</u>                  | <u>348,296</u>       |
| Noncontrolling interests   | 3,664                           | 3,658                |
| Total shareholders' equity   | <u>361,758</u>                  | <u>351,954</u>       |
|  | <u>\$ 711,932</u>               | <u>\$ 702,095</u>    |

*See accompanying Notes to Consolidated Financial Statements*

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

|   | Second Quarter |               | First Six Months |               |
|---|----------------|---------------|------------------|---------------|
|   | 2018           | 2017          | 2018             | 2017          |
|   | (Unaudited)    |               | (Unaudited)      |               |
| <b>Revenues:</b>  |                |               |                  |               |
| <i>Insurance and Other:</i>   |                |               |                  |               |
| Insurance premiums earned   | \$ 14,149      | \$ 12,367     | \$ 27,522        | \$ 34,120     |
| Sales and service revenues  | 33,256         | 31,733        | 64,879           | 61,962        |
| Interest, dividend and other investment income                      | 1,534          | 1,322         | 2,849            | 2,484         |
|   | 48,939         | 45,422        | 95,250           | 98,566        |
| <i>Railroad, Utilities and Energy operating and other revenues</i>  | 10,895         | 9,822         | 20,997           | 19,200        |
| <i>Finance and Financial Products:</i>                              |                |               |                  |               |
| Sales and service revenues  | 1,992          | 1,648         | 3,685            | 3,146         |
| Interest, dividend and other investment income                      | 374            | 364           | 741              | 714           |
|   | 2,366          | 2,012         | 4,426            | 3,860         |
| Total revenues  | 62,200         | 57,256        | 120,673          | 121,626       |
| <b>Investment and derivative contract gains/losses:</b>             |                |               |                  |               |
| Investments gains (losses)  | 5,990          | 290           | (1,819)          | 605           |
| Derivative contract gains (losses)                                  | 372            | (65)          | 166              | 395           |
|   | 6,362          | 225           | (1,653)          | 1,000         |
| <b>Costs and expenses:</b>  |                |               |                  |               |
| <i>Insurance and Other:</i>   |                |               |                  |               |
| Insurance losses and loss adjustment expenses                       | 9,401          | 8,747         | 18,364           | 27,313        |
| Life, annuity and health insurance benefits                         | 1,418          | 1,263         | 2,705            | 2,490         |
| Insurance underwriting expenses                                     | 2,123          | 2,378         | 4,727            | 4,717         |
| Cost of sales and services  | 26,480         | 25,419        | 51,895           | 49,779        |
| Selling, general and administrative expenses                        | 4,150          | 4,020         | 8,174            | 8,136         |
| Interest expense  | (260)          | 700           | 130              | 970           |
|   | 43,312         | 42,527        | 85,995           | 93,405        |
| <i>Railroad, Utilities and Energy:</i>                              |                |               |                  |               |
| Cost of sales and operating expenses                                | 7,963          | 6,940         | 15,364           | 13,694        |
| Interest expense  | 702            | 697           | 1,412            | 1,390         |
|   | 8,665          | 7,637         | 16,776           | 15,084        |
| <i>Finance and Financial Products:</i>                              |                |               |                  |               |
| Cost of sales and services  | 1,217          | 962           | 2,246            | 1,829         |
| Selling, general and administrative expenses                        | 518            | 469           | 985              | 911           |
| Interest expense  | 79             | 103           | 171              | 207           |
|   | 1,814          | 1,534         | 3,402            | 2,947         |
| Total costs and expenses  | 53,791         | 51,698        | 106,173          | 111,436       |
| <b>Earnings before income taxes and equity method earnings</b>      |                |               |                  |               |
| Equity method earnings  | 14,771         | 5,783         | 12,847           | 11,190        |
|   | 327            | 346           | 728              | 627           |
| <b>Earnings before income taxes</b>                                 | 15,098         | 6,129         | 13,575           | 11,817        |
| Income tax expense  | 3,021          | 1,774         | 2,569            | 3,323         |
| <b>Net earnings</b>   | 12,077         | 4,355         | 11,006           | 8,494         |
| Earnings attributable to noncontrolling interests                   | 66             | 93            | 133              | 172           |
| <b>Net earnings attributable to Berkshire Hathaway shareholders</b> | \$ 12,011      | \$ 4,262      | \$ 10,873        | \$ 8,322      |
| <b>Net earnings per average equivalent Class A share</b>            | \$ 7,301       | \$ 2,592      | \$ 6,610         | \$ 5,060      |
| <b>Net earnings per average equivalent Class B share*</b>           | \$ 4.87        | \$ 1.73       | \$ 4.41          | \$ 3.37       |
| <b>Average equivalent Class A shares outstanding</b>                | 1,645,057      | 1,644,580     | 1,645,008        | 1,644,503     |
| <b>Average equivalent Class B shares outstanding</b>                | 2,467,585,853  | 2,466,870,080 | 2,467,511,782    | 2,466,754,153 |

\* Net earnings per average equivalent Class B share outstanding are one-fifteen-hundredth of the equivalent Class A amount.

See accompanying Notes to Consolidated Financial Statements

**BERKSHIRE HATHAWAY INC.**  
**and Subsidiaries**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
*(dollars in millions)*

|  | Second Quarter |          | First Six Months |           |
|--|----------------|----------|------------------|-----------|
|  | 2018           | 2017     | 2018             | 2017      |
|  | (Unaudited)    |          | (Unaudited)      |           |
| Net earnings   | \$ 12,077      | \$ 4,355 | \$ 11,006        | \$ 8,494  |
| Other comprehensive income:  |                |          |                  |           |
| Net change in unrealized appreciation of investments                           | (92)           | 4,711    | (137)            | 13,088    |
| Applicable income taxes  | 22             | (1,659)  | 20               | (4,531)   |
| Reclassification of investment appreciation in net earnings                    | (44)           | (284)    | (265)            | (589)     |
| Applicable income taxes  | 10             | 99       | 56               | 206       |
| Foreign currency translation   | (1,364)        | 798      | (763)            | 1,356     |
| Applicable income taxes  | 43             | (23)     | 37               | (92)      |
| Prior service cost and actuarial gains/losses of defined benefit pension plans | 87             | (44)     | 63               | (54)      |
| Applicable income taxes  | (20)           | 18       | (3)              | 25        |
| Other, net   | (5)            | 3        | (36)             | 6         |
| Other comprehensive income, net  | (1,363)        | 3,619    | (1,028)          | 9,415     |
| Comprehensive income   | 10,714         | 7,974    | 9,978            | 17,909    |
| Comprehensive income attributable to noncontrolling interests                  | 34             | 130      | 109              | 233       |
| Comprehensive income attributable to Berkshire Hathaway shareholders           | \$ 10,680      | \$ 7,844 | \$ 9,869         | \$ 17,676 |

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**(Unaudited)**  
*(dollars in millions)*

|  | Berkshire Hathaway shareholders' equity         |  |                   |                |                           | Total      |
|--|---|--|-------------------|----------------|---------------------------|------------|
|  | Common stock and capital in excess of par value | Accumulated other comprehensive income | Retained earnings | Treasury stock | Non-controlling interests |            |
| Balance at December 31, 2016               | \$ 35,689                                       | \$ 37,298                              | \$ 210,846        | \$ (1,763)     | \$ 3,358                  | \$ 285,428 |
| Net earnings                               | —   | —                                      | 8,322             | —              | 172                       | 8,494      |
| Other comprehensive income, net            | —   | 9,354                                  | —                 | —              | 61                        | 9,415      |
| Issuance of common stock                   | 40  | —                                      | —                 | —              | —                         | 40         |
| Transactions with noncontrolling interests | (58)  | —                                      | —                 | —              | (157)                     | (215)      |
| Balance at June 30, 2017                   | \$ 35,671                                       | \$ 46,652                              | \$ 219,168        | \$ (1,763)     | \$ 3,434                  | \$ 303,162 |
| Balance at December 31, 2017               | \$ 35,702                                       | \$ 58,571                              | \$ 255,786        | \$ (1,763)     | \$ 3,658                  | \$ 351,954 |
| Adoption of new accounting pronouncements  | —   | (61,375)                               | 61,304            | —              | —                         | (71)       |
| Net earnings                               | —   | —                                      | 10,873            | —              | 133                       | 11,006     |
| Other comprehensive income, net            | —   | (1,004)                                | —                 | —              | (24)                      | (1,028)    |
| Issuance of common stock                   | 32  | —                                      | —                 | —              | —                         | 32         |
| Transactions with noncontrolling interests | (32)  | —                                      | —                 | —              | (103)                     | (135)      |
| Balance at June 30, 2018                   | \$ 35,702                                       | \$ (3,808)                             | \$ 327,963        | \$ (1,763)     | \$ 3,664                  | \$ 361,758 |

*See accompanying Notes to Consolidated Financial Statements*

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

|  | <b>First Six Months</b> |                  |
|--|-------------------------|------------------|
|  | <b>2018</b>             | <b>2017</b>      |
|  | <b>(Unaudited)</b>      |                  |
| <b>Cash flows from operating activities:</b>   |                         |                  |
| Net earnings   | \$ 11,006               | \$ 8,494         |
| Adjustments to reconcile net earnings to operating cash flows:                         |                         |                  |
| Investment gains/losses  | 1,819                   | (605)            |
| Depreciation and amortization  | 4,774                   | 4,539            |
| Other  | (421)                   | 403              |
| Changes in operating assets and liabilities:   |                         |                  |
| Losses and loss adjustment expenses  | 924                     | 18,075           |
| Deferred charges reinsurance assumed   | 549                     | (5,550)          |
| Unearned premiums  | 2,253                   | 1,830            |
| Receivables and originated loans   | (3,413)                 | (1,608)          |
| Other assets   | (1,367)                 | (960)            |
| Other liabilities  | (45)                    | 111              |
| Income taxes   | 12                      | 1,893            |
| <b>Net cash flows from operating activities</b>  | <b>16,091</b>           | <b>26,622</b>    |
| <b>Cash flows from investing activities:</b>   |                         |                  |
| Purchases of U.S. Treasury Bills and fixed maturity securities                         | (50,227)                | (68,547)         |
| Purchases of equity securities   | (20,845)                | (13,628)         |
| Sales of U.S. Treasury Bills and fixed maturity securities                             | 19,374                  | 20,164           |
| Redemptions and maturities of U.S. Treasury Bills and fixed maturity securities        | 71,486                  | 34,164           |
| Sales and redemptions of equity securities   | 9,011                   | 7,815            |
| Purchases of loans and finance receivables   | (81)                    | (1,350)          |
| Collections of loans and finance receivables   | 188                     | 393              |
| Acquisitions of businesses, net of cash acquired                                       | (373)                   | (1,721)          |
| Purchases of property, plant and equipment   | (6,329)                 | (5,149)          |
| Other  | 226                     | (138)            |
| <b>Net cash flows from investing activities</b>  | <b>22,430</b>           | <b>(27,997)</b>  |
| <b>Cash flows from financing activities:</b>   |                         |                  |
| Proceeds from borrowings of insurance and other businesses                             | 28                      | 1,295            |
| Proceeds from borrowings of railroad, utilities and energy businesses                  | 4,239                   | 2,413            |
| Proceeds from borrowings of finance businesses   | 21                      | 1,298            |
| Repayments of borrowings of insurance and other businesses                             | (1,882)                 | (1,180)          |
| Repayments of borrowings of railroad, utilities and energy businesses                  | (2,428)                 | (1,768)          |
| Repayments of borrowings of finance businesses   | (4,161)                 | (2,897)          |
| Changes in short term borrowings, net  | (1,080)                 | 462              |
| Other  | (253)                   | (92)             |
| <b>Net cash flows from financing activities</b>  | <b>(5,516)</b>          | <b>(469)</b>     |
| Effects of foreign currency exchange rate changes                                      | (41)                    | 183              |
| Increase (decrease) in cash and cash equivalents and restricted cash                   | 32,964                  | (1,661)          |
| Cash and cash equivalents and restricted cash at beginning of year                     | 32,212                  | 28,643           |
| <b>Cash and cash equivalents and restricted cash at end of second quarter *</b>        | <b>\$ 65,176</b>        | <b>\$ 26,982</b> |
| <i>* Cash and cash equivalents and restricted cash are comprised of the following:</i> |                         |                  |
| <i>Beginning of year—</i>  |                         |                  |
| Insurance and Other  | \$ 25,460               | \$ 23,581        |
| Railroad, Utilities and Energy   | 2,910                   | 3,939            |
| Finance and Financial Products   | 3,213                   | 528              |
| Restricted cash, included in other assets  | 629                     | 595              |
|  | <b>\$ 32,212</b>        | <b>\$ 28,643</b> |
| <i>End of second quarter—</i>  |                         |                  |
| Insurance and Other  | \$ 57,918               | \$ 20,142        |
| Railroad, Utilities and Energy   | 3,363                   | 4,962            |
| Finance and Financial Products   | 3,280                   | 1,314            |
| Restricted cash, included in other assets  | 615                     | 564              |
|  | <b>\$ 65,176</b>        | <b>\$ 26,982</b> |

*See accompanying Notes to Consolidated Financial Statements*

**BERKSHIRE HATHAWAY INC.  
and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 2018**

**Note 1. General**

The accompanying unaudited Consolidated Financial Statements include the accounts of Berkshire Hathaway Inc. (“Berkshire” or “Company”) consolidated with the accounts of all its subsidiaries and affiliates in which Berkshire holds controlling financial interests as of the financial statement date. In these notes, the terms “us,” “we” or “our” refer to Berkshire and its consolidated subsidiaries. Reference is made to Berkshire’s most recently issued Annual Report on Form 10-K (“Annual Report”), which includes information necessary or useful to understanding Berkshire’s businesses and financial statement presentations. Our significant accounting policies and practices were presented as Note 1 to the Consolidated Financial Statements included in the Annual Report. Changes to those policies due to the adoption of new accounting standards effective January 1, 2018 are described in Note 2. Certain immaterial amounts related to equity method earnings were reclassified in the accompanying 2017 Consolidated Financial Statements to conform to current presentations.

Financial information in this Quarterly Report reflects all adjustments (consisting only of normal recurring adjustments) that are, in the opinion of management, necessary to a fair statement of results for the interim periods in accordance with accounting principles generally accepted in the United States (“GAAP”). For a number of reasons, our results for interim periods are not normally indicative of results to be expected for the year. The timing and magnitude of catastrophe losses incurred by insurance subsidiaries and the estimation error inherent to the process of determining liabilities for unpaid losses of insurance subsidiaries can be more significant to results of interim periods than to results for a full year. Changes in market prices of the equity securities we own can produce significant effects on our consolidated shareholders’ equity. Beginning in 2018, those effects are included in our Consolidated Statements of Earnings, whereas in pre-2018 periods, such effects were included in other comprehensive income. In addition, changes in the fair values of certain derivative contract liabilities and gains and losses from the periodic revaluation of certain assets and liabilities denominated in foreign currencies can cause significant variations in our periodic net earnings.

**Note 2. New Accounting Pronouncements**

On January 1, 2018, we adopted Accounting Standards Update (“ASU”) 2016-01 “Financial Instruments—Recognition and Measurement of Financial Assets and Financial Liabilities” (“ASU 2016-01”), ASU 2018-02 “Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income” (“ASU 2018-02”) and Accounting Standards Codification (“ASC”) 606 – “Revenues from Contracts with Customers” (“ASC 606”). A summary of the effects of the initial adoption of ASU 2016-01, ASU 2018-02 and ASC 606 follows (in millions).

|  | <u>ASU 2016-01</u> | <u>ASU 2018-02</u> | <u>ASC 606</u> | <u>Total</u> |
|--|--------------------|--------------------|----------------|--------------|
| Increase (decrease):                   |                    |                    |                |              |
| Assets                                 | \$ —               | \$ —               | \$ 3,382       | \$ 3,382     |
| Liabilities                            | —                  | —                  | 3,453          | 3,453        |
| Accumulated other comprehensive income | (61,459)           | 84                 | —              | (61,375)     |
| Retained earnings                      | 61,459             | (84)               | (71)           | 61,304       |
| Shareholders’ equity                   | —                  | —                  | (71)           | (71)         |

With respect to ASU 2016-01, we reclassified net after-tax unrealized gains on equity securities as of January 1, 2018 from accumulated other comprehensive income to retained earnings. We continue to carry our investments in equity securities at fair value and there is no change to the asset values or total shareholders’ equity that we would have otherwise recorded. Beginning in 2018, we are including unrealized gains and losses arising from the changes in the fair values of our equity securities during the period as a component of investment gains in the Consolidated Statements of Earnings. ASU 2016-01 prohibited the restatement of prior year financial statements. For periods ending prior to January 1, 2018, gains and losses were recognized in earnings when we sold equity securities, based on the cost of the equity securities, or for an other-than-temporary impairment loss and unrealized gains and losses from the changes in fair value of available-for-sale equity securities were recorded in other comprehensive income.



## **Notes to Consolidated Financial Statements** *(Continued)*

### **Note 2. New Accounting Pronouncements** *(Continued)*

We also reclassified the stranded deferred income taxes in accumulated other comprehensive income as of January 1, 2018 to retained earnings in connection with our adoption of ASU 2018-02. These stranded deferred income tax effects arose from the reduction in the U.S. statutory income tax rate under the U.S. Tax Cuts and Jobs Act enacted on December 22, 2017. Prior year financial statements were not restated. The effect of the reduction in the statutory income tax rate on accumulated other comprehensive income items was recorded in earnings in December 2017.

We adopted ASC 606 using the modified retrospective method, whereby the cumulative effect of the adoption was recorded as an adjustment to retained earnings. Prior year financial statements were not restated. The initial adoption of ASC 606 resulted in an increase to both assets (primarily property, plant and equipment) and other liabilities and a relatively minor reduction in retained earnings as of the beginning of 2018. ASC 606 also provides for certain other disclosures which are included in Note 3.

In February 2016, the Financial Accounting Standards Board (“FASB”) issued ASU 2016-02 “Leases.” ASU 2016-02 requires a lessee to recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term and also requires additional qualitative and quantitative disclosures. ASU 2016-02 is effective for reporting periods beginning after December 15, 2018, with early adoption permitted. We are currently evaluating the effect this standard will have on our Consolidated Financial Statements.

In June 2016, the FASB issued ASU 2016-13 “Financial Instruments—Credit Losses,” which provides for the recognition and measurement at the reporting date of all expected credit losses for financial assets held at amortized cost and available-for-sale debt securities. Currently, credit losses are recognized and measured when such losses become probable based on the prevailing facts and circumstances. ASU 2016-13 is effective for reporting periods beginning after December 15, 2019. We are currently evaluating the effect this standard will have on our Consolidated Financial Statements.

In January 2017, the FASB issued ASU 2017-04 “Simplifying the Test for Goodwill Impairment.” ASU 2017-04 eliminates the requirement to determine the implied value of goodwill in measuring an impairment loss. Upon adoption of ASU 2017-04, the measurement of a goodwill impairment will represent the excess of the reporting unit’s carrying value over fair value, limited to the carrying value of goodwill. ASU 2017-04 is effective for goodwill impairment tests in fiscal years beginning after December 15, 2019, with early adoption permitted.

### **Note 3. Revenues from contracts with customers**

As discussed in Note 2, on January 1, 2018, we adopted ASC 606 “Revenues from Contracts with Customers.” Our revenue recognition practices under ASC 606 do not differ materially from prior practices. Under ASC 606, revenues are recognized when a good or service is transferred to a customer. A good or service is transferred when (or as) the customer obtains control of that good or service. Revenues are based on the consideration we expect to receive in connection with our promises to deliver goods and services to our customers. Our accounting policies related to revenue from contracts with customers follow.

We manufacture and/or distribute a wide variety of industrial, building and consumer products. Our sales contracts provide customers with manufactured products and goods acquired for resale through wholesale and retail channels in exchange for consideration specified under the contracts. Contracts generally represent customer orders for individual products at stated prices. Sales contracts may contain either single or multiple performance obligations. In instances where contracts contain multiple performance obligations, we allocate the expected consideration to each obligation based on the relative stand-alone selling prices of each product or service.

Expected consideration (and therefore revenue) reflects reductions for returns, allowances, volume discounts and other incentives, some of which may be contingent on future events. In certain customer contracts of our grocery distribution business, consideration includes certain state and local excise taxes billed to customers on specified products when those taxes are levied directly upon us by the taxing authorities. Expected consideration excludes sales and value-added taxes collected on behalf of taxing authorities. Revenue includes consideration for shipping and other fulfillment activities performed prior to the customer obtaining control of the goods. We also elect to treat consideration for such services performed after control has passed to the customer as fulfillment activities.

## Notes to Consolidated Financial Statements (Continued)

### Note 3. Revenues from contracts with customers (Continued)

Our product sales revenues are generally recognized at a point in time when control of the product transfers to the customer, which coincides with customer pickup or product delivery or acceptance, depending on terms of the arrangement. We recognize sales revenues and related costs with respect to certain contracts over time, primarily from certain castings, forgings and aerostructures contracts. Control of the product units under these contracts transfers continuously to the customer as the product is manufactured. These products generally have no alternative use and the contract requires the customer to provide reasonable compensation if terminated for reasons other than breach of contract.

Our energy revenue derives primarily from tariff based sales arrangements approved by various regulatory bodies. These tariff based revenues are mainly comprised of energy, transmission, distribution and natural gas and have performance obligations to deliver energy products and services to customers which are satisfied over time as energy is delivered or services are provided. Our nonregulated energy revenue primarily relates to our renewable energy business. Energy revenues are equivalent to the amounts we have the right to invoice and correspond directly with the value to the customer of the performance to date and include billed and unbilled amounts. As of June 30, 2018 and December 31, 2017, trade receivables were approximately \$2.0 billion and were included in other assets of our railroad, utilities and energy businesses on the Consolidated Balance Sheets. Such amounts relate substantially to customer revenue, and included unbilled revenue of \$722 million as of June 30, 2018 and \$665 million as of December 31, 2017. Payments from customers are generally due from the customer within 30 days of billing. Rates charged for energy products and services are established by regulators or contractual arrangements that establish the transaction price, as well as the allocation of price amongst the separate performance obligations. When preliminary regulated rates are permitted to be billed prior to final approval by the applicable regulator, certain revenue collected may be subject to refund and a liability for estimated refunds is accrued.

The primary performance obligation under our freight rail transportation service contracts is to move freight from a point of origin to a point of destination for its customers. The performance obligations are represented by bills of lading which create a series of distinct services that have a similar pattern of transfer to the customer. The revenues for each performance obligation are based on various factors including the product being shipped, the origin and destination pair, and contract incentives which are outlined in various private rate agreements, common carrier public tariffs, interline foreign road agreements and pricing quotes. The transaction price is generally a per car amount to transport railcars from a specified origin to a specified destination. Freight revenues are recognized over time as the service is performed because the customer simultaneously receives and consumes the benefits of the service. Revenues recognized represent the proportion of the service completed as of the balance sheet date. Receivables related to customer contracts were approximately \$1.2 billion at both June 30, 2018 and December 31, 2017 and were included in other assets of our railroad, utilities and energy businesses. Invoices for freight transportation services are generally issued to customers and paid within thirty days or less. Customer incentives, which are primarily provided for shipping a specified cumulative volume or shipping to/from specific locations, are recorded as a reduction to revenue on a pro-rata basis based on actual or projected future customer shipments.

Other service revenues derive from contracts with customers in which performance obligations are satisfied over time, where customers receive and consume benefits as we perform the services, or at a point in time when the services are provided. Other service revenues primarily derive from real estate brokerage, automotive repair, aircraft management, aviation training, franchising and news distribution services.

Prior to January 1, 2018, we recognized revenues from the sales of fractional ownership interests in aircraft over the terms of the related management services agreements, as the transfers of the ownership interests were inseparable from the management services agreements. These agreements also include provisions that require us to repurchase the fractional interest at fair market value at contract termination or upon the customer's request following the minimum commitment period. ASC 606 provides that such contracts are subject to accounting guidance for lease contracts and not ASC 606. The principal effects of this re-characterization were to increase both assets (primarily property, plant and equipment) and other liabilities by approximately \$3.5 billion with a small reduction to retained earnings as of January 1, 2018. The re-categorization of these contracts as operating leases did not have a significant effect on our consolidated revenues or earnings for the first six months of 2018.

**Notes to Consolidated Financial Statements (Continued)**

**Note 3. Revenues from contracts with customers (Continued)**

The following table summarizes customer contract revenues disaggregated by reportable segment and the source of the revenue for the six months ended June 30, 2018 (in millions). Other revenues included in our consolidated revenues were primarily insurance premiums earned, interest, dividend and other investment income and lease income which are not within the scope of ASC 606.

|  | <u>Manufacturing</u> | <u>McLane Company</u> | <u>Service and Retail</u> | <u>BNSF</u>      | <u>Berkshire Hathaway Energy</u> | <u>Finance and Financial Products</u> | <u>Insurance, Corporate and other</u> | <u>Total</u>      |
|--|----------------------|-----------------------|---------------------------|------------------|----------------------------------|---------------------------------------|---------------------------------------|-------------------|
| <b>Manufactured products:</b>              |                      |                       |                           |                  |                                  |                                       |                                       |                   |
| Industrial and commercial products         | \$ 12,922            | \$ —                  | \$ 108                    | \$ —             | \$ —                             | \$ 421                                | \$ —                                  | \$ 13,451         |
| Building products                          | 6,344                | —                     | —                         | —                | —                                | 7                                     | —                                     | 6,351             |
| Consumer products                          | 5,896                | —                     | —                         | —                | —                                | 1,954                                 | —                                     | 7,850             |
| Grocery and convenience store distribution | —                    | 16,419                | —                         | —                | —                                | —                                     | —                                     | 16,419            |
| Food and beverage distribution             | —                    | 8,124                 | —                         | —                | —                                | —                                     | —                                     | 8,124             |
| Auto sales                                 | —                    | —                     | 4,004                     | —                | —                                | —                                     | —                                     | 4,004             |
| Other retail and wholesale distribution    | 1,012                | —                     | 5,617                     | —                | —                                | 42                                    | —                                     | 6,671             |
| Service                                    | 497                  | 37                    | 1,947                     | 11,411           | 1,886                            | 26                                    | —                                     | 15,804            |
| Electricity and natural gas                | —                    | —                     | —                         | —                | 7,090                            | —                                     | —                                     | 7,090             |
| <b>Total</b>                               | <b>26,671</b>        | <b>24,580</b>         | <b>11,676</b>             | <b>11,411</b>    | <b>8,976</b>                     | <b>2,450</b>                          | <b>—</b>                              | <b>85,764</b>     |
| Other revenue                              | 81                   | 36                    | 1,921                     | 24               | 586                              | 1,976                                 | 30,285                                | 34,909            |
|  | <u>\$ 26,752</u>     | <u>\$ 24,616</u>      | <u>\$ 13,597</u>          | <u>\$ 11,435</u> | <u>\$ 9,562</u>                  | <u>\$ 4,426</u>                       | <u>\$ 30,285</u>                      | <u>\$ 120,673</u> |

A summary of the transaction price allocated to the significant unsatisfied remaining performance obligations relating to contracts with expected durations in excess of one year as of June 30, 2018 follows (in millions).

|                                    | <u>Performance obligations expected to be satisfied:</u> |                               | <u>Total</u> |
|------------------------------------|--|-------------------------------|--------------|
|                                    | <u>Less than 12 months</u>                               | <u>Greater than 12 months</u> |              |
| <b>Manufactured products:</b>      |  |                               |              |
| Industrial and commercial products | \$ 59  | \$ 2,970                      | \$ 3,029     |
| Electricity and natural gas        | 1,160  | 5,955                         | 7,115        |

**Note 4. Investments in fixed maturity securities**

Investments in securities with fixed maturities as of June 30, 2018 and December 31, 2017 are summarized by type below (in millions).

|  | <u>Amortized Cost</u> | <u>Unrealized Gains</u> | <u>Unrealized Losses</u> | <u>Fair Value</u> |
|--|-----------------------|-------------------------|--------------------------|-------------------|
| <i>June 30, 2018</i>                                     |                       |                         |                          |                   |
| U.S. Treasury, U.S. government corporations and agencies | \$ 3,463              | \$ 10                   | \$ (35)                  | \$ 3,438          |
| U.S. states, municipalities and political subdivisions   | 452                   | 17                      | (5)                      | 464               |
| Foreign governments                                      | 7,551                 | 56                      | (42)                     | 7,565             |
| Corporate bonds  | 5,968                 | 453                     | (8)                      | 6,413             |
| Mortgage-backed securities                               | 585                   | 62                      | (3)                      | 644               |
|  | <u>\$ 18,019</u>      | <u>\$ 598</u>           | <u>\$ (93)</u>           | <u>\$ 18,524</u>  |
| <i>December 31, 2017</i>                                 |                       |                         |                          |                   |
| U.S. Treasury, U.S. government corporations and agencies | \$ 3,975              | \$ 4                    | \$ (26)                  | \$ 3,953          |
| U.S. states, municipalities and political subdivisions   | 847                   | 19                      | (12)                     | 854               |
| Foreign governments                                      | 8,572                 | 274                     | (24)                     | 8,822             |
| Corporate bonds  | 6,279                 | 588                     | (5)                      | 6,862             |
| Mortgage-backed securities                               | 772                   | 92                      | (2)                      | 862               |
|  | <u>\$ 20,445</u>      | <u>\$ 977</u>           | <u>\$ (69)</u>           | <u>\$ 21,353</u>  |

**Notes to Consolidated Financial Statements (Continued)**

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

Investments in foreign government securities include securities issued by national and provincial government entities as well as instruments that are unconditionally guaranteed by such entities. As of June 30, 2018, approximately 92% of foreign government holdings were rated AA or higher by at least one of the major rating agencies.

The amortized cost and estimated fair value of fixed maturity securities at June 30, 2018 are summarized below by contractual maturity dates. Amounts are in millions. Actual maturities may differ from contractual maturities due to early call or prepayment rights held by issuers.

|                | Due in one<br>year or less | Due after one<br>year through<br>five years | Due after five<br>years through<br>ten years | Due after<br>ten years | Mortgage-<br>backed<br>securities | Total     |
|----------------|----------------------------|---|--|------------------------|-----------------------------------|-----------|
| Amortized cost | \$ 6,863                   | \$ 9,439                                    | \$ 399                                       | \$ 733                 | \$ 585                            | \$ 18,019 |
| Fair value     | 6,876                      | 9,507                                       | 448  | 1,049                  | 644                               | 18,524    |

**Note 5. Investments in equity securities**

Investments in equity securities as of June 30, 2018 and December 31, 2017 are summarized based on the primary industry of the investee in the table below (in millions).

|                                  | Cost Basis       | Net Unrealized<br>Gains | Fair<br>Value     |
|----------------------------------|------------------|-------------------------|-------------------|
| <i>June 30, 2018 *</i>           |                  |                         |                   |
| Banks, insurance and finance     | \$ 27,003        | \$ 50,770               | \$ 77,773         |
| Consumer products                | 40,199           | 28,502                  | 68,701            |
| Commercial, industrial and other | 20,256           | 12,999                  | 33,255            |
|                                  | <u>\$ 87,458</u> | <u>\$ 92,271</u>        | <u>\$ 179,729</u> |

\* Approximately 70% of the aggregate fair value was concentrated in five companies (American Express Company – \$14.9 billion; Apple Inc. – \$47.2 billion; Bank of America Corporation – \$19.7 billion; The Coca-Cola Company – \$17.5 billion and Wells Fargo & Company – \$26.4 billion).

|                                  | Cost Basis       | Net Unrealized<br>Gains | Fair<br>Value     |
|----------------------------------|------------------|-------------------------|-------------------|
| <i>December 31, 2017 *</i>       |                  |                         |                   |
| Banks, insurance and finance     | \$ 25,783        | \$ 55,026               | \$ 80,809         |
| Consumer products                | 25,177           | 25,698                  | 50,875            |
| Commercial, industrial and other | 23,716           | 15,140                  | 38,856            |
|                                  | <u>\$ 74,676</u> | <u>\$ 95,864</u>        | <u>\$ 170,540</u> |

\* Approximately 65% of the aggregate fair value was concentrated in five companies (American Express Company – \$15.1 billion; Apple Inc. – \$28.2 billion; Bank of America Corporation – \$20.7 billion; The Coca-Cola Company – \$18.4 billion and Wells Fargo & Company – \$29.3 billion).

Investments in equity securities are reflected in our Consolidated Balance Sheets as follows (in millions).

|                                  | June 30,<br>2018  | December 31,<br>2017 |
|----------------------------------|-------------------|----------------------|
| Insurance and other              | \$ 174,033        | \$ 164,026           |
| Railroad, utilities and energy * | 1,364             | 1,961                |
| Finance and financial products * | 4,332             | 4,553                |
|                                  | <u>\$ 179,729</u> | <u>\$ 170,540</u>    |

\* Included in other assets.

**Notes to Consolidated Financial Statements (Continued)**

**Note 6. Equity Method Investments**

Berkshire holds investments in certain businesses that are accounted for pursuant to the equity method. Currently, the most significant of these is our investment in the common stock of The Kraft Heinz Company (“Kraft Heinz”). Kraft Heinz is one of the world’s largest manufacturers and marketers of food and beverage products, including condiments and sauces, cheese and dairy, meals, meats, refreshment beverages, coffee and other grocery products. Berkshire currently owns 325,442,152 shares of Kraft Heinz common stock representing 26.7% of the outstanding shares. The carrying value and fair value of this investment at June 30, 2018 was approximately \$17.5 billion and \$20.4 billion, respectively, and at December 31, 2017 was \$17.6 billion and \$25.3 billion, respectively. Our earnings determined under the equity method during the first six months of 2018 and 2017 were \$467 million and \$548 million, respectively. We received dividends on the common stock of \$407 million in the first six months of 2018 and \$391 million in the first six months of 2017, which we recorded as reductions of our investment.

Summarized consolidated financial information of Kraft Heinz follows (in millions).

|             | <b>June 30,</b> |  | <b>December 30,</b> |  |
|-------------|-----------------|--|---------------------|--|
|             | <b>2018</b>     |  | <b>2017</b>         |  |
| Assets      | \$ 121,896      |  | \$ 120,232          |  |
| Liabilities | 56,024          |  | 53,985              |  |

  

|  | <b>Second Quarter</b> |             | <b>First Six Months</b> |             |
|--|-----------------------|-------------|-------------------------|-------------|
|  | <b>2018</b>           | <b>2017</b> | <b>2018</b>             | <b>2017</b> |
| Sales  | \$ 6,686              | \$ 6,637    | \$ 12,990               | \$ 12,961   |
| Net earnings attributable to Kraft Heinz common shareholders | \$ 756                | \$ 1,159    | \$ 1,749                | \$ 2,052    |

Other investments accounted for pursuant to the equity method include our investments in Berkadia Commercial Mortgage LLC (“Berkadia”), Pilot Travel Centers LLC, d/b/a Pilot Flying J (“Pilot Flying J”), and Electric Transmission Texas, LLC (“ETT”). Our investments in these entities were approximately \$3.5 billion as of June 30, 2018 and \$3.4 billion as of December 31, 2017 and were included in other assets. Our equity method earnings in these entities for the first six months were \$261 million in 2018 and \$79 million in 2017. Additional information concerning these investments follows.

We own a 50% interest in Berkadia, with Jefferies Financial Group Inc. (“Jefferies”), formerly known as Leucadia National Corporation, owning the other 50% interest. Berkadia is a servicer of commercial real estate loans in the U.S., performing primary, master and special servicing functions for U.S. government agency programs, commercial mortgage-backed securities transactions, banks, insurance companies and other financial institutions. A source of funding for Berkadia’s operations is through its issuance of commercial paper, which is currently limited to \$1.5 billion. We support the commercial paper with a surety policy issued by a Berkshire insurance subsidiary. Jefferies is obligated to indemnify us for one-half of any losses incurred under the policy. In addition, a Berkshire Hathaway Energy Company subsidiary owns a 50% ownership interest in ETT, an owner and operator of electric transmission assets in the Electric Reliability Council of Texas footprint. American Electric Power owns the other 50% interest.

On October 3, 2017, we entered into an investment agreement and an equity purchase agreement whereby we acquired a 38.6% interest in Pilot Flying J, headquartered in Knoxville, Tennessee. Pilot Flying J is one of the largest operators of travel centers in North America, with more than 27,000 team members, 750 locations across the U.S. and Canada, and approximately \$20 billion in annual revenues. The Haslam family currently owns a 50.1% interest in Pilot Flying J and a third party owns the remaining 11.3% interest. We also entered into an agreement to acquire in 2023 an additional 41.4% interest in Pilot Flying J with the Haslam family retaining a 20% interest. As a result, Berkshire will become the majority owner of Pilot Flying J in 2023.

**Note 7. Income taxes**

Our consolidated effective income tax rates for the second quarter and first six months of 2018 were 20.0% and 18.9%, respectively, and 28.9% and 28.1%, respectively, in the second quarter and first six months of 2017. Our effective income tax rate normally reflects recurring benefits from: (a) dividends received deductions applicable to certain investments in equity securities and (b) income production tax credits related to wind-powered electricity generation placed in service in the U.S. In 2018, our effective income tax rate reflects the current U.S. statutory rate of 21%, while the rate for 2017 reflects the then current U.S. statutory rate of 35%. In addition, the relative mix of pre-tax earnings or losses and underlying income tax rates applicable to the various taxing jurisdictions can also affect our periodic consolidated effective income tax rate.

## Notes to Consolidated Financial Statements (Continued)

### Note 7. Income taxes (Continued)

In December 2017, the Securities and Exchange Commission issued Staff Accounting Bulletin 118 (“SAB 118”) to provide clarification in implementing the Tax Cuts and Jobs Act of 2017 (“TCJA”) when registrants do not have the necessary information available to complete the accounting for an element of the TCJA in the period of its enactment. SAB 118 provides for tax amounts to be classified as provisional and subject to remeasurement for up to one year from the enactment date for such elements when the accounting effect is not complete, but can be reasonably estimated. We consider our estimate of the tax on accumulated undistributed earnings of foreign subsidiaries to be provisional and subject to remeasurement when we obtain the necessary additional information to complete the accounting. While we believe our estimate is reasonable, it will take additional time to validate the inputs to the foreign earnings and profits calculations, the basis on which the repatriation tax is determined, and how the applicable states will address the U.S. repatriation tax. We currently expect that our accounting for the repatriation tax under the TCJA will be completed by the end of 2018.

### Note 8. Investment gains/losses

A summary of investment gains and losses in the second quarter and first six months of 2018 and 2017 follows (in millions).

|  | Second Quarter  |               | First Six Months  |               |
|--|-----------------|---------------|-------------------|---------------|
|  | 2018            | 2017          | 2018              | 2017          |
| Equity securities:   |                 |               |                   |               |
| Unrealized investment gains/losses on securities held at the end of the period | \$ 5,585        | \$ —          | \$ (2,146)        | \$ —          |
| Investment gains/losses during 2018 on securities sold in 2018                 | 357             | —             | 41                | —             |
| Gross realized gains   | —               | 359           | —                 | 784           |
| Gross realized losses  | —               | (82)          | —                 | (207)         |
|  | <u>5,942</u>    | <u>277</u>    | <u>(2,105)</u>    | <u>577</u>    |
| Fixed maturity securities:   |                 |               |                   |               |
| Gross realized gains   | 48              | 15            | 407               | 26            |
| Gross realized losses  | (4)             | (8)           | (142)             | (14)          |
| Other  | 4               | 6             | 21                | 16            |
|  | <u>\$ 5,990</u> | <u>\$ 290</u> | <u>\$ (1,819)</u> | <u>\$ 605</u> |

Prior to 2018, we recognized investment gains and losses in earnings when we sold or otherwise disposed of equity securities based on the difference between the proceeds from the sale and the cost of the securities or when we recognized other-than-temporary impairment losses. Beginning in 2018, equity securities gains and losses include unrealized gains and losses from changes in fair values during the period on equity securities we still own. See Note 2. Prior to 2018, we recorded the changes in unrealized gains and losses on our investments in equity securities in other comprehensive income.

During the first six months of 2018, as reflected on the Consolidated Statement of Cash Flows, we received proceeds of approximately \$9.0 billion from sales of equity securities. In the table above, investment gains/losses on equity securities sold during 2018 reflect the difference between proceeds from sales and the fair value of the equity security sold at the beginning of the period or the purchase date, if later. Our taxable gains on equity securities sold during the second quarter and first six months of 2018, which are generally the difference between the proceeds from sales and our original cost, were \$629 million and \$1,359 million, respectively.

### Note 9. Receivables

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

|  | June 30,<br>2018 | December 31,<br>2017 |
|--|------------------|----------------------|
| Insurance premiums receivable            | \$ 12,638        | \$ 11,058            |
| Reinsurance recoverable on unpaid losses | 2,989            | 3,201                |
| Trade receivables                        | 12,945           | 11,756               |
| Other                                    | 3,074            | 2,925                |
| Allowances for uncollectible accounts    | (366)            | (362)                |
|  | <u>\$ 31,280</u> | <u>\$ 28,578</u>     |

## Notes to Consolidated Financial Statements (Continued)

### Note 9. Receivables (Continued)

A summary of loans and finance receivables of our finance and financial products businesses follows (in millions).

|   | June 30,<br>2018 | December 31,<br>2017 |
|---|------------------|----------------------|
| Loans and finance receivables before allowances and discounts | \$ 14,564        | \$ 14,126            |
| Allowances for uncollectible loans                            | (180)            | (180)                |
| Unamortized acquisition discounts                             | (173)            | (198)                |
|   | <u>\$ 14,211</u> | <u>\$ 13,748</u>     |

Loans and finance receivables are predominantly installment loans originated or acquired by our manufactured housing business. Provisions for loan losses in the first six months of 2018 and 2017 were \$70 million and \$78 million, respectively. Loan charge-offs, net of recoveries, in the first six months were \$70 million in 2018 and \$83 million in 2017. At June 30, 2018, approximately 98% of the loan balances were evaluated collectively for impairment. As part of the evaluation process, credit quality indicators are reviewed and loans are designated as performing or non-performing. At June 30, 2018, we considered approximately 99% of the loan balances to be performing and approximately 95% of the loan balances to be current as to payment status. In June 2017, we agreed to provide a Canada-based financial institution with a C\$2 billion one-year secured revolving credit facility. The agreement expired on June 29, 2018.

### Note 10. Inventories

Inventories are comprised of the following (in millions).

|                             | June 30,<br>2018 | December 31,<br>2017 |
|-----------------------------|------------------|----------------------|
| Raw materials               | \$ 3,172         | \$ 2,997             |
| Work in process and other   | 2,213            | 2,315                |
| Finished manufactured goods | 4,117            | 4,179                |
| Goods acquired for resale   | 6,692            | 6,696                |
|                             | <u>\$ 16,194</u> | <u>\$ 16,187</u>     |

### Note 11. Property, plant and equipment and assets held for lease

A summary of property, plant and equipment of our insurance and other businesses follows (in millions). In conjunction with the adoption of ASC 606, we recorded a net asset of approximately \$3.5 billion in aircraft sold under fractional aircraft ownership programs in machinery and equipment. Such amount included cost of approximately \$5.3 billion, net of accumulated depreciation of \$1.8 billion. We also recorded other liabilities of approximately \$3.5 billion for estimated repurchase obligations and unearned lease revenues, substantially offsetting the amount recorded in machinery and equipment. See Note 2.

|                               | June 30,<br>2018 | December 31,<br>2017 |
|-------------------------------|------------------|----------------------|
| Land                          | \$ 2,289         | \$ 2,292             |
| Buildings and improvements    | 9,041            | 8,810                |
| Machinery and equipment       | 27,932           | 21,935               |
| Furniture, fixtures and other | 4,695            | 4,387                |
|                               | 43,957           | 37,424               |
| Accumulated depreciation      | (20,009)         | (17,320)             |
|                               | <u>\$ 23,948</u> | <u>\$ 20,104</u>     |

Notes to Consolidated Financial Statements (Continued)

Note 11. Property, plant and equipment and assets held for lease (Continued)

A summary of property, plant and equipment of our railroad and our utilities and energy businesses follows (in millions). The utility generation, transmission and distribution systems and interstate natural gas pipeline assets are owned by regulated public utility and natural gas pipeline subsidiaries.

|   | June 30,<br>2018  | December 31,<br>2017 |
|---|-------------------|----------------------|
| <b>Railroad:</b>  |                   |                      |
| Land  | \$ 6,093          | \$ 6,088             |
| Track structure and other roadway                         | 51,994            | 51,320               |
| Locomotives, freight cars and other equipment             | 12,640            | 12,543               |
| Construction in progress                                  | 1,039             | 989                  |
|   | <u>71,766</u>     | <u>70,940</u>        |
| Accumulated depreciation                                  | (9,259)           | (8,627)              |
|   | <u>62,507</u>     | <u>62,313</u>        |
| <b>Utilities and energy:</b>                              |                   |                      |
| Utility generation, transmission and distribution systems | 74,975            | 74,660               |
| Interstate natural gas pipeline assets                    | 7,240             | 7,176                |
| Independent power plants and other assets                 | 8,142             | 7,499                |
| Construction in progress                                  | 3,204             | 2,556                |
|   | <u>93,561</u>     | <u>91,891</u>        |
| Accumulated depreciation                                  | (26,852)          | (26,020)             |
|   | <u>66,709</u>     | <u>65,871</u>        |
|   | <u>\$ 129,216</u> | <u>\$ 128,184</u>    |

Assets held for lease and property, plant and equipment of our finance and financial products businesses are summarized below (in millions). Assets held for lease includes railcars, intermodal tank containers, cranes, over-the-road trailers, storage units and furniture.

|                                | June 30,<br>2018 | December 31,<br>2017 |
|--------------------------------|------------------|----------------------|
| Assets held for lease          | \$ 12,507        | \$ 12,318            |
| Land                           | 234              | 231                  |
| Buildings, machinery and other | 1,489            | 1,444                |
|                                | <u>14,230</u>    | <u>13,993</u>        |
| Accumulated depreciation       | (4,165)          | (4,062)              |
|                                | <u>\$ 10,065</u> | <u>\$ 9,931</u>      |

A summary of depreciation expense for the first six months of 2018 and 2017 follows (in millions).

|                                | First Six Months |                 |
|--------------------------------|------------------|-----------------|
|                                | 2018             | 2017            |
| Insurance and other            | \$ 1,302         | \$ 1,089        |
| Railroad, utilities and energy | 2,444            | 2,389           |
| Finance and financial products | 321              | 321             |
|                                | <u>\$ 4,067</u>  | <u>\$ 3,799</u> |



Notes to Consolidated Financial Statements (Continued)

**Note 12. Goodwill and other intangible assets**

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

|   | June 30,<br>2018 | December 31,<br>2017 |
|---|------------------|----------------------|
| Balance at beginning of year                  | \$ 81,258        | \$ 79,486            |
| Acquisitions of businesses                    | 177              | 1,545                |
| Other, including foreign currency translation | (185)            | 227                  |
| Balance at end of period                      | <u>\$ 81,250</u> | <u>\$ 81,258</u>     |

Other intangible assets are summarized as follows (in millions).

|                                | June 30, 2018            |                             | December 31, 2017        |                             |
|--------------------------------|--------------------------|-----------------------------|--------------------------|-----------------------------|
|                                | Gross carrying<br>amount | Accumulated<br>amortization | Gross carrying<br>amount | Accumulated<br>amortization |
| Insurance and other            | \$ 40,267                | \$ 8,342                    | \$ 40,225                | \$ 7,707                    |
| Railroad, utilities and energy | 1,018                    | 349                         | 988                      | 324                         |
|                                | <u>\$ 41,285</u>         | <u>\$ 8,691</u>             | <u>\$ 41,213</u>         | <u>\$ 8,031</u>             |
| Trademarks and trade names     | \$ 5,398                 | \$ 729                      | \$ 5,381                 | \$ 692                      |
| Patents and technology         | 4,380                    | 2,635                       | 4,341                    | 2,493                       |
| Customer relationships         | 28,335                   | 4,140                       | 28,322                   | 3,722                       |
| Other                          | 3,172                    | 1,187                       | 3,169                    | 1,124                       |
|                                | <u>\$ 41,285</u>         | <u>\$ 8,691</u>             | <u>\$ 41,213</u>         | <u>\$ 8,031</u>             |

Amortization expense in the first six months was \$707 million in 2018 and \$740 million in 2017. Intangible assets with indefinite lives were approximately \$18.9 billion as of June 30, 2018 and December 31, 2017.

**Note 13. Derivative contracts**

We are party to derivative contracts primarily through our finance and financial products and our utilities and energy businesses. Currently, the derivative contracts of our finance and financial products businesses consist of equity index put option contracts written between 2004 and 2008. The liabilities and related notional values of such contracts follows (in millions).

|                          | June 30, 2018 |                          | December 31, 2017 |                          |
|--------------------------|---------------|--------------------------|-------------------|--------------------------|
|                          | Liabilities   | Notional<br>Value        | Liabilities       | Notional<br>Value        |
| Equity index put options | \$ 2,006      | \$ 27,658 <sup>(1)</sup> | \$ 2,172          | \$ 28,753 <sup>(1)</sup> |

<sup>(1)</sup> Represents the aggregate undiscounted amounts payable assuming that the value of each index is zero at each contract's expiration date. Certain of these contracts are denominated in foreign currencies. Notional amounts are based on the foreign currency exchange rates as of each balance sheet date.

We record derivative contract liabilities at fair value and include the changes in the fair values of such contracts in earnings as derivative contract gains/losses. A summary of derivative contract gains/losses included in our Consolidated Statements of Earnings follows (in millions).

|                          | Second Quarter |         | First Six Months |        |
|--------------------------|----------------|---------|------------------|--------|
|                          | 2018           | 2017    | 2018             | 2017   |
| Equity index put options | \$ 372         | \$ (65) | \$ 166           | \$ 395 |

**Notes to Consolidated Financial Statements (Continued)**

**Note 13. Derivative contracts (Continued)**

The equity index put option contracts are European style options written prior to March 2008 on four major equity indexes. The remaining contracts expire between April 2019 and January 2026. The remaining weighted average life of all contracts was approximately 2.5 years at June 30, 2018. In the second quarter of 2018, one equity index put option contract expired with no payment due to the counterparty.

Future payments, if any, under any given contract will be required if the prevailing index value is below the contract strike price at the expiration date. We received aggregate premiums of approximately \$4.1 billion on the remaining contracts at the contract inception dates and we have no counterparty credit risk. The aggregate intrinsic value (the undiscounted liability assuming the contracts are settled based on the index values and foreign currency exchange rates as of the balance sheet date) was \$930 million at June 30, 2018 and \$789 million at December 31, 2017. These contracts may not be unilaterally terminated or fully settled before the expiration dates and the ultimate amount of cash basis gains or losses on these contracts will not be determined until the contract expiration dates.

A limited number of our equity index put option contracts contain collateral posting requirements with respect to changes in the fair value or intrinsic value of the contracts and/or a downgrade of Berkshire's credit ratings. As of June 30, 2018, we did not have any collateral posting requirements. If Berkshire's credit ratings (currently AA from Standard & Poor's and Aa2 from Moody's) are downgraded below either A- by Standard & Poor's or A3 by Moody's, collateral of up to \$1.1 billion could be required to be posted.

Our regulated utility subsidiaries are exposed to variations in the prices of fuel required to generate electricity, wholesale electricity purchased and sold and natural gas supplied for customers. We may use forward purchases and sales, futures, swaps and options to manage a portion of these price risks. Most of the net derivative contract assets or liabilities of our regulated utilities are probable of recovery through rates and are offset by regulatory liabilities or assets. Derivative contract assets are included in other assets and were \$149 million as of June 30, 2018 and \$142 million as of December 31, 2017. Derivative contract liabilities are included in other liabilities and were \$93 million as of June 30, 2018 and \$82 million as of December 31, 2017.

**Note 14. Supplemental cash flow information**

Supplemental cash flow information follows (in millions).

|  | First Six Months |          |
|--|------------------|----------|
|  | 2018             | 2017     |
| Cash paid during the period for:                             |                  |          |
| Income taxes   | \$ 2,358         | \$ 1,082 |
| Interest:  |                  |          |
| Insurance and other businesses                               | 464              | 390      |
| Railroad, utilities and energy businesses                    | 1,402            | 1,410    |
| Finance and financial products businesses                    | 182              | 211      |
| Non-cash investing and financing activities:                 |                  |          |
| Liabilities assumed in connection with business acquisitions | 76               | 167      |

**Notes to Consolidated Financial Statements (Continued)**

**Note 15. Unpaid losses and loss adjustment expenses**

Our liabilities for unpaid losses and loss adjustment expenses (also referred to as “claim liabilities”) under short-duration property and casualty insurance and reinsurance contracts are based upon estimates of the ultimate claim costs associated with claim occurrences as of the balance sheet date and include estimates for incurred-but-not-reported (“IBNR”) claims. Reconciliations of the changes in claim liabilities, excluding liabilities under retroactive reinsurance contracts (see Note 16), for the six months ending June 30, 2018 and 2017 follow (in millions).

|  | <u>2018</u>      | <u>2017</u>      |
|--|------------------|------------------|
| Balances – beginning of year:                      |                  |                  |
| Gross liabilities                                  | \$ 61,122        | \$ 53,379        |
| Reinsurance recoverable on unpaid losses           | (3,201)          | (3,338)          |
| Net liabilities                                    | <u>57,921</u>    | <u>50,041</u>    |
| Incurred losses and loss adjustment expenses:      |                  |                  |
| Current accident year events                       | 18,905           | 16,980           |
| Prior accident years’ events                       | (1,054)          | (166)            |
| Total incurred losses and loss adjustment expenses | <u>17,851</u>    | <u>16,814</u>    |
| Paid losses and loss adjustment expenses:          |                  |                  |
| Current accident year events                       | (7,332)          | (6,656)          |
| Prior accident years’ events                       | (8,581)          | (7,253)          |
| Total payments                                     | <u>(15,913)</u>  | <u>(13,909)</u>  |
| Foreign currency translation adjustment            | (111)            | 327              |
| Balances – June 30:                                |                  |                  |
| Net liabilities                                    | 59,748           | 53,273           |
| Reinsurance recoverable on unpaid losses           | 2,989            | 3,076            |
| Gross liabilities                                  | <u>\$ 62,737</u> | <u>\$ 56,349</u> |

Incurred losses and loss adjustment expenses in the first six months of 2018 included net reductions of estimated ultimate liabilities for prior accident years of \$1,054 million compared to \$166 million in 2017. We reduced estimated ultimate liabilities for prior accident years related to primary insurance by \$768 million in the first six months of 2018 compared to \$532 million in the first six months of 2017. In the first six months of 2018, estimated liabilities for prior accident years for private passenger automobile insurance coverages were reduced \$430 million compared to \$106 million in 2017. In each period, we also reduced prior years’ claim liabilities for medical professional liability and workers’ compensation insurance coverages.

In the first six months of 2018, we reduced estimated ultimate liabilities with respect to prior accident years for property and casualty reinsurance by \$286 million, compared to an increase of \$366 million in the first six months of 2017. The comparative change reflected the impact in the 2017 period of unanticipated property claims and increases in estimated liabilities for certain U.K. personal injury claims resulting from the U.K. Ministry of Justice’s decision to reduce the fixed discount rate to be used by insurers in lump sum settlement calculations.

Notes to Consolidated Financial Statements (Continued)

**Note 16. Retroactive reinsurance contracts**

Retroactive reinsurance policies provide indemnification of losses and loss adjustment expenses of short-duration insurance contracts with respect to underlying loss events that occurred prior to the contract inception date. Claims payments may commence immediately after the contract date or, if applicable, once a contractual retention amount has been reached. Reconciliations of the changes in estimated liabilities for retroactive reinsurance unpaid losses and loss adjustment expenses (“claim liabilities”) and related deferred charge reinsurance assumed assets for the six months ending June 30, 2018 and 2017 follows (in millions).

|   | 2018                                       |                                      | 2017                                       |                                      |
|---|--|--------------------------------------|--|--------------------------------------|
|   | Unpaid losses and loss adjustment expenses | Deferred charges reinsurance assumed | Unpaid losses and loss adjustment expenses | Deferred charges reinsurance assumed |
| Balances – beginning of year:   | \$ 42,937                                  | \$ (15,278)                          | \$ 24,972                                  | \$ (8,047)                           |
| Incurred losses and loss adjustment expenses                          |  |                                      |  |                                      |
| Current year contracts  | —  | —                                    | 16,448                                     | (6,078)                              |
| Prior years’ contracts  | (35)                                       | 548                                  | (399)                                      | 528                                  |
| Total   | (35)                                       | 548                                  | 16,049                                     | (5,550)                              |
| Paid losses and loss adjustment expenses                              | (787)                                      | —                                    | (630)                                      | —                                    |
| Balances – June 30:   | \$ 42,115                                  | \$ (14,730)                          | \$ 40,391                                  | \$ (13,597)                          |
| Incurred losses and loss adjustment expenses, net of deferred charges | \$ 513                                     |                                      | \$ 10,499                                  |                                      |

In the preceding table, classifications of incurred losses and loss adjustment expenses are based on the inception dates of the contracts. We do not believe that analysis of losses incurred and paid by accident year of the underlying event is relevant or meaningful given that our exposure to losses incepts when the contract incepts. Further, we believe the classifications of reported claims and case development liabilities has little or no practical analytical value.

In the first quarter of 2017, National Indemnity Company (“NICO”), a wholly-owned subsidiary, entered into an agreement with various subsidiaries of American International Group, Inc. (collectively, “AIG”), which became effective on February 2, 2017. Under this agreement, NICO agreed to indemnify AIG for 80% of up to \$25 billion of losses and allocated loss adjustment expenses in excess of \$25 billion retained by AIG, with respect to certain commercial insurance loss events occurring prior to 2016. As of the effective date, we recorded premiums earned of \$10.2 billion, a liability for unpaid losses and loss adjustment expenses of \$16.4 billion and a deferred charge reinsurance assumed asset of \$6.2 billion. Berkshire agreed to guarantee the timely payment of all amounts due to AIG under the agreement. Our estimated ultimate claim liabilities with respect to the AIG contract at June 30, 2018 and at December 31, 2017 were \$18.2 billion, which reflected an increase of \$1.8 billion in estimated ultimate liabilities recorded in the fourth quarter of 2017. Deferred charge assets related to the AIG contract were approximately \$7.2 billion at June 30, 2018 and \$7.5 billion at December 31, 2017.

Incurred losses and loss adjustment expenses related to contracts written in prior years were \$513 million in the first six months of 2018 and \$129 million in the first six months of 2017. Such losses included recurring amortization of deferred charge assets and net gains from reductions of estimated ultimate claim liabilities.

**Note 17. Notes payable and other borrowings**

Notes payable and other borrowings are summarized below (in millions). The weighted average interest rates and maturity date ranges shown in the following tables are based on borrowings as of June 30, 2018.

|  | Weighted Average Interest Rate | June 30, 2018 | December 31, 2017 |
|--|--------------------------------|---------------|-------------------|
| <i>Insurance and other:</i>                      |                                |               |                   |
| Issued by Berkshire:                             |                                |               |                   |
| U.S. Dollar denominated borrowings due 2018-2047 | 3.0%                           | \$ 9,809      | \$ 10,603         |
| Euro denominated borrowings due 2020-2035        | 1.1%                           | 7,950         | 8,164             |
| Short-term subsidiary borrowings                 | 3.9%                           | 1,795         | 1,832             |
| Other subsidiary borrowings due 2018-2045        | 4.0%                           | 5,604         | 6,725             |
|  |                                | \$ 25,158     | \$ 27,324         |

**Notes to Consolidated Financial Statements (Continued)**

**Note 17. Notes payable and other borrowings (Continued)**

In the first six months of 2018, the carrying value of Berkshire's Euro denominated senior notes decreased \$219 million due to changes in the Euro/U.S. Dollar exchange rates, which produced a corresponding increase to pre-tax earnings of \$219 million as a reduction of interest expense. During the first six months of 2018, \$800 million of Berkshire U.S. Dollar denominated notes matured.

|   | Weighted<br>Average<br>Interest Rate | June 30,<br>2018 | December 31,<br>2017 |
|---|--------------------------------------|------------------|----------------------|
| <i>Railroad, utilities and energy:</i>                                    |                                      |                  |                      |
| Issued by Berkshire Hathaway Energy Company ("BHE") and its subsidiaries: |                                      |                  |                      |
| BHE senior unsecured debt due 2018-2048                                   | 4.5%                                 | \$ 7,979         | \$ 6,452             |
| Subsidiary and other debt due 2018-2064                                   | 4.7%                                 | 28,727           | 28,739               |
| Short-term debt   | 2.7%                                 | 3,424            | 4,488                |
| Issued by BNSF due 2018-2097  | 4.7%                                 | 22,534           | 22,499               |
|   |                                      | <u>\$ 62,664</u> | <u>\$ 62,178</u>     |

BHE subsidiary debt represents amounts issued pursuant to separate financing agreements. Substantially all of the assets of certain BHE subsidiaries are, or may be, pledged or encumbered to support or otherwise secure debt. These borrowing arrangements generally contain various covenants, which pertain to leverage ratios, interest coverage ratios and/or debt service coverage ratios, among other covenants. During the first six months of 2018, BHE and its subsidiaries issued \$3.5 billion of long-term debt with maturity dates ranging from 2020 to 2048 with a weighted average interest rate of 3.2%. In July 2018, BHE and subsidiaries issued an additional \$2.05 billion of debt with maturities in 2049 with a weighted average interest rate of 4.3%. Proceeds from these debt issuances were used to repay debt, to fund capital expenditures and for general corporate purposes.

BNSF's borrowings are primarily senior unsecured debentures. In the first quarter of 2018, BNSF issued \$750 million of 4.05% senior unsecured debentures due in 2048 and \$650 million of debentures matured. In August 2018, BNSF issued \$750 million of 4.15% debentures due in 2048. As of June 30, 2018, BNSF, BHE and their subsidiaries were in compliance with all applicable debt covenants. Berkshire does not guarantee any debt, borrowings or lines of credit of BNSF, BHE or their subsidiaries.

|   | Weighted<br>Average<br>Interest Rate | June 30,<br>2018 | December 31,<br>2017 |
|---|--------------------------------------|------------------|----------------------|
| <i>Finance and financial products:</i>                                  |                                      |                  |                      |
| Issued by Berkshire Hathaway Finance Corporation ("BHFC") due 2018-2043 | 3.0%                                 | \$ 8,829         | \$ 12,926            |
| Issued by other subsidiaries due 2018-2028                              | 3.6%                                 | 122              | 159                  |
|   |                                      | <u>\$ 8,951</u>  | <u>\$ 13,085</u>     |

Borrowings of BHFC, a wholly owned finance subsidiary of Berkshire, consist of senior unsecured notes used to fund manufactured housing loans originated or acquired and assets held for lease of certain finance subsidiaries. Such borrowings are fully and unconditionally guaranteed by Berkshire. During the first six months of 2018, \$4.1 billion of BHFC senior notes matured.

As of June 30, 2018, our subsidiaries had unused lines of credit and commercial paper capacity aggregating approximately \$6.6 billion to support short-term borrowing programs and provide additional liquidity. Such unused lines of credit included about \$5.1 billion related to BHE and its subsidiaries. In addition to BHFC's borrowings, Berkshire guaranteed approximately \$1.8 billion of other subsidiary borrowings at June 30, 2018. Generally, Berkshire's guarantee of a subsidiary's debt obligation is an absolute, unconditional and irrevocable guarantee for the full and prompt payment when due of all payment obligations.

Notes to Consolidated Financial Statements (Continued)

Note 18. Fair value measurements

Our financial assets and liabilities are summarized below as of June 30, 2018 and December 31, 2017 with fair values shown according to the fair value hierarchy (in millions). The carrying values of cash and cash equivalents, U.S. Treasury Bills, receivables and accounts payable, accruals and other liabilities are considered to be reasonable estimates of their fair values.

|  | Carrying Value | Fair Value | Quoted Prices (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|--|----------------|------------|-------------------------|---|---|
| <b>June 30, 2018</b>                                     |                |            |                         |   |   |
| Investments in fixed maturity securities:                |                |            |                         |   |   |
| U.S. Treasury, U.S. government corporations and agencies | \$ 3,438       | \$ 3,438   | \$ 2,413                | \$ 1,025                                      | \$ —                                      |
| U.S. states, municipalities and political subdivisions   | 464            | 464        | —                       | 464   | —   |
| Foreign governments                                      | 7,565          | 7,565      | 5,715                   | 1,850   | —   |
| Corporate bonds  | 6,413          | 6,413      | —                       | 6,408   | 5   |
| Mortgage-backed securities                               | 644            | 644        | —                       | 644   | —   |
| Investments in equity securities                         | 179,729        | 179,729    | 179,681                 | 48  | —   |
| Investment in Kraft Heinz common stock                   | 17,530         | 20,444     | 20,444                  | —   | —   |
| Loans and finance receivables                            | 14,211         | 14,485     | —                       | 87  | 14,398                                    |
| Derivative contract assets <sup>(1)</sup>                | 149            | 149        | 1                       | 30  | 118                                       |
| Derivative contract liabilities:                         |                |            |                         |   |   |
| Railroad, utilities and energy <sup>(1)</sup>            | 93             | 93         | —                       | 75  | 18  |
| Equity index put options                                 | 2,006          | 2,006      | —                       | —   | 2,006                                     |
| Notes payable and other borrowings:                      |                |            |                         |   |   |
| Insurance and other                                      | 25,158         | 25,422     | —                       | 25,422  | —   |
| Railroad, utilities and energy                           | 62,664         | 67,284     | —                       | 67,284  | —   |
| Finance and financial products                           | 8,951          | 9,148      | —                       | 9,121   | 27  |
| <b>December 31, 2017</b>                                 |                |            |                         |   |   |
| Investments in fixed maturity securities:                |                |            |                         |   |   |
| U.S. Treasury, U.S. government corporations and agencies | \$ 3,953       | \$ 3,953   | \$ 2,360                | \$ 1,593                                      | \$ —                                      |
| U.S. states, municipalities and political subdivisions   | 854            | 854        | —                       | 854   | —   |
| Foreign governments                                      | 8,822          | 8,822      | 6,946                   | 1,876   | —   |
| Corporate bonds  | 6,862          | 6,862      | —                       | 6,856   | 6   |
| Mortgage-backed securities                               | 862            | 862        | —                       | 862   | —   |
| Investments in equity securities                         | 170,540        | 170,540    | 170,494                 | 46  | —   |
| Investment in Kraft Heinz common stock                   | 17,635         | 25,306     | 25,306                  | —   | —   |
| Loans and finance receivables                            | 13,748         | 14,136     | —                       | 17  | 14,119                                    |
| Derivative contract assets <sup>(1)</sup>                | 142            | 142        | 1                       | 28  | 113                                       |
| Derivative contract liabilities:                         |                |            |                         |   |   |
| Railroad, utilities and energy <sup>(1)</sup>            | 82             | 82         | 3                       | 69  | 10  |
| Equity index put options                                 | 2,172          | 2,172      | —                       | —   | 2,172                                     |
| Notes payable and other borrowings:                      |                |            |                         |   |   |
| Insurance and other                                      | 27,324         | 28,180     | —                       | 28,180  | —   |
| Railroad, utilities and energy                           | 62,178         | 70,538     | —                       | 70,538  | —   |
| Finance and financial products                           | 13,085         | 13,582     | —                       | 13,577  | 5   |

(1) Assets are included in other assets and liabilities are included in accounts payable, accruals and other liabilities.

**Notes to Consolidated Financial Statements (Continued)**

**Note 18. Fair value measurements (Continued)**

The fair values of substantially all of our financial instruments were measured using market or income approaches. The hierarchy for measuring fair value consists of Levels 1 through 3, which are described below.

Level 1 – Inputs represent unadjusted quoted prices for identical assets or liabilities exchanged in active markets.

Level 2 – Inputs include directly or indirectly observable inputs (other than Level 1 inputs) such as quoted prices for similar assets or liabilities exchanged in active or inactive markets; quoted prices for identical assets or liabilities exchanged in inactive markets; other inputs that may be considered in fair value determinations of the assets or liabilities, such as interest rates and yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates; and inputs that are derived principally from or corroborated by observable market data by correlation or other means. Pricing evaluations generally reflect discounted expected future cash flows, which incorporate yield curves for instruments with similar characteristics, such as credit ratings, estimated durations and yields for other instruments of the issuer or entities in the same industry sector.

Level 3 – Inputs include unobservable inputs used in the measurement of assets and liabilities. Management is required to use its own assumptions regarding unobservable inputs because there is little, if any, market activity in the assets or liabilities and it may be unable to corroborate the related observable inputs. Unobservable inputs require management to make certain projections and assumptions about the information that would be used by market participants in valuing assets or liabilities.

Reconciliations of assets and liabilities measured and carried at fair value on a recurring basis with the use of significant unobservable inputs (Level 3) for the six months ending June 30, 2018 and 2017 follow (in millions).

|  | Investments<br>in equity<br>and fixed<br>maturity<br>securities | Net<br>derivative<br>contract<br>liabilities |
|--|---|--|
| <u>Six months ending June 30, 2018</u>     |   |  |
| Balance at December 31, 2017               | \$ 6  | \$ (2,069)                                   |
| Gains (losses) included in:                |   |  |
| Earnings                                   | —   | 256  |
| Regulatory assets and liabilities          | —   | (14)   |
| Acquisitions, dispositions and settlements | (1)   | (79)   |
| Balance at June 30, 2018                   | <u>\$ 5</u>   | <u>\$ (1,906)</u>                            |
| <u>Six months ending June 30, 2017</u>     |   |  |
| Balance at December 31, 2016               | \$ 17,321   | \$ (2,824)                                   |
| Gains (losses) included in:                |   |  |
| Earnings                                   | —   | 473  |
| Other comprehensive income                 | 1,157   | (2)  |
| Regulatory assets and liabilities          | —   | (2)  |
| Acquisitions, dispositions and settlements | (58)  | (50)   |
| Transfers into/out of Level 3              | (18,412)  | —  |
| Balance at June 30, 2017                   | <u>\$ 8</u>   | <u>\$ (2,405)</u>                            |

Gains and losses included in earnings are included as components of investment gains/losses, derivative gains/losses and other revenues, as appropriate. In 2017, gains and losses included in other comprehensive income were primarily the net change in unrealized appreciation of investments and the reclassification of investment appreciation in net earnings, as appropriate in our Consolidated Statements of Comprehensive Income.

On June 30, 2017, we announced our intention to exercise our investment in Bank of America Corporation Warrants (“BAC Warrants”) for common stock in the third quarter of 2017 and that we expected to use our investment in Bank of America Corporation Preferred Stock as consideration. In the second quarter of 2017, Restaurant Brands International, Inc. (“RBI”) announced its intention to redeem our investment in RBI Preferred Shares in the fourth quarter of 2017. As of June 30, 2017, we based our valuations of these investments on such expectations and we significantly reduced expected durations and effectively eliminated the discounts for transferability and other restrictions. As a result, we concluded the Level 3 inputs used in the previous fair value determinations of our investments in BAC Warrants and RBI Preferred Shares were not significant and that the valuations of such investments were deemed Level 2 measurements.

**Notes to Consolidated Financial Statements (Continued)**

**Note 18. Fair value measurements (Continued)**

Quantitative information as of June 30, 2018, with respect to assets and liabilities measured and carried at fair value on a recurring basis with the use of significant unobservable inputs (Level 3) follows (in millions).

|                          | Fair Value | Principal Valuation Technique | Unobservable Input | Weighted Average |
|--------------------------|------------|-------------------------------|--------------------|------------------|
| Derivative liabilities:  |            |                               |                    |                  |
| Equity index put options | \$ 2,006   | Option pricing model          | Volatility         | 17%              |

Our equity index put option contracts are illiquid and contain contract terms that are not standard in derivatives markets. For example, we are not required to post collateral under most of our contracts and certain of the contracts have relatively long durations. For these and other reasons, we classified these contracts as Level 3. The methods we use to value these contracts are those that we believe market participants would use in determining exchange prices with respect to our contracts.

We value equity index put option contracts based on the Black-Scholes option valuation model. Inputs to this model include index price, contract duration and dividend and interest rate inputs (including a Berkshire non-performance input) which are observable. However, we believe that the valuation of long-duration options using any model is inherently subjective and, given the lack of observable transactions and prices, acceptable values may be subject to wide ranges. Volatility inputs represent our expectations, which consider the remaining duration of each contract and assume that the contracts will remain outstanding until the expiration dates. Increases or decreases in the volatility inputs will produce increases or decreases in the fair values of the liabilities.

**Note 19. Common stock**

Changes in Berkshire's issued, treasury and outstanding common stock during the six months ending June 30, 2018 are shown in the table below.

|   | Class A, \$5 Par Value<br>(1,650,000 shares authorized) |          |             | Class B, \$0.0033 Par Value<br>(3,225,000,000 shares authorized) |             |               |
|---|---|----------|-------------|--|-------------|---------------|
|   | Issued  | Treasury | Outstanding | Issued   | Treasury    | Outstanding   |
| Balance at December 31, 2017  | 762,755   | (11,680) | 751,075     | 1,342,066,749  | (1,409,762) | 1,340,656,987 |
| Conversions of Class A common stock to Class B common stock and exercises of replacement stock options issued in a business acquisition | (4,560)   | —        | (4,560)     | 7,181,203  | —           | 7,181,203     |
| Balance at June 30, 2018  | 758,195   | (11,680) | 746,515     | 1,349,247,952  | (1,409,762) | 1,347,838,190 |

Each Class A common share is entitled to one vote per share. Class B common stock possesses dividend and distribution rights equal to one-fifteen-hundredth (1/1,500) of such rights of Class A common stock. Each Class B common share possesses voting rights equivalent to one-ten-thousandth (1/10,000) of the voting rights of a Class A share. Unless otherwise required under Delaware General Corporation Law, Class A and Class B common shares vote as a single class. Each share of Class A common stock is convertible, at the option of the holder, into 1,500 shares of Class B common stock. Class B common stock is not convertible into Class A common stock. On an equivalent Class A common stock basis, there were 1,645,074 shares outstanding as of June 30, 2018 and 1,644,846 shares outstanding as of December 31, 2017. In addition to our common stock, 1,000,000 shares of preferred stock are authorized, but none are issued.

For several years, Berkshire had a common stock repurchase program, which permitted Berkshire to repurchase its Class A and Class B shares at prices no higher than a 20% premium over the book value of the shares. On July 17, 2018, Berkshire's Board of Directors authorized an amendment to the program, permitting Berkshire to repurchase shares any time that Warren Buffett, Berkshire's Chairman of the Board and Chief Executive Officer, and Charlie Munger, a Vice-Chairman of the Board, believe that the repurchase price is below Berkshire's intrinsic value, conservatively determined. The program continues to allow share repurchases in the open market or through privately negotiated transactions and does not specify a maximum number of shares to be repurchased. However, repurchases will not be made if they would reduce the total value of Berkshire's consolidated cash, cash equivalents and U.S. Treasury Bills holdings below \$20 billion. The repurchase program does not obligate Berkshire to repurchase any specific dollar amount or number of Class A or Class B shares and there is no expiration date to the program.



Notes to Consolidated Financial Statements (Continued)

Note 20. Accumulated other comprehensive income

A summary of the net changes in after-tax accumulated other comprehensive income attributable to Berkshire Hathaway shareholders and amounts reclassified out of accumulated other comprehensive income for the six months ending June 30, 2018 and 2017 follows (in millions).

|  | Unrealized appreciation of investments, net | Foreign currency translation | Prior service and actuarial gains/losses of defined benefit pension plans | Other          | Accumulated other comprehensive income |
|--|---|------------------------------|---|----------------|--|
| <b>2018</b>  |   |                              |   |                |  |
| Balance at December 31, 2017                             | \$ 62,093                                   | \$ (3,114)                   | \$ (420)  | \$ 12          | \$ 58,571                              |
| Reclassifications to retained earnings                   | (61,340)                                    | (65)                         | 36  | (6)            | (61,375)                               |
| Other comprehensive income, net before reclassifications | (144)                                       | (705)                        | (8)   | 5              | (852)                                  |
| Reclassifications into net earnings                      | (209)                                       | —                            | 62  | (5)            | (152)                                  |
| Balance at June 30, 2018                                 | <u>\$ 400</u>                               | <u>\$ (3,884)</u>            | <u>\$ (330)</u>   | <u>\$ 6</u>    | <u>\$ (3,808)</u>                      |
| Reclassifications into net earnings:                     |   |                              |   |                |  |
| Reclassifications before income taxes                    | \$ (265)                                    | \$ —                         | \$ 84   | \$ (8)         | \$ (189)                               |
| Applicable income taxes                                  | (56)  | —                            | 22  | (3)            | (37)                                   |
|  | <u>\$ (209)</u>                             | <u>\$ —</u>                  | <u>\$ 62</u>  | <u>\$ (5)</u>  | <u>\$ (152)</u>                        |
| <b>2017</b>  |   |                              |   |                |  |
| Balance at December 31, 2016                             | \$ 43,176                                   | \$ (5,268)                   | \$ (593)  | \$ (17)        | \$ 37,298                              |
| Other comprehensive income, net before reclassifications | 8,540                                       | 1,221                        | (64)  | (7)            | 9,690                                  |
| Reclassifications into net earnings                      | (383)                                       | —                            | 34  | 13             | (336)                                  |
| Balance at June 30, 2017                                 | <u>\$ 51,333</u>                            | <u>\$ (4,047)</u>            | <u>\$ (623)</u>   | <u>\$ (11)</u> | <u>\$ 46,652</u>                       |
| Reclassifications into net earnings:                     |   |                              |   |                |  |
| Reclassifications before income taxes                    | \$ (589)                                    | \$ —                         | \$ 45   | \$ 24          | \$ (520)                               |
| Applicable income taxes                                  | (206)                                       | —                            | 11  | 11             | (184)                                  |
|  | <u>\$ (383)</u>                             | <u>\$ —</u>                  | <u>\$ 34</u>  | <u>\$ 13</u>   | <u>\$ (336)</u>                        |

Note 21. Contingencies and Commitments

We are parties in a variety of legal actions that routinely arise out of the normal course of business, including legal actions seeking to establish liability directly through insurance contracts or indirectly through reinsurance contracts issued by Berkshire subsidiaries. Plaintiffs occasionally seek punitive or exemplary damages. We do not believe that such normal and routine litigation will have a material effect on our financial condition or results of operations. Berkshire and certain of its subsidiaries are also involved in other kinds of legal actions, some of which assert or may assert claims or seek to impose fines and penalties. We believe that any liability that may arise as a result of other pending legal actions will not have a material effect on our consolidated financial condition or results of operations.

In 2016, NICO entered into a definitive agreement to acquire Medical Liability Mutual Insurance Company (“MLMIC”), a writer of medical professional liability insurance domiciled in New York. The acquisition price will be approximately \$2.5 billion. The acquisition will involve the conversion of MLMIC from a mutual company to a stock company. The closing of the transaction is subject to various regulatory approvals, customary closing conditions and the approval of the MLMIC policyholders eligible to vote on the proposed demutualization and sale. We currently expect this acquisition will be completed in the third quarter of 2018.

Notes to Consolidated Financial Statements (Continued)

Note 22. Business segment data

Our operating businesses include a large and diverse group of insurance, railroad, utilities and energy, finance, manufacturing, service and retailing businesses. Our reportable business segments are organized in a manner that reflects how management views those business activities. Certain businesses have been grouped together for segment reporting based upon similar products or product lines, marketing, selling and distribution characteristics, even though those business units are operated under separate local management. Revenues by segment for the second quarter and first six months of 2018 and 2017 were as follows (in millions).

|   | Second Quarter |           | First Six Months |            |
|---|----------------|-----------|------------------|------------|
|   | 2018           | 2017      | 2018             | 2017       |
| <b>Operating Businesses:</b>                              |                |           |                  |            |
| Insurance:  |                |           |                  |            |
| Underwriting:   |                |           |                  |            |
| GEICO   | \$ 8,284       | \$ 7,244  | \$ 16,199        | \$ 14,089  |
| Berkshire Hathaway Reinsurance Group                      | 3,912          | 3,364     | 7,452            | 16,596     |
| Berkshire Hathaway Primary Group                          | 1,953          | 1,759     | 3,871            | 3,435      |
| Investment income   | 1,399          | 1,284     | 2,612            | 2,416      |
| Total insurance   | 15,548         | 13,651    | 30,134           | 36,536     |
| BNSF  | 5,878          | 5,250     | 11,502           | 10,435     |
| Berkshire Hathaway Energy                                 | 5,050          | 4,602     | 9,562            | 8,833      |
| Manufacturing   | 13,853         | 12,738    | 26,787           | 24,835     |
| McLane Company  | 12,427         | 12,581    | 24,616           | 24,682     |
| Service and retailing                                     | 7,062          | 6,550     | 13,649           | 12,643     |
| Finance and financial products                            | 2,366          | 2,017     | 4,429            | 3,866      |
|   | 62,184         | 57,389    | 120,679          | 121,830    |
| <b>Reconciliation of segments to consolidated amount:</b> |                |           |                  |            |
| Corporate, eliminations and other                         | 16             | (133)     | (6)              | (204)      |
|   | \$ 62,200      | \$ 57,256 | \$ 120,673       | \$ 121,626 |

Earnings before income taxes by segment for the second quarter and first six months of 2018 and 2017 were as follows (in millions).

|   | Second Quarter |          | First Six Months |           |
|---|----------------|----------|------------------|-----------|
|   | 2018           | 2017     | 2018             | 2017      |
| <b>Operating Businesses:</b>                              |                |          |                  |           |
| Insurance:  |                |          |                  |           |
| Underwriting:   |                |          |                  |           |
| GEICO   | \$ 673         | \$ 119   | \$ 1,350         | \$ 294    |
| Berkshire Hathaway Reinsurance Group                      | 297            | (375)    | 39               | (1,118)   |
| Berkshire Hathaway Primary Group                          | 234            | 232      | 333              | 421       |
| Investment income   | 1,392          | 1,283    | 2,597            | 2,412     |
| Total insurance   | 2,596          | 1,259    | 4,319            | 2,009     |
| BNSF  | 1,655          | 1,537    | 3,168            | 2,882     |
| Berkshire Hathaway Energy                                 | 586            | 649      | 1,073            | 1,238     |
| Manufacturing   | 2,135          | 1,939    | 3,990            | 3,426     |
| McLane Company  | 67             | 69       | 127              | 157       |
| Service and retailing                                     | 697            | 555      | 1,212            | 948       |
| Finance and financial products                            | 565            | 492      | 1,059            | 942       |
|   | 8,301          | 6,500    | 14,948           | 11,602    |
| <b>Reconciliation of segments to consolidated amount:</b> |                |          |                  |           |
| Investment and derivative contract gains/losses           | 6,362          | 225      | (1,653)          | 1,000     |
| Interest expense, not allocated to segments               | 320            | (646)    | (17)             | (857)     |
| Equity method investments                                 | 327            | 346      | 728              | 627       |
| Corporate, eliminations and other                         | (212)          | (296)    | (431)            | (555)     |
|   | \$ 15,098      | \$ 6,129 | \$ 13,575        | \$ 11,817 |

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Results of Operations

Net earnings attributable to Berkshire Hathaway shareholders are disaggregated in the table that follows. Amounts are after deducting income taxes and exclude earnings attributable to noncontrolling interests (in millions).

|  | Second Quarter |          | First Six Months |          |
|--|----------------|----------|------------------|----------|
|  | 2018           | 2017     | 2018             | 2017     |
| Insurance – underwriting                                     | \$ 943         | \$ (22)  | \$ 1,350         | \$ (289) |
| Insurance – investment income                                | 1,142          | 965      | 2,154            | 1,873    |
| Railroad   | 1,309          | 958      | 2,454            | 1,796    |
| Utilities and energy   | 581            | 509      | 1,166            | 989      |
| Manufacturing, service and retailing                         | 2,141          | 1,662    | 3,963            | 2,979    |
| Finance and financial products                               | 429            | 323      | 803              | 614      |
| Investment and derivative gains/losses                       | 5,118          | 143      | (1,308)          | 647      |
| Other  | 348            | (276)    | 291              | (287)    |
| Net earnings attributable to Berkshire Hathaway shareholders | \$ 12,011      | \$ 4,262 | \$ 10,873        | \$ 8,322 |

Through our subsidiaries, we engage in a number of diverse business activities. We manage our operating businesses on an unusually decentralized basis. There are essentially no centralized or integrated business functions and there is minimal involvement by our corporate headquarters in the day-to-day business activities of the operating businesses. Our senior corporate management team participates in and is ultimately responsible for significant capital allocation decisions, investment activities and the selection of the Chief Executive to head each of the operating businesses. Beginning in 2018, our periodic net earnings include changes in unrealized gains and losses on our investments in equity securities. These gains and losses are likely to be very significant given the size of our current holdings and the volatility inherent in securities prices. Prior to 2018, these gains and losses were recorded in other comprehensive income. Thus, the new accounting treatment has no effect on the consolidated shareholders' equity we would have otherwise reported. The business segment data (Note 22 to the accompanying Consolidated Financial Statements) should be read in conjunction with this discussion.

Our after-tax earnings in the second quarter and first six months of 2018 were favorably affected by lower U.S. income tax expense, primarily attributable to a reduction in the U.S. statutory income tax rate from 35% to 21% effective January 1, 2018 in connection with the Tax Cuts and Jobs Act of 2017 ("TCJA") enacted on December 22, 2017. The effect of the lower U.S. statutory income tax rate in 2018, generally resulted in increased comparative after-tax earnings of our various business operations, although the effects varied, reflecting the differences in the mix of earnings subject to tax in the U.S. and internationally and the varying effects of U.S. state and local income taxes. Further, the effective U.S. income tax rates on dividend income under the TCJA are not significantly different from the prior income tax law.

Our insurance businesses generated after-tax earnings from underwriting of \$943 million and \$1,350 million in the second quarter and first six months of 2018, respectively, compared to losses of \$22 million and \$289 million, respectively, in 2017. Results in 2018 included reductions of estimated ultimate liabilities for prior years' property/casualty loss events, the favorable effects of foreign currency exchange rate changes on certain non-U.S. denominated liabilities of U.S subsidiaries and a lower effective income tax rate.

Our railroad business generated increased earnings in the second quarter and first six months of 2018 compared to 2017, reflecting an increase in unit volume, higher average revenue per car/unit and a lower effective income tax rate, partly offset by increased fuel and other operating costs. Our utilities and energy businesses produced higher after-tax earnings in the second quarter and first six months of 2018 compared to 2017, primarily due to a lower overall effective income tax rate and increased pre-tax earnings from renewables and natural gas pipelines. Earnings from our manufacturing, service and retailing businesses in the second quarter and first six months of 2018 increased 29% and 33%, respectively, over 2017, due to lower effective income tax rates and an 18% increase in year-to-date pre-tax earnings.

In the second quarter of 2018, after-tax gains from investments and derivative contracts were \$5.1 billion, while in the first six months of 2018, we incurred after-tax losses of \$1.3 billion. Investment gains/losses included after-tax gains of approximately \$4.5 billion in the second quarter and after-tax losses of approximately \$1.7 billion in the first six months from changes in market values on our investments in equity securities held at June 30, 2018. In 2017, after-tax investment gains on equity securities arose from the disposition or exchange of securities during the period based on the cost of the disposed security. In the first six months of 2017, we also recorded after-tax unrealized gains on our investments in equity securities of approximately \$8.2 billion in other comprehensive income. We believe that investment and derivative gains/losses, whether realized from dispositions or unrealized from changes in market prices of equity securities, are generally meaningless in understanding our reported results or evaluating the economic performance of our businesses. These gains and losses have caused and will continue to cause significant volatility in our periodic earnings.

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

### Insurance—Underwriting

We engage in both primary insurance and reinsurance of property/casualty, life and health risks. In primary insurance activities, we assume defined portions of the risks of loss from persons or organizations that are directly subject to the risks. In reinsurance activities, we assume defined portions of similar or dissimilar risks that other insurers or reinsurers have subjected themselves to in their own insuring activities. Our insurance and reinsurance businesses are GEICO, Berkshire Hathaway Reinsurance Group (“BHRG”) and Berkshire Hathaway Primary Group.

Our management views insurance businesses as possessing two distinct operations – underwriting and investing. Underwriting decisions are the responsibility of the unit managers, while investing decisions are the responsibility of Berkshire’s Chairman and CEO, Warren E. Buffett and Berkshire’s corporate investment managers. Accordingly, we evaluate performance of underwriting operations without any allocation of investment income or investment gains/losses. We consider investment income as a component of our aggregate insurance operating results. However, we consider investment gains and losses, whether realized or unrealized, as non-operating based on our long-held philosophy of acquiring securities and holding those securities for long periods. Accordingly, we believe that such gains and losses are not predictable or necessarily meaningful in understanding the operating results of our insurance businesses.

The timing and amount of catastrophe losses can produce significant volatility in our periodic underwriting results, particularly with respect to our reinsurance businesses. Generally, we consider catastrophe losses in excess of \$100 million from a current year event as significant. Changes in estimates for unpaid losses and loss adjustment expenses, including amounts established for occurrences in prior years can also significantly affect our periodic underwriting results. Unpaid loss estimates, including estimates under retroactive reinsurance contracts were approximately \$105 billion as of June 30, 2018. Our periodic underwriting results may also include significant foreign currency transaction gains and losses arising from the changes in the valuation of non-U.S. Dollar denominated reinsurance liabilities of our U.S. based insurance subsidiaries due to foreign currency exchange rate fluctuations.

Underwriting results of our insurance businesses are summarized below (in millions).

|   | Second Quarter |         | First Six Months |          |
|---|----------------|---------|------------------|----------|
|   | 2018           | 2017    | 2018             | 2017     |
| Underwriting gain (loss):                 |                |         |                  |          |
| GEICO                                     | \$ 673         | \$ 119  | \$ 1,350         | \$ 294   |
| Berkshire Hathaway Reinsurance Group      | 297            | (375)   | 39               | (1,118)  |
| Berkshire Hathaway Primary Group          | 234            | 232     | 333              | 421      |
| Pre-tax underwriting gain (loss)          | 1,204          | (24)    | 1,722            | (403)    |
| Income taxes and noncontrolling interests | 261            | (2)     | 372              | (114)    |
| Net underwriting gain (loss)              | \$ 943         | \$ (22) | \$ 1,350         | \$ (289) |
| Effective income tax rate                 | 21.4%          | 34.4%   | 21.4%            | 30.8%    |

### GEICO

GEICO writes private passenger automobile insurance, offering coverages to insureds in all 50 states and the District of Columbia. GEICO markets its policies mainly by direct response methods where most customers apply for coverage directly to the company via the Internet or over the telephone. A summary of GEICO’s underwriting results follows (dollars in millions).

|                                     | Second Quarter |       |          |       | First Six Months |       |           |       |
|-------------------------------------|----------------|-------|----------|-------|------------------|-------|-----------|-------|
|                                     | 2018           |       | 2017     |       | 2018             |       | 2017      |       |
|                                     | Amount         | %     | Amount   | %     | Amount           | %     | Amount    | %     |
| Premiums written                    | \$ 8,237       |       | \$ 7,270 |       | \$ 16,926        |       | \$ 14,857 |       |
| Premiums earned                     | \$ 8,284       | 100.0 | \$ 7,244 | 100.0 | \$ 16,199        | 100.0 | \$ 14,089 | 100.0 |
| Losses and loss adjustment expenses | 6,505          | 78.5  | 6,108    | 84.3  | 12,580           | 77.7  | 11,698    | 83.0  |
| Underwriting expenses               | 1,106          | 13.4  | 1,017    | 14.1  | 2,269            | 14.0  | 2,097     | 14.9  |
| Total losses and expenses           | 7,611          | 91.9  | 7,125    | 98.4  | 14,849           | 91.7  | 13,795    | 97.9  |
| Pre-tax underwriting gain           | \$ 673         |       | \$ 119   |       | \$ 1,350         |       | \$ 294    |       |

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

**Insurance—Underwriting (Continued)**

*GEICO (Continued)*

Premiums written in the second quarter and first six months of 2018 were approximately \$8.2 billion and \$16.9 billion, respectively, representing increases of 13.3% and 13.9%, respectively, compared to 2017. These increases reflected voluntary auto policy-in-force growth of 4.9% and increased premiums per auto policy of approximately 8.7% over the past twelve months. The increase in premiums per policy was attributable to rate increases, coverage changes and changes in state and risk mix. The rate increases were in response to accelerating losses in recent years. Voluntary auto new business sales in the first six months of 2018 decreased 9.3% compared to our record growth over the first half of 2017, while our voluntary auto policies-in-force increased approximately 369,000 during the first six months of 2018.

Losses and loss adjustment expenses increased \$397 million (6.5%) in the second quarter and \$882 million (7.5%) in the first six months of 2018 compared to 2017. Our ratio of losses and loss adjustment expenses to premiums earned (the “loss ratio”) in the first six months of 2018 was 77.7%, a decline of 5.3 percentage points compared to 2017. The decline in the loss ratio reflected the effects of premium rate increases and comparatively lower storm-related losses.

We also reduced ultimate claim loss estimates for prior years’ loss events by \$430 million in the first six months of 2018 and \$106 million in the first six months of 2017. These reductions produced corresponding increases in pre-tax underwriting gains. The comparative increase in gains relating to prior years’ claims was primarily related to collision and property damage losses, which usually have short claim-tails. Claims frequencies in the first six months of 2018 for property damage, collision and personal injury protection coverages declined approximately two percent compared to 2017, and decreased approximately three percent for bodily injury coverage. Average claims severities in the first six months of 2018 were higher for property damage and collision coverages (four to six percent range) and bodily injury coverage (five to seven percent range).

Our underwriting expenses in the first six months of 2018 were approximately \$2.3 billion, an increase of \$172 million (8.2%) over 2017. Our expense ratio (underwriting expenses to premiums earned) for the first six months of 2018 decreased 0.9 percentage points compared to 2017. The largest components of underwriting expenses are employee-related expenses (salaries and benefits) and advertising costs. The increase in underwriting expenses reflects the increase in policies-in-force.

*Berkshire Hathaway Reinsurance Group*

We offer excess-of-loss and quota-share reinsurance coverages on property and casualty risks and life and health reinsurance to insurers and reinsurers worldwide through several legal entities, led by National Indemnity Company (“NICO Group”), Berkshire Hathaway Life Insurance Company of Nebraska (“BHLN Group”), and General Reinsurance Corporation, General Reinsurance AG and General Re Life Corporation (collectively, “General Re Group”). We also periodically assume property and casualty risks under retroactive reinsurance contracts written through NICO. In addition, the BHLN Group writes periodic payment annuity contracts.

With the exception of our retroactive reinsurance and periodic payment annuity businesses, we strive to generate pre-tax underwriting profits. Time-value-of-money concepts are important elements in establishing prices for our retroactive reinsurance and periodic payment annuity businesses due to the expected long durations of the liabilities. We expect to incur pre-tax underwriting losses from such businesses, primarily through deferred charge amortization and discount accretion charges. Premiums received at inception under these contracts are often large, which are then available for investment. A summary of the premiums and pre-tax underwriting results of our reinsurance business follows (in millions).

|                          | Premiums earned |                 |                  |                  | Pre-tax underwriting gain (loss) |                 |                  |                   |
|--------------------------|-----------------|-----------------|------------------|------------------|----------------------------------|-----------------|------------------|-------------------|
|                          | Second Quarter  |                 | First Six Months |                  | Second Quarter                   |                 | First Six Months |                   |
|                          | 2018            | 2017            | 2018             | 2017             | 2018                             | 2017            | 2018             | 2017              |
| Property/casualty        | \$ 2,296        | \$ 1,960        | \$ 4,322         | \$ 3,702         | \$ 338                           | \$ 40           | \$ 468           | \$ (370)          |
| Retroactive reinsurance  | —               | 1               | —                | 10,186           | (147)                            | (333)           | (458)            | (594)             |
|                          | <u>2,296</u>    | <u>1,961</u>    | <u>4,322</u>     | <u>13,888</u>    | <u>191</u>                       | <u>(293)</u>    | <u>10</u>        | <u>(964)</u>      |
| Life/health              | 1,314           | 1,173           | 2,548            | 2,258            | 120                              | 116             | 216              | 189               |
| Periodic payment annuity | 302             | 230             | 582              | 450              | (14)                             | (198)           | (187)            | (343)             |
|                          | <u>1,616</u>    | <u>1,403</u>    | <u>3,130</u>     | <u>2,708</u>     | <u>106</u>                       | <u>(82)</u>     | <u>29</u>        | <u>(154)</u>      |
|                          | <u>\$ 3,912</u> | <u>\$ 3,364</u> | <u>\$ 7,452</u>  | <u>\$ 16,596</u> | <u>\$ 297</u>                    | <u>\$ (375)</u> | <u>\$ 39</u>     | <u>\$ (1,118)</u> |

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

**Insurance—Underwriting (Continued)**

*Property/casualty*

A summary of premiums and underwriting results of our property/casualty reinsurance businesses follows (in millions).

|                  | Premiums earned |                 |                  |                 | Pre-tax underwriting gain (loss) |              |                  |                 |
|------------------|-----------------|-----------------|------------------|-----------------|----------------------------------|--------------|------------------|-----------------|
|                  | Second Quarter  |                 | First Six Months |                 | Second Quarter                   |              | First Six Months |                 |
|                  | 2018            | 2017            | 2018             | 2017            | 2018                             | 2017         | 2018             | 2017            |
| NICO Group       | \$ 1,263        | \$ 1,183        | \$ 2,317         | \$ 2,271        | \$ 278                           | \$ 52        | \$ 301           | \$ (217)        |
| General Re Group | 1,033           | 777             | 2,005            | 1,431           | 60                               | (12)         | 167              | (153)           |
|                  | <u>\$ 2,296</u> | <u>\$ 1,960</u> | <u>\$ 4,322</u>  | <u>\$ 3,702</u> | <u>\$ 338</u>                    | <u>\$ 40</u> | <u>\$ 468</u>    | <u>\$ (370)</u> |

NICO Group’s premiums earned in the second quarter and first six months of 2018 increased 7% and 2%, respectively, compared to 2017. For the first six months of 2018, nearly half of NICO Group’s premiums written and earned derived from two contracts, which included a 10-year, 20% quota-share contract with Insurance Australia Group Ltd. that inceptioned in July 2015. General Re Group’s premiums earned in the second quarter and first six months of 2018 increased \$256 million (33%) and \$574 million (40%), respectively, compared to 2017. The increases reflected higher direct and broker markets business, derived primarily from new business and increased participations for renewal business. Industry capacity dedicated to property and casualty markets remains high and price competition in most reinsurance markets persists. We continue to decline business when we believe prices are inadequate.

On a combined basis, our property/casualty reinsurance business generated pre-tax underwriting gains of \$338 million and \$468 million in the second quarter and first six months of 2018, respectively, compared to pre-tax gains of \$40 million in the second quarter and pre-tax losses of \$370 million in the first six months of 2017. There were no significant catastrophe loss events in 2018. In the first six months of 2017, we incurred estimated losses of \$165 million from a cyclone in Australia.

In the first six months of 2018, we also decreased estimated ultimate claims liabilities for prior years’ loss events by \$286 million, compared to an increase of \$366 million in the first six months of 2017. The increase in prior years’ losses in 2017 was driven by the U.K. Ministry of Justice’s decision in the first quarter to reduce the fixed discount rate required in lump sum settlement calculations of U.K. personal injury claims and by unanticipated property claims from events in 2016.

*Retroactive reinsurance*

Premiums earned in the first six months of 2017 included \$10.2 billion from an aggregate excess-of-loss retroactive reinsurance agreement with various subsidiaries of American International Group, Inc. (the “AIG Agreement”), which became effective on February 2, 2017. At the inception of the AIG Agreement, we also recorded losses and loss adjustment expenses incurred of \$10.2 billion, representing our initial estimate of the unpaid losses and loss adjustment expenses assumed of \$16.4 billion, partly offset by an initial deferred charge asset of \$6.2 billion. Thus, on the effective date, the AIG Agreement had no effect on our pre-tax underwriting results.

Pre-tax underwriting losses from retroactive reinsurance contracts in the second quarter and first six months of 2018 were \$147 million and \$458 million, respectively, compared to \$333 million and \$594 million, respectively, in the same periods in 2017. Certain liabilities relating to retroactive reinsurance contracts written by our U.S. subsidiaries are denominated in foreign currencies. Underwriting results include gains and losses from the re-measurement of such liabilities from changes in foreign currency exchange rates. Changes in exchange rates generated pre-tax gains of \$124 million and \$64 million in the second quarter and first six months of 2018, respectively, compared to pre-tax losses in the second quarter and first six months of \$102 million and \$191 million, respectively, in 2017.

Pre-tax underwriting losses before foreign currency gains/losses in the first six months of 2018 and 2017 were \$522 million and \$403 million, respectively. The increase in pre-tax losses was primarily due to amortization charges related to the AIG Agreement, which included the effects of a previously reported increase to our ultimate claim liability estimates of approximately \$1.8 billion and an increase in the related deferred charge asset of \$1.7 billion in the fourth quarter of 2017.

Gross unpaid losses assumed under retroactive reinsurance contracts were approximately \$42.1 billion at June 30, 2018 and \$42.9 billion at December 31, 2017. Unamortized deferred charge assets related to such reinsurance contracts were approximately \$14.7 billion at June 30, 2018 and \$15.3 billion at December 31, 2017. Deferred charge asset balances will be amortized as charges to pre-tax earnings over the expected remaining claims settlement periods.

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

**Insurance—Underwriting (Continued)**

*Life/health*

Premiums earned and pre-tax underwriting results of our life/health reinsurance businesses are further summarized as follows (in millions).

|                  | Premiums earned |                 |                  |                 | Pre-tax underwriting gain |               |                  |               |
|------------------|-----------------|-----------------|------------------|-----------------|---------------------------|---------------|------------------|---------------|
|                  | Second Quarter  |                 | First Six Months |                 | Second Quarter            |               | First Six Months |               |
|                  | 2018            | 2017            | 2018             | 2017            | 2018                      | 2017          | 2018             | 2017          |
| General Re Group | \$ 936          | \$ 801          | \$ 1,855         | \$ 1,538        | \$ 67                     | \$ 39         | \$ 114           | \$ 39         |
| BHLN Group       | 378             | 372             | 693              | 720             | 53                        | 77            | 102              | 150           |
|                  | <u>\$ 1,314</u> | <u>\$ 1,173</u> | <u>\$ 2,548</u>  | <u>\$ 2,258</u> | <u>\$ 120</u>             | <u>\$ 116</u> | <u>\$ 216</u>    | <u>\$ 189</u> |

General Re Group’s premiums earned in the second quarter and first six months of 2018 increased \$135 million (17%) and \$317 million (21%), respectively, compared to 2017. The increases were primarily attributable to growth in Asia and Australia markets and foreign currency translation effects of a comparatively weaker U.S. Dollar. The General Re Group produced pre-tax underwriting gains in the first six months of \$114 million in 2018 and \$39 million in 2017. Underwriting results in 2018 reflected increased pre-tax gains from international life business, attributable to increased volumes and foreign currency translation effects, and lower claim losses from run-off and life business in North America.

BHLN Group’s pre-tax underwriting results in the first six months of 2018 and 2017 included pre-tax gains of \$100 million and \$152 million, respectively, from the run-off of variable annuity reinsurance contracts that provide guarantees on closed blocks of variable annuity business. Periodic underwriting results from this business reflect changes in estimated liabilities for guaranteed benefits, which result from changes in securities markets and interest rates and from the periodic amortization of expected profit margins. Underwriting results from variable annuity contracts can be volatile, reflecting the volatility of securities markets, interest rates and foreign currency exchange rates. Estimated liabilities for variable annuity guarantees were approximately \$1.7 billion at June 30, 2018 and \$1.8 billion at December 31, 2017.

BHLN Group’s life reinsurance premiums earned in the second quarter and first six months of 2018 were \$374 million and \$685 million, respectively, compared to \$368 million and \$712 million, respectively, in the corresponding 2017 periods. This business produced near break-even pre-tax underwriting results in each period.

*Periodic payment annuity*

Periodic payment annuity premiums earned in the second quarter and first six months of 2018 increased \$72 million (31%) and \$132 million (29%), respectively, compared to 2017. Periodic payment annuity contracts produced pre-tax losses of \$14 million and \$187 million in the second quarter and first six months of 2018, respectively, compared to pre-tax losses of \$198 million and \$343 million, respectively, for the same periods in 2017. Certain periodic payment annuity contracts written by our U.S. subsidiaries are denominated in foreign currencies, primarily the Great Britain Pound Sterling. Pre-tax underwriting results in 2018 included pre-tax gains of \$106 million in the second quarter and \$36 million in the first six months from the re-measurement of such liabilities due to changes in exchange rates compared to pre-tax losses of \$86 million in the second quarter and \$110 million in the first six months of 2017.

Before the effect of foreign currency gains and losses, this business had pre-tax underwriting losses of \$223 million in the first six months of 2018 and \$233 million in the first six months of 2017. These losses were primarily attributable to the recurring discount accretion of annuity liabilities. Discounted annuity liabilities approximated \$11.8 billion at June 30, 2018 and \$11.2 billion at December 31, 2017, reflecting a weighted average discount rate of approximately 4.1%.

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

**Insurance—Underwriting (Continued)**

*Berkshire Hathaway Primary Group*

The Berkshire Hathaway Primary Group (“BH Primary”) consists of a wide variety of independently managed insurance underwriting businesses that primarily provide a variety of commercial insurance solutions, including healthcare malpractice, workers’ compensation, automobile, general liability, property and various specialty coverages for small, medium and large clients. The largest of these insurers include Berkshire Hathaway Specialty Insurance (“BH Specialty”), Berkshire Hathaway Homestate Companies (“BHHC”), MedPro Group, Berkshire Hathaway GUARD Insurance Companies (“GUARD”) and National Indemnity Company (“NICO Primary”). Other BH Primary insurers include U.S. Liability Insurance Company, Applied Underwriters and Central States Indemnity Company.

A summary of BH Primary underwriting results follows (dollars in millions).

|                                     | Second Quarter |       |          |       | First Six Months |       |          |       |
|-------------------------------------|----------------|-------|----------|-------|------------------|-------|----------|-------|
|                                     | 2018           |       | 2017     |       | 2018             |       | 2017     |       |
|                                     | Amount         | %     | Amount   | %     | Amount           | %     | Amount   | %     |
| Premiums written                    | \$ 2,110       |       | \$ 1,801 |       | \$ 4,271         |       | \$ 3,650 |       |
| Premiums earned                     | \$ 1,953       | 100.0 | \$ 1,759 | 100.0 | \$ 3,871         | 100.0 | \$ 3,435 | 100.0 |
| Losses and loss adjustment expenses | 1,214          | 62.2  | 1,047    | 59.5  | 2,465            | 63.7  | 2,084    | 60.7  |
| Underwriting expenses               | 505            | 25.9  | 480      | 27.3  | 1,073            | 27.7  | 930      | 27.0  |
| Total losses and expenses           | 1,719          | 88.1  | 1,527    | 86.8  | 3,538            | 91.4  | 3,014    | 87.7  |
| Pre-tax underwriting gain           | \$ 234         |       | \$ 232   |       | \$ 333           |       | \$ 421   |       |

Premiums written in both the second quarter and first six months of 2018 increased 17% compared to the corresponding 2017 periods. These increases were primarily attributable to BH Specialty, MedPro Group, and GUARD. Premiums earned in the first six months of 2018 increased \$436 million (13%) compared to the first six months of 2017, reflecting the growth of written premiums of these businesses over the past year.

BH Primary produced pre-tax underwriting gains of \$234 million and \$333 million in the second quarter and first six months of 2018, respectively, compared to \$232 million and \$421 million in the second quarter and first six months of 2017, respectively. Losses and loss adjustment expenses in the first six months included net reductions of estimated ultimate liabilities for prior years’ loss events of \$338 million in 2018 and \$426 million in 2017, which produced corresponding increases in pre-tax underwriting gains. The liability reductions in each year primarily related to healthcare malpractice and workers’ compensation business. BH Primary writes significant levels of commercial liability and workers’ compensation insurance and the related claim costs may be subject to higher severity and longer claim-tails, which could give rise to significant increases in claims liabilities in the future attributable to higher than expected claim settlements, adverse litigation or judicial rulings and other factors not currently anticipated.

**Insurance—Investment Income**

A summary of net investment income generated from investments held by our insurance operations follows (in millions).

|  | Second Quarter |        | First Six Months |          |
|--|----------------|--------|------------------|----------|
|  | 2018           | 2017   | 2018             | 2017     |
| Interest and other investment income                               | \$ 399         | \$ 280 | \$ 851           | \$ 526   |
| Dividend income  | 993            | 1,003  | 1,746            | 1,886    |
| Investment income before income taxes and noncontrolling interests | 1,392          | 1,283  | 2,597            | 2,412    |
| Income taxes and noncontrolling interests                          | 250            | 318    | 443              | 539      |
| Net investment income  | \$ 1,142       | \$ 965 | \$ 2,154         | \$ 1,873 |
| Effective income tax rate  | 17.9%          | 24.7%  | 17.0%            | 22.3%    |



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

### Insurance—Investment Income (Continued)

Pre-tax interest and other investment income increased \$119 million (43%) in the second quarter and \$325 million (62%) in the first six months of 2018 compared to the same periods in 2017. The increases reflected higher short-term interest rates and fair value adjustments related to a limited partnership investment in the first quarter, partly offset by lower interest from reduced investments in fixed maturity securities. Dividend income declined \$10 million (1%) in the second quarter and \$140 million (7%) in the first six months of 2018 as compared to the same periods in 2017. The comparative changes in dividend income reflected the impact of Restaurant Brands International's redemption of our \$3 billion investment in 9% preferred stock in December 2017 and other changes in our portfolio of equity securities. Our invested assets continue to include significant levels of short-term investments. We believe that maintaining ample liquidity is paramount and we insist on safety over yield with respect to such investments.

Invested assets of our insurance businesses derive from shareholder capital, including reinvested earnings, and from net liabilities under insurance and reinsurance contracts or "float." The major components of float are unpaid losses and loss adjustment expenses, including liabilities under retroactive reinsurance contracts, life, annuity and health benefit liabilities, unearned premiums and other liabilities due to policyholders, less premium and reinsurance receivables, deferred charges assumed under retroactive reinsurance contracts and deferred policy acquisition costs. Float approximated \$116 billion at June 30, 2018 and \$114 billion at December 31, 2017. Our average cost of float in the first six months of 2018 was negative, as our underwriting operations generated pre-tax earnings of \$1.7 billion. Our average cost of float for the year ending December 31, 2017 was approximately 3%, reflecting pre-tax underwriting losses of approximately \$3.2 billion, most of which was incurred in the last half of the year.

A summary of cash and investments held in our insurance businesses as of June 30, 2018 and December 31, 2017 follows (in millions).

|  | June 30,<br>2018  | December 31,<br>2017 |
|--|-------------------|----------------------|
| Cash, cash equivalents and U.S. Treasury Bills | \$ 69,279         | \$ 73,285            |
| Equity securities                              | 173,154           | 163,134              |
| Fixed maturity securities                      | 18,298            | 21,092               |
|  | <u>\$ 260,731</u> | <u>\$ 257,511</u>    |

Fixed maturity investments as of June 30, 2018 were as follows (in millions).

|  | Amortized<br>cost | Unrealized<br>gains/losses | Carrying<br>value |
|--|-------------------|----------------------------|-------------------|
| U.S. Treasury, U.S. government corporations and agencies | \$ 3,456          | \$ (25)                    | \$ 3,431          |
| States, municipalities and political subdivisions        | 445               | 12                         | 457               |
| Foreign governments                                      | 7,549             | 14                         | 7,563             |
| Corporate bonds, investment grade                        | 5,127             | 296                        | 5,423             |
| Corporate bonds, non-investment grade                    | 680               | 150                        | 830               |
| Mortgage-backed securities                               | 535               | 59                         | 594               |
|  | <u>\$ 17,792</u>  | <u>\$ 506</u>              | <u>\$ 18,298</u>  |

U.S. government obligations are rated AA+ or Aaa by the major rating agencies. Approximately 89% of all state, municipal and political subdivisions, foreign government obligations and mortgage-backed securities were rated AA or higher. Non-investment grade securities represent securities rated below BBB- or Baa3. Foreign government securities include obligations issued or unconditionally guaranteed by national or provincial government entities.

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

***Railroad (“Burlington Northern Santa Fe”)***

Burlington Northern Santa Fe, LLC (“BNSF”) operates one of the largest railroad systems in North America. BNSF operates approximately 32,500 route miles of track in 28 states, as well as in three Canadian provinces. BNSF’s major business groups are classified by type of product shipped and include consumer products, coal, industrial products and agricultural products. A summary of BNSF’s earnings follows (in millions).

|                                      | Second Quarter |          | First Six Months |           |
|--------------------------------------|----------------|----------|------------------|-----------|
|                                      | 2018           | 2017     | 2018             | 2017      |
| Revenues                             | \$ 5,878       | \$ 5,250 | \$ 11,502        | \$ 10,435 |
| Operating expenses:                  |                |          |                  |           |
| Compensation and benefits            | 1,328          | 1,255    | 2,643            | 2,552     |
| Fuel                                 | 830            | 577      | 1,597            | 1,182     |
| Purchased services                   | 714            | 609      | 1,406            | 1,235     |
| Depreciation and amortization        | 575            | 592      | 1,146            | 1,165     |
| Equipment rents, materials and other | 520            | 424      | 1,030            | 911       |
| Total operating expenses             | 3,967          | 3,457    | 7,822            | 7,045     |
| Interest expense                     | 256            | 256      | 512              | 508       |
|                                      | 4,223          | 3,713    | 8,334            | 7,553     |
| Pre-tax earnings                     | 1,655          | 1,537    | 3,168            | 2,882     |
| Income taxes                         | 346            | 579      | 714              | 1,086     |
| Net earnings                         | \$ 1,309       | \$ 958   | \$ 2,454         | \$ 1,796  |
| Effective income tax rate            | 20.9%          | 37.7%    | 22.5%            | 37.7%     |

BNSF’s revenues in the second quarter and first six months of 2018 were \$5.9 billion and \$11.5 billion, respectively, representing increases of \$628 million (12.0%) and \$1,067 million (10.2%), respectively, versus the corresponding periods in 2017. During the first six months of 2018, revenues reflected a 3.6% comparative increase in aggregate average revenue per car/unit and a 5.2% increase in volume. Our year-to-date volume was approximately 5.3 million cars/units compared to 5.0 million in 2017. The increase in average revenue per car/unit was attributable to higher fuel surcharge revenue driven primarily by higher fuel prices, increased rates per car/unit, and business mix changes. Pre-tax earnings were approximately \$1.7 billion and \$3.2 billion in the second quarter and first six months of 2018, respectively, increases of 7.7% and 9.9%, respectively, compared to the corresponding periods in 2017.

Revenues from consumer products were \$2.0 billion in the second quarter and \$3.8 billion in the first six months of 2018, representing increases of 13.6% and 12.2%, respectively, from 2017. The increases reflected higher average revenue per unit and volume increases of 4.7% in the second quarter and 5.4% in the first six months. The increases were attributable to higher intermodal volumes due to general economic growth and tight truck capacity leading to conversion from highway to rail, as well as strength in imports and containerized agricultural product exports, partly offset by a sizable contract loss.

Revenues from industrial products in 2018 were \$1.5 billion in the second quarter and \$2.8 billion for the first six months, or increases of 16.3% and 13.7%, respectively, from the comparable 2017 periods. The increases were attributable to volume increases of 10.4% in the second quarter and 9.8% in the first six months as well as higher average revenue per car/unit. Volumes in 2018 were higher primarily due to the energy and industrial sectors which drove demand for sand, petroleum products, steel, and plastics. The first six months of 2018 also included higher taconite volume.

Revenues from agricultural products in 2018 increased 10.1% in the second quarter to \$1.2 billion and increased 7.0% to \$2.3 billion for the first six months when compared to the same periods in 2017. The second quarter increase reflected higher volumes of 9.1% and higher average revenue per car/unit. In the first six months, higher volumes of 7.8% were partially offset by slightly lower average revenue per car/unit. Volumes increased due to strong export and domestic grain shipments, as well as higher fertilizer and other grain products volumes.

Revenues from coal in 2018 decreased 0.1% in the second quarter to \$911 million and 0.7% in the first six months to \$1.9 billion compared to 2017. The decline reflected lower volumes of 0.5% in the second quarter and 1.4% year-to-date partially offset by slightly higher average revenue per car/unit. The volume decreases in 2018 were due mainly to utility plant retirements, partially offset by market share gains and increased export volumes.

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

### Railroad ("Burlington Northern Santa Fe") (Continued)

Operating expenses in the second quarter and first six months of 2018 were \$4.0 billion and \$7.8 billion, respectively, increases of \$510 million (14.8%) and \$777 million (11.0%), respectively, compared to the same periods in 2017. Our ratios of operating expenses to revenues increased 1.7 percentage points to 67.5% in the second quarter and 0.5 percentage points to 68.0% for the first six months of 2018 versus the corresponding prior year periods.

Compensation and benefits expenses increased \$73 million (5.8%) for the second quarter and increased \$91 million (3.6%) for the first six months of 2018, primarily due to wage inflation, volume-related increases, and higher training costs. Fuel expenses increased \$253 million (43.8%) for the second quarter and increased \$415 million (35.1%) for the first six months of 2018 primarily due to higher average fuel prices and increased volumes.

Purchased services expenses increased \$105 million (17.2%) in the second quarter and \$171 million (13.8%) in the first six months of 2018 as compared to 2017. The increases are due to higher purchased transportation costs of our logistics services business, as well as increased intermodal ramping, drayage and other volume-related costs.

In the second quarter and first six months of 2018, equipment rents, materials and other expense increased \$96 million (22.6%) and \$119 million (13.1%), respectively, compared to 2017. These increases resulted from higher locomotive materials, derailment-related costs, property taxes and personal injury expenses.

BNSF's effective income tax rate was 20.9% and 22.5% for the second quarter and first six months of 2018, respectively, as compared to 37.7% in both corresponding periods in 2017. The decrease was driven by the reduction in the U.S. statutory income tax rate under the TCJA, effective January 1, 2018, as well as various state income tax rate reductions enacted in 2018.

### Utilities and Energy ("Berkshire Hathaway Energy Company")

We currently own 90.4% of the outstanding common stock of Berkshire Hathaway Energy Company ("BHE"), which operates a global energy business. BHE's domestic regulated utility interests are comprised of PacifiCorp, MidAmerican Energy Company ("MEC") and NV Energy. In Great Britain, BHE subsidiaries operate two regulated electricity distribution businesses referred to as Northern Powergrid. BHE also owns two domestic regulated interstate natural gas pipeline companies. Other energy businesses include a regulated electricity transmission-only business in Alberta, Canada ("AltaLink, L.P.") and a diversified portfolio of independent power projects. In addition, BHE also operates the second-largest residential real estate brokerage firm and one of the largest residential real estate brokerage franchise networks in the United States.

The rates our regulated businesses charge customers for energy and services are based, in large part, on the costs of business operations, including income taxes and a return on capital, and are subject to regulatory approval. To the extent these regulated operations are not allowed to include such costs in the approved rates, operating results will be adversely affected. The Tax Cuts and Jobs Act of 2017 reduced the U.S. federal statutory income tax rate of our domestic regulated utilities from 35% to 21%. The resulting effects of the lower U.S. income tax expense of those regulated utilities are expected to be substantially offset over time by lower revenues and pre-tax earnings. Revenues and earnings of BHE are summarized below (in millions).

|  | Second Quarter  |                 |                |               | First Six Months |                 |                 |               |
|--|-----------------|-----------------|----------------|---------------|------------------|-----------------|-----------------|---------------|
|  | Revenues        |                 | Earnings       |               | Revenues         |                 | Earnings        |               |
|  | 2018            | 2017            | 2018           | 2017          | 2018             | 2017            | 2018            | 2017          |
| PacifiCorp   | \$ 1,198        | \$ 1,256        | \$ 212         | \$ 258        | \$ 2,400         | \$ 2,548        | \$ 385          | \$ 523        |
| MidAmerican Energy Company                                   | 730             | 669             | 56             | 90            | 1,497            | 1,377           | 96              | 152           |
| NV Energy  | 760             | 761             | 95             | 141           | 1,385            | 1,355           | 135             | 192           |
| Northern Powergrid   | 248             | 220             | 50             | 64            | 523              | 465             | 159             | 167           |
| Natural gas pipelines  | 242             | 190             | 53             | 43            | 621              | 508             | 272             | 243           |
| Other energy businesses                                      | 595             | 547             | 114            | 51            | 1,095            | 1,034           | 134             | 66            |
| Real estate brokerage  | 1,277           | 959             | 107            | 113           | 2,041            | 1,546           | 97              | 116           |
| Corporate interest   | —               | —               | (101)          | (111)         | —                | —               | (205)           | (221)         |
|  | <u>\$ 5,050</u> | <u>\$ 4,602</u> |                |               | <u>\$ 9,562</u>  | <u>\$ 8,833</u> |                 |               |
| Pre-tax earnings   |                 |                 | 586            | 649           |                  |                 | 1,073           | 1,238         |
| Income taxes   |                 |                 | (63)           | 72            |                  |                 | (230)           | 119           |
| Net earnings   |                 |                 | 649            | 577           |                  |                 | 1,303           | 1,119         |
| Noncontrolling interests                                     |                 |                 | 68             | 68            |                  |                 | 137             | 130           |
| Net earnings attributable to Berkshire Hathaway shareholders |                 |                 | <u>\$ 581</u>  | <u>\$ 509</u> |                  |                 | <u>\$ 1,166</u> | <u>\$ 989</u> |
| Effective income tax rate                                    |                 |                 | <u>(10.7)%</u> | <u>11.1%</u>  |                  |                 | <u>(21.4)%</u>  | <u>9.6%</u>   |

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

### Utilities and Energy ("Berkshire Hathaway Energy Company") (Continued)

#### PacifiCorp

PacifiCorp operates a regulated electric utility in portions of several Western states, including Utah, Oregon and Wyoming. Revenues in the second quarter and first six months of 2018 decreased 5% and 6%, respectively, compared to the same periods in 2017. Retail revenues in the second quarter of 2018 decreased \$67 million and \$178 million in the first six months, compared to 2017. The declines reflected the effects of lower average rates (\$125 million year-to-date), primarily due to refund accruals related to 2017 tax reform (\$53 million in the second quarter and \$106 million in the first six months), and a year-to-date reduction in volumes (2.3%), largely attributable to the impacts of weather. Wholesale and other revenues increased due to higher volumes partially offset by lower market rates.

Pre-tax earnings decreased \$46 million (18%) in the second quarter and \$138 million (26%) in the first six months of 2018 as compared to the same periods in 2017. Utility margins (operating revenues less fuel and purchased energy costs) in the second quarter and first six months of 2018 were \$791 million and \$1,542 million, respectively, representing decreases of \$55 million (7%) and \$144 million (9%) versus the comparable periods in 2017. These decreases were primarily due to the declines in revenues, which included the refund accruals relating to 2017 tax reform. PacifiCorp's after-tax earnings in the second quarter and first six months of 2018 were \$185 million and \$333 million, respectively, representing an increase of \$9 million (5%) in the second quarter and a decrease of \$22 million (6%) from the first six months of 2017.

#### MidAmerican Energy Company

MEC operates a regulated electric and natural gas utility primarily in Iowa and Illinois. Revenues in the second quarter of 2018 were \$730 million, an increase of \$61 million (9%) as compared to the same period in 2017. Electric operating revenues increased \$52 million compared to 2017. The increase in electric revenues was attributable to higher retail revenues (\$62 million), reflecting comparative increases from higher recoveries through bill riders (substantially offset in cost of sales, operating expenses and income tax expense) and volumes, partially offset by lower average rates predominantly due to refund accruals related to 2017 tax reform. Pre-tax earnings in the second quarter of 2018 decreased \$34 million (38%) compared to the same period in 2017. Electric utility margins in the second quarter of 2018 were \$471 million, an increase of \$44 million compared to 2017, which was primarily due to the net increase in retail revenues. However, this increase was more than offset by increased depreciation, maintenance and other operating expenses. The increase in depreciation included \$51 million from Iowa revenue sharing and \$15 million from wind generation and other plant placed in-service.

Revenues in the first six months of 2018 increased \$120 million (9%) compared to 2017. The increase reflected increases in electric operating revenues (\$88 million) and natural gas operating revenues (\$20 million). The increase in electric revenues was attributable to higher retail revenues (\$94 million), reflecting comparative increases from higher recoveries through bill riders and volumes, partially offset by refund accruals related to 2017 tax reform. The increase in natural gas revenues was primarily due to increased volumes, partially offset by a lower average per-unit price and refund accruals related to 2017 tax reform. Pre-tax earnings in the first six months of 2018 decreased \$56 million (37%) compared to the same period in 2017. Electric utility margins in the first six months of 2018 were \$832 million, an increase of \$74 million compared to 2017, which was primarily due to the net increase in retail revenues. However, this increase was more than offset by increased depreciation, maintenance and other operating expenses. The increase in depreciation included \$79 million from Iowa revenue sharing and \$29 million from wind generation and other plant placed in-service.

MEC's after-tax earnings in 2018 and 2017 were significantly greater than pre-tax earnings due to the significant production income tax credits it receives related to its wind-powered generating facilities. MEC's after-tax earnings in the second quarter and first six months of 2018 were \$103 million and \$206 million, respectively, declines of \$28 million (21%) and \$27 million (12%), respectively, as compared to the same periods in 2017.

#### NV Energy

NV Energy operates regulated electric and natural gas utilities in Nevada. Revenues were unchanged in the second quarter and increased \$30 million (2%) in the first six months of 2018 compared to the same periods in 2017. In the first six months of 2018, electric operating revenues increased \$21 million, reflecting increased pass-through cost adjustments and retail customer growth, partly offset by reductions due to the effects of 2017 tax reform and lower retail rates attributable to a 2017 regulatory rate review. Natural gas operating revenue increased \$9 million in the first six months of 2018, primarily due to higher rates, partially offset by lower customer usage.

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

### *Utilities and Energy ("Berkshire Hathaway Energy Company") (Continued)*

Pre-tax earnings in the second quarter and first six months of 2018 decreased \$46 million (33%) and \$57 million (30%), respectively, compared to the same periods in 2017. The decreases were primarily due to lower electric utility margins and increased depreciation, maintenance and other operating costs. Electric utility margins in the second quarter and first six months of 2018 were \$414 million and \$743 million, respectively, representing decreases of \$21 million (5%) and \$22 million (3%) versus the comparable periods in 2017. The decreases were primarily due to the declines in revenues from the effects of 2017 tax reform. NV Energy's after-tax earnings in the second quarter and first six months of 2018 were \$77 million and \$110 million, respectively, declines of 15% and 11%, respectively, from the corresponding 2017 periods.

#### *Northern Powergrid*

Revenues increased \$28 million and \$58 million in the second quarter and first six months of 2018 compared to same periods in 2017, primarily due to the favorable foreign currency translation effects of a weaker U.S. Dollar in 2018 and increased smart meter and distribution revenues. Pre-tax earnings in the second quarter of 2018 decreased \$14 million (22%) and \$8 million (5%) in the first six months of 2018 compared to 2017, primarily due to higher depreciation and other operating expenses, including pension settlement losses in 2018, partly offset by favorable foreign currency translation effects.

#### *Natural gas pipelines*

Revenues increased \$52 million (27%) in the second quarter of 2018 and increased \$113 million (22%) in the first six months compared to 2017, primarily due to higher transportation revenues and increased gas sales volumes related to system balancing activities, which were largely offset in cost of sales. Pre-tax earnings increased \$10 million (23%) and \$29 million (12%) in the second quarter and first six months of 2018, respectively, compared to 2017. The increases were primarily due to the increases in transportation revenues, partly offset by comparative increases in operations and maintenance expenses.

#### *Other energy businesses*

Revenues increased \$48 million (9%) in the second quarter of 2018 and \$61 million (6%) in the first six months compared to the same periods in 2017, reflecting comparative increases of 9% and 10%, respectively, from renewable energy and comparative increases of 10% and 9%, respectively, from AltaLink, L.P. Pre-tax earnings in the second quarter and first six months of 2018 increased \$63 million and \$68 million, respectively, compared to the same periods in 2017. The increases were primarily attributable to the increased revenues from renewable energy and AltaLink, L.P. as well as lower other operating expenses, partly offset by increased depreciation expense.

#### *Real estate brokerage*

Revenues in the second quarter and first six months of 2018 increased 33% and 32%, respectively, as compared to the same periods in 2017, primarily due to recent business acquisitions. Pre-tax earnings declined \$6 million in the second quarter and \$19 million in the first six months of 2018 compared to 2017, primarily due to higher operating costs and interest expense.

#### *Corporate interest*

Corporate interest includes interest on unsecured debt issued by the BHE holding company and borrowings from Berkshire insurance subsidiaries in connection with certain of BHE's business acquisitions, which were fully repaid in the third quarter of 2017. Corporate interest declined 7% in the first six months of 2018 as compared to 2017, primarily due to lower average borrowings.

#### *Income taxes*

BHE's consolidated effective income tax rates for the first six months of 2018 and 2017 were (21.4)% and 9.6%, respectively. BHE's effective income tax rates regularly reflect significant production tax credits from wind-powered electricity generation placed in service by our domestic regulated utilities and other energy businesses. The effective tax rate in the first six months of 2018 decreased primarily due to the reduction in the U.S. federal corporate income tax rate, as well as from lower state income tax expense, an increase in recognized production tax credits, lower U.S. income taxes on foreign earnings and favorable impacts of rate making.

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

**Manufacturing, Service and Retailing**

A summary of revenues and earnings of our manufacturing, service and retailing businesses follows (in millions).

|   | Second Quarter   |                  |                 |                 | First Six Months |                  |                 |                 |
|---|------------------|------------------|-----------------|-----------------|------------------|------------------|-----------------|-----------------|
|   | Revenues         |                  | Earnings *      |                 | Revenues         |                  | Earnings *      |                 |
|   | 2018             | 2017             | 2018            | 2017            | 2018             | 2017             | 2018            | 2017            |
| Manufacturing                             | \$ 13,853        | \$ 12,738        | \$ 2,135        | \$ 1,939        | \$ 26,787        | \$ 24,835        | \$ 3,990        | \$ 3,426        |
| Service and retailing                     | 19,489           | 19,131           | 764             | 624             | 38,265           | 37,325           | 1,339           | 1,105           |
|   | <u>\$ 33,342</u> | <u>\$ 31,869</u> |                 |                 | <u>\$ 65,052</u> | <u>\$ 62,160</u> |                 |                 |
| Pre-tax earnings                          |                  |                  | 2,899           | 2,563           |                  |                  | 5,329           | 4,531           |
| Income taxes and noncontrolling interests |                  |                  | 758             | 901             |                  |                  | 1,366           | 1,552           |
|   |                  |                  | <u>\$ 2,141</u> | <u>\$ 1,662</u> |                  |                  | <u>\$ 3,963</u> | <u>\$ 2,979</u> |
| Effective income tax rate                 |                  |                  | <u>25.5%</u>    | <u>34.5%</u>    |                  |                  | <u>25.0%</u>    | <u>33.6%</u>    |

\* Excludes certain acquisition accounting expenses, which were primarily from the amortization of identified intangible assets recorded in connection with our business acquisitions. The after-tax acquisition accounting expenses excluded from earnings in the preceding table were \$213 million and \$422 million in the second quarter and first six months of 2018, respectively, compared to \$169 million and \$301 million in the second quarter and first six months of 2017, respectively. These expenses are included in “Other” in the summary of earnings on page 26 and in the “Other” earnings section on page 42.

**Manufacturing**

Our manufacturing group includes a variety of businesses that produce and distribute industrial, building and consumer products. Industrial products businesses include specialty chemicals (The Lubrizol Corporation (“Lubrizol”)), complex metal products for aerospace, power and general industrial markets (Precision Castparts Corp. (“PCC”)), metal cutting tools/systems (IMC International Metalworking Companies (“IMC”)), equipment and systems for the livestock and agricultural industries (CTB International (“CTB”)), and a variety of products for diverse markets (Marmon, Scott Fetzer and LiquidPower Specialty Products (“LSPI”)).

Our building products businesses include flooring (Shaw), insulation, roofing and engineered products (Johns Manville), bricks and masonry products (Acme Building Brands), paint and coatings (Benjamin Moore), and residential and commercial construction and engineering products and systems (MiTek). Our consumer products businesses include leisure vehicles (Forest River), several apparel and footwear operations (including Fruit of the Loom, Garan, H.H. Brown Shoe Group and Brooks Sports) and the Duracell Company (“Duracell”), a manufacturer of high performance alkaline batteries. This group also includes custom picture framing products (Larson Juhl) and jewelry products (Richline). A summary of revenues and pre-tax earnings of our manufacturing operations follows (in millions).

|                     | Second Quarter   |                  |                  |                 | First Six Months |                  |                  |                 |
|---------------------|------------------|------------------|------------------|-----------------|------------------|------------------|------------------|-----------------|
|                     | Revenues         |                  | Pre-tax earnings |                 | Revenues         |                  | Pre-tax earnings |                 |
|                     | 2018             | 2017             | 2018             | 2017            | 2018             | 2017             | 2018             | 2017            |
| Industrial products | \$ 7,287         | \$ 6,637         | \$ 1,404         | \$ 1,267        | \$ 14,364        | \$ 13,145        | \$ 2,715         | \$ 2,261        |
| Building products   | 3,340            | 3,125            | 415              | 401             | 6,174            | 5,859            | 667              | 650             |
| Consumer products   | 3,226            | 2,976            | 316              | 271             | 6,249            | 5,831            | 608              | 515             |
|                     | <u>\$ 13,853</u> | <u>\$ 12,738</u> | <u>\$ 2,135</u>  | <u>\$ 1,939</u> | <u>\$ 26,787</u> | <u>\$ 24,835</u> | <u>\$ 3,990</u>  | <u>\$ 3,426</u> |

Aggregate revenues of our manufacturing businesses in the second quarter and first six months of 2018 were approximately \$13.85 billion and \$26.8 billion, increases of approximately \$1.1 billion (8.8%) and \$1.95 billion (7.9%), respectively, compared to the same periods in 2017. Pre-tax earnings in the second quarter and first six months of 2018 were approximately \$2.1 billion and \$4.0 billion, respectively, representing increases of \$196 million (10.1%) and \$564 million (16.5%), respectively, over the corresponding 2017 periods. Pre-tax earnings in the first six months of 2017 included pre-tax losses of \$193 million (predominantly in the first quarter) in connection with the disposition of an underperforming bolt-on business acquired by Lubrizol in 2014. Excluding these losses, pre-tax earnings in the first six months of 2018 increased 10.3% compared to 2017.

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

### *Manufacturing, Service and Retailing (Continued)*

#### *Industrial products*

Revenues from industrial products businesses were approximately \$7.3 billion in the second quarter and \$14.4 billion in the first six months of 2018, or increases of \$650 million (9.8%) and \$1.2 billion (9.3%), respectively, versus the same periods in 2017. PCC's revenues in the second quarter and first six months of 2018 increased approximately 6.5% over the same periods in 2017. The increases reflected increased demand in aerospace markets in connection with new aircraft programs, partly offset by lower industrial gas turbine demand. Lubrizol's revenues in the second quarter and first six months of 2018 increased 9.5% and 7.8%, respectively, compared to 2017, primarily due to higher prices, changes in product mix and favorable foreign currency translation. Overall, Lubrizol's sales volumes in 2018 increased 5% in the second quarter and 2% in the first six months compared to 2017.

Marmon's revenues in the second quarter and first six months of 2018 increased 10.2% and 9.6%, respectively, as compared to 2017. Revenue increases were attributable to higher average copper and steel prices, business acquisitions, growth in heavy-duty transportation and HVAC product lines and favorable foreign currency translation. These increases were partially offset by lower retail food, beverage and store products sales and lower steel distribution volume. IMC's revenues increased 21.4% in the second quarter and 24.3% in the first six months of 2018 compared to 2017 due to a combination of factors, including increased unit sales, business acquisitions and translation effects from a weaker U.S. Dollar. CTB's revenues increased 2.2% in the first six months of 2018 versus 2017, due to favorable foreign currency effects, partly offset by lower organic sales.

Pre-tax earnings of the industrial products group were \$1.4 billion in the second quarter and \$2.7 billion in the first six months of 2018, representing increases of \$137 million (10.8%) and \$454 million (20.1%), respectively, compared to 2017. The comparative increase in earnings for the first six months of 2018 reflected the effects of pre-tax losses of \$193 million recognized by Lubrizol in 2017 in connection with the disposition of an underperforming business and the recognition of intangible asset impairments and restructuring charges. Excluding the effects of these losses, the industrial products group pre-tax earnings increased 10.6% in the first six months of 2018 compared to 2017.

Excluding the effects of the aforementioned losses, Lubrizol's pre-tax earnings increased 20.7% in the first six months of 2018 compared to 2017, which was primarily due to lower interest expense, the favorable effects of foreign currency translation, past restructuring and ongoing cost containment efforts. Lubrizol experienced a significant increase in year-over-year average material unit costs for the first six months of 2018, necessitating increases in sales prices.

IMC's pre-tax earnings increased significantly in the second quarter and first six months of 2018 compared to the same periods in 2017, reflecting a combination of increased sales, increased manufacturing efficiencies, the effects of business acquisitions and ongoing expense control efforts, partly offset by the effects of rising raw material costs. IMC's raw material costs have risen significantly over the past year, and we anticipate margin pressures will increase over the second half of 2018. PCC's pre-tax earnings decreased 8.9% in the second quarter and 8.2% in the first six months of 2018 compared to 2017. Results in 2018 were negatively affected by costs associated with temporary unplanned plant shut-downs of certain metals facilities, metal press outages and lower earnings from industrial gas turbine business in 2018. In addition, the aforementioned new aircraft programs involve relatively complex manufacturing processes and manufacturing costs are initially high, but we expect they will decline as processes and efficiencies develop. Marmon's pre-tax earnings increased 35% in the second quarter and 17% in the first six months of 2018, reflecting a non-recurring gain of \$44 million from the sale of certain assets of its beverage products business.

#### *Building products*

Revenues of the building products group in the second quarter and first six months of 2018 were approximately \$3.3 billion and \$6.2 billion, respectively, increases of \$215 million (6.9%) and \$315 million (5.4%), respectively, compared to the corresponding 2017 periods. For the second quarter and first six months of 2018, the increases reflected cost-driven increases in average selling prices, product mix changes and the favorable effects of foreign currency translation.

Pre-tax earnings of the building products group in the second quarter and first six months of 2018 were \$415 million and \$667 million, respectively, increases of 3.5% and 2.6%, respectively, over the same periods in 2017. Raw material and production costs continued to rise over the first six months of 2018, which offset most of the increase in revenues and contributed to declines in our overall operating margins. In particular, our costs in 2018 for steel, titanium dioxide and petrochemicals increased substantially compared to 2017.

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

**Manufacturing, Service and Retailing (Continued)**

*Consumer products*

Revenues of the consumer products group were approximately \$3.2 billion in the second quarter and \$6.25 billion in the first six months of 2018, representing increases of \$250 million (8.4%) and \$418 million (7.2%), respectively, over the same periods in 2017. The comparative revenue increases in 2018 were primarily due to unit volume increases at Forest River, Brooks Sports, Duracell and Garan and favorable foreign currency translation effects of a weaker U.S. Dollar, partly offset by lower unit sales at Fruit of the Loom.

Pre-tax earnings of the consumer products group were \$316 million in the second quarter and \$608 million in the first six months of 2018, increases of \$45 million (16.6%) and \$93 million (18.1%), respectively, over the corresponding periods in 2017. The increases reflected the changes in revenues previously described. Duracell’s increases in earnings in the 2018 periods also reflected the effects of ongoing operational restructuring efforts and comparatively lower restructuring charges.

*Service and retailing*

A summary of revenues and pre-tax earnings of our service and retailing businesses follows (in millions).

|                | Second Quarter  |                 |                  |               | First Six Months |                  |                  |                 |
|----------------|-----------------|-----------------|------------------|---------------|------------------|------------------|------------------|-----------------|
|                | Revenues        |                 | Pre-tax earnings |               | Revenues         |                  | Pre-tax earnings |                 |
|                | 2018            | 2017            | 2018             | 2017          | 2018             | 2017             | 2018             | 2017            |
| Service        | \$ 3,133        | \$ 2,792        | \$ 467           | \$ 351        | \$ 6,078         | \$ 5,409         | \$ 824           | \$ 611          |
| Retailing      | 3,929           | 3,758           | 230              | 204           | 7,571            | 7,234            | 388              | 337             |
| McLane Company | 12,427          | 12,581          | 67               | 69            | 24,616           | 24,682           | 127              | 157             |
|                | <u>\$19,489</u> | <u>\$19,131</u> | <u>\$ 764</u>    | <u>\$ 624</u> | <u>\$ 38,265</u> | <u>\$ 37,325</u> | <u>\$ 1,339</u>  | <u>\$ 1,105</u> |

*Service*

Our service businesses offer fractional ownership programs for general aviation aircraft (NetJets) and high technology training to operators of aircraft (FlightSafety). We also distribute electronic components (TTI) and franchise and service a network of quick service restaurants (Dairy Queen). Service businesses also include the electronic distribution of corporate news, multimedia and regulatory filings (Business Wire), publication of newspapers and other publications (Buffalo News and the BH Media Group) and operation of a television station in Miami, Florida (WPLG). We also offer third party logistics services that primarily serve the petroleum and chemical industries (Charter Brokerage).

Revenues of the services group were approximately \$3.1 billion in the second quarter and \$6.1 billion in the first six months of 2018, representing increases of \$341 million (12.2%) and \$669 million (12.4%), respectively, as compared to the same periods in 2017. Revenues in the first six months of 2018 of TTI increased 35.7% compared to 2017, reflecting an industry-wide increase in demand for electronic components in many geographic markets around the world, and from the effects of business acquisitions and foreign currency translation due to a weaker U.S. Dollar. In addition, FlightSafety and Charter Brokerage generated comparative revenue increases in the 2018 periods.

Pre-tax earnings of the services group in the second quarter and first six months of 2018 were \$467 million and \$824 million, respectively, increases of \$116 million (33.0%) and \$213 million (34.9%), respectively, compared to the same periods in 2017. The comparative increases in earnings in 2018 were driven by the aforementioned revenue increases at TTI and Charter Brokerage and increased earnings at NetJets.

*Retailing*

Our retailers include Berkshire Hathaway Automotive (“BHA”). BHA includes over 80 auto dealerships that sell new and pre-owned automobiles, and offer repair services and related products. BHA also operates two insurance businesses, two auto auctions and an automotive fluid maintenance products distributor. Our retailing businesses also include four home furnishings retailing businesses (Nebraska Furniture Mart, R.C. Willey, Star Furniture and Jordan’s), which sell furniture, appliances, flooring and electronics.

Our other retailing businesses include three jewelry retailing businesses (Borsheims, Helzberg and Ben Bridge), See’s Candies (confectionary products), Pampered Chef (high quality kitchen tools), Oriental Trading Company (party supplies, school supplies and toys and novelties) and Detlev Louis Motorrad (“Louis”), a Germany-based retailer of motorcycle accessories.



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

**Manufacturing, Service and Retailing (Continued)**

*Retailing (Continued)*

Retailing business revenues in the second quarter and first six months of 2018 were \$3.9 billion and \$7.6 billion, respectively, increases of \$171 million (4.6%) and \$337 million (4.7%), respectively, compared to the same periods in 2017. BHA’s revenues, which represent approximately 63% of the year-to-date retailing revenues in 2018, increased 5.4% in the second quarter and 5.0% in the first six months of 2018 as compared to 2017. The increases were primarily from increased pre-owned vehicle sales and, to a lesser extent, new vehicle sales. In addition, Louis revenues increased 20% in the second quarter and 14% in the first six months of 2018, due primarily to comparatively higher second quarter sales and foreign currency translation effects. See’s Candies comparative second quarter revenues decreased 25% compared to 2017 due to the timing of the Easter holiday, while its revenues for the first six months of 2018 were relatively unchanged from 2017. Revenues of our home furnishings businesses increased 7% in the second quarter and 6% in the first six months of 2018 compared to 2017, due to higher volumes in certain geographic markets and the effect of a new store, which opened in 2018.

Pre-tax earnings in the second quarter and first six months of 2018 from retailing were \$230 million and \$388 million, respectively, increases of \$26 million (12.7%) and \$51 million (15.1%), respectively, over 2017. The increases were primarily attributable to BHA and Louis. The earnings increases of BHA were primarily from finance and insurance activities, while the increases at Louis were primarily due to the revenue increases.

*McLane Company*

McLane operates a wholesale distribution business that provides grocery and non-food consumer products to retailers and convenience stores (“grocery”) and to restaurants (“foodservice”). McLane also operates businesses that are wholesale distributors of distilled spirits, wine and beer (“beverage”). The grocery and foodservice units generate high sales volumes and very low profit margins and have several significant customers, including Wal-Mart, 7-Eleven and Yum! Brands. A curtailment of purchasing by any of its significant customers could have an adverse impact on McLane’s periodic revenues and earnings.

Revenues for the second quarter and first six months of 2018 were \$12.4 billion and \$24.6 billion, respectively, representing decreases of 1.2% in the second quarter and 0.3% in the first six months compared to the same periods in 2017. On a year-to-date basis, grocery sales increased slightly compared to 2017 and foodservice sales declined 2.5%, which was primarily due to a net loss of customers. Pre-tax earnings in the second quarter and first six months of 2018 were \$67 million and \$127 million, respectively, decreases of \$2 million (2.9%) and \$30 million (19.1%), respectively, compared to the same periods in 2017. McLane continues to operate in an intensely competitive business environment, which is negatively affecting its current operating results. These conditions contributed to declining gross margin rates over the first six months of 2018, which together with increases in fuel, depreciation and certain other operating expenses produced a 12 basis point decline in its operating margin rate (ratio of pre-tax earnings to revenues) compared to 2017. We expect our grocery and foodservice businesses will continue to be subject to intense competition over the remainder of 2018.

**Finance and Financial Products**

Our finance and financial products businesses include manufactured and site built housing and finance (Clayton Homes), transportation equipment manufacturing and leasing businesses (UTLX and XTRA, and together, “transportation equipment leasing”), as well as other leasing and financing activities. A summary of earnings from our finance and financial products businesses follows (in millions).

|   | Second Quarter  |                 |               |               | First Six Months |                 |               |               |
|---|-----------------|-----------------|---------------|---------------|------------------|-----------------|---------------|---------------|
|   | Revenues        |                 | Earnings      |               | Revenues         |                 | Earnings      |               |
|   | 2018            | 2017            | 2018          | 2017          | 2018             | 2017            | 2018          | 2017          |
| Manufactured housing and finance          | \$ 1,509        | \$ 1,199        | \$ 234        | \$ 197        | \$ 2,756         | \$ 2,273        | \$ 429        | \$ 373        |
| Transportation equipment leasing          | 675             | 652             | 210           | 221           | 1,326            | 1,276           | 415           | 430           |
| Other                                     | 182             | 166             | 121           | 74            | 347              | 317             | 215           | 139           |
|   | <u>\$ 2,366</u> | <u>\$ 2,017</u> |               |               | <u>\$ 4,429</u>  | <u>\$ 3,866</u> |               |               |
| Pre-tax earnings                          |                 |                 | 565           | 492           |                  |                 | 1,059         | 942           |
| Income taxes and noncontrolling interests |                 |                 | 136           | 169           |                  |                 | 256           | 328           |
|   |                 |                 | <u>\$ 429</u> | <u>\$ 323</u> |                  |                 | <u>\$ 803</u> | <u>\$ 614</u> |
| Effective income tax rate                 |                 |                 | <u>24.1%</u>  | <u>34.2%</u>  |                  |                 | <u>24.2%</u>  | <u>34.8%</u>  |

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

### Finance and Financial Products (Continued)

#### Manufactured housing and finance

Clayton Homes' revenues in the second quarter and first six months of 2018 were approximately \$1.5 billion and \$2.8 billion, respectively, increases of \$310 million (26%) and \$483 million (21%), respectively, over the corresponding 2017 periods. The increases reflected year-to-date increases in home sales of 31% and in financial services revenue of approximately 4%. The increase in home sales was primarily due to increased sales of site built homes and to increased unit sales of manufactured homes. Average unit prices of site built homes are considerably higher than our traditional manufactured homes. The increase in financial services revenue was primarily attributable to increased interest income from a comparative increase in average loan balances of approximately 4% over the first six months. As of June 30, 2018, Clayton Homes' loan balances were approximately \$14.2 billion.

Pre-tax earnings in the second quarter and first six months of 2018 were \$234 million and \$429 million, respectively, increases of \$37 million (19%) and \$56 million (15%), respectively, compared to the same periods in 2017. The increases in earnings reflected increased manufactured and site built home sales and financial services interest income, lower corporate overhead costs and credit losses, partly offset by increased interest expense.

#### Transportation equipment leasing

Transportation equipment leasing revenues increased \$23 million (3.5%) in the second quarter and \$50 million (3.9%) in the first six months of 2018, as compared to 2017. The increases were primarily due to increased crane services, over-the-road trailer units on lease, and equipment sales and favorable foreign currency translation effects, partly offset by decreased railcar lease revenue. Excess railcar capacity for lease continues to contribute to fewer units on lease and relatively low lease rates.

Pre-tax earnings were \$210 million in the second quarter and \$415 million in the first six months of 2018, decreases of \$11 million (5%) and \$15 million (3.5%), respectively, compared to the same periods in 2017. The decreases were due to lower earnings from the railcar leasing business, attributable to the decline in lease revenues and higher repair costs, partly offset by increased earnings of our over-the-road trailer and crane services businesses. Significant components of the operating costs of our leasing businesses, such as depreciation expense, financing and certain operating costs, do not vary proportionately to revenue changes. Thus, changes in revenues can produce a disproportionate effect on earnings.

#### Other

Other earnings from our finance activities include CORT furniture leasing and other investment income. Other earnings also include interest income on loans to finance Clayton Homes' loan portfolio and transportation equipment held for lease (charged as interest expense in the results of those businesses) and interest expense on related borrowings of Berkshire Hathaway Finance Corporation ("BHFC"). The net interest (income, net of expense) related to such loans increased \$50 million in the first six months of 2018 compared to 2017, which reflected increased interest income and lower interest expense of BHFC. In the first six months of 2018, other earnings also reflected increased other investment income.

### Investment and Derivative Gains/Losses

A summary of investment and derivative gains and losses follows (in millions).

|   | Second Quarter |        | First Six Months |        |
|---|----------------|--------|------------------|--------|
|   | 2018           | 2017   | 2018             | 2017   |
| Investment gains/losses                                       | \$ 5,990       | \$ 290 | \$ (1,819)       | \$ 605 |
| Derivative gains/losses                                       | 372            | (65)   | 166              | 395    |
| Gains/losses before income taxes and noncontrolling interests | 6,362          | 225    | (1,653)          | 1,000  |
| Income taxes and noncontrolling interests                     | 1,244          | 82     | (345)            | 353    |
| Net gains/losses  | \$ 5,118       | \$ 143 | \$ (1,308)       | \$ 647 |
| Effective income tax rate                                     | 19.9%          | 36.6%  | 18.3%            | 35.4%  |

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

### Investment and Derivative Gains/Losses (Continued)

#### Investment gains/losses

As discussed in Note 2 to the accompanying Consolidated Financial Statements, we adopted a new accounting pronouncement as of January 1, 2018 ("ASU 2016-01"), which requires that unrealized gains and losses arising from changes in market values of our investments in equity securities be recorded in the Consolidated Statements of Earnings. Prior to 2018, investment gains/losses related to equity securities were generally recorded as the securities were sold, redeemed or exchanged and were based on the cost of the disposed securities. While ASU 2016-01 does not affect our consolidated shareholders' equity or total comprehensive income, it is expected to produce a very significant increase in the volatility of our periodic net earnings given the magnitude of our existing equity securities portfolio and the inherent volatility of equity securities prices. Investment gains and losses have caused and will continue to cause significant volatility in earnings reported in our Consolidated Statements of Earnings.

In 2018, pre-tax investment gains/losses reflected in earnings included changes during the periods in unrealized gains and losses on investments in equity securities still held at June 30, 2018. Securities still held at June 30, 2018 produced pre-tax gains in earnings of approximately \$5.6 billion in the second quarter and pre-tax losses of approximately \$2.1 billion for the first six months. Prior to the adoption of ASU 2016-01, such unrealized gains and losses were included in other comprehensive income. ASU 2016-01 did not permit the restatement of prior years' statements of earnings.

We believe that investment gains/losses, whether realized from sales or unrealized from changes in market prices, are often meaningless in terms of understanding our reported results or evaluating our periodic economic performance. We continue to believe the amount of investment gains/losses included in earnings in any given period typically has little analytical or predictive value. The effects of changes in market prices for equity securities that are now reported in earnings are unpredictable, particularly over quarterly and annual periods.

#### Derivative gains/losses

Derivative contract gains/losses currently represent the changes in fair value of our equity index put option contract liabilities. These liabilities relate to contracts entered into before March 2008 and expiring between April 2019 and January 2026. The periodic changes in the fair values of these contracts are recorded in earnings and can be significant, reflecting the volatility of underlying equity markets and the changes in the inputs used to measure such liabilities.

As of June 30, 2018, equity index put option intrinsic values were approximately \$930 million and our recorded liabilities at fair value were approximately \$2.0 billion. Our ultimate payment obligations, if any, under our equity index put option contracts will be determined as of the contract expiration dates and will be based on the intrinsic value as defined under the contracts. Derivative contracts produced pre-tax gains in the second quarter and first six months of 2018 of \$372 million and \$166 million, respectively. The second quarter gains were primarily due to higher equity index values, foreign currency exchange rate changes and the effects of shorter average contract durations. Derivative contracts produced pre-tax gains of \$395 million in the first six months of 2017, which were primarily attributable to increased index values and shorter contract durations, partly offset by unfavorable foreign currency exchange rate changes.

#### Other

A summary of after-tax other earnings (losses) follows (in millions).

|  | Second Quarter |                 | First Six Months |                 |
|--|----------------|-----------------|------------------|-----------------|
|  | 2018           | 2017            | 2018             | 2017            |
| Equity method earnings   | \$ 285         | \$ 304          | \$ 625           | \$ 559          |
| Acquisition accounting expenses  | (220)          | (180)           | (438)            | (322)           |
| Corporate interest expense, before foreign currency exchange rate effects    | (82)           | (65)            | (159)            | (132)           |
| Corporate interest expense, Euro note foreign currency exchange rate effects | 323            | (342)           | 160              | (399)           |
| Other  | 42             | 7               | 103              | 7               |
| Net earnings (losses) attributable to Berkshire Hathaway shareholders        | <u>\$ 348</u>  | <u>\$ (276)</u> | <u>\$ 291</u>    | <u>\$ (287)</u> |

After-tax equity method earnings includes Berkshire's share of earnings attributable to Kraft Heinz, Pilot Flying J, Berkadia and Electric Transmission of Texas. After-tax other earnings (losses) also include charges arising from the application of the acquisition method in connection with Berkshire's past business acquisitions. Such charges were primarily from the amortization of intangible assets recorded in connection with those business acquisitions. Berkshire issued Euro-denominated debt in 2015, 2016 and 2017 and at June 30, 2018, the aggregate par amount outstanding was €6.85 billion. Changes in foreign currency exchange rates can produce sizable non-cash gains and losses from the periodic revaluation of these liabilities into U.S. Dollars.

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

### **Financial Condition**

Our consolidated balance sheet continues to reflect significant liquidity and a strong capital base. Our consolidated shareholders' equity at June 30, 2018 was \$358.1 billion, an increase of \$9.8 billion since December 31, 2017. Net earnings attributable to Berkshire shareholders in the first six months of 2018 were \$10.9 billion, which included after-tax losses on our investments in equity securities of approximately \$1.7 billion.

At June 30, 2018, our insurance and other businesses held cash, cash equivalents and U.S. Treasury Bills of approximately \$103.2 billion, of which \$84.7 billion was held in U.S. Treasury Bills. Investments in securities (excluding our investment in Kraft Heinz) were \$192.6 billion. Berkshire parent company debt outstanding at June 30, 2018 was approximately \$17.8 billion, a decrease of \$1.0 billion from December 31, 2017, reflecting a maturity of \$800 million in term debt and a \$219 million year-to-date decrease attributable to foreign currency exchange rate changes applicable to the €6.85 billion par amount of Euro-denominated senior notes. Berkshire term debt of \$750 million will mature in August 2018.

Our railroad, utilities and energy businesses (conducted by BNSF and BHE) maintain very large investments in capital assets (property, plant and equipment) and will regularly make significant capital expenditures in the normal course of business. We forecast capital expenditures of these two operations will approximate \$10 billion for the year ending December 31, 2018, of which approximately \$4.1 billion was made in the first six months.

BNSF's outstanding debt approximated \$22.5 billion as of June 30, 2018, relatively unchanged since December 31, 2017. In August 2018, BNSF issued \$750 million of 4.15% senior unsecured debentures due in 2048. Outstanding borrowings of BHE and its subsidiaries were approximately \$40.1 billion at June 30, 2018, an increase of \$451 million since December 31, 2017. In July 2018, BHE issued \$1.0 billion of 4.45% senior unsecured debt that matures in 2049. BHE subsidiaries also issued debt in July 2018, aggregating \$1.05 billion and due in 2049. The proceeds from these financings were used to repay borrowings and for other general corporate purposes. Over the remainder of 2018, approximately \$1.7 billion of BHE and subsidiary term debt will mature. Berkshire does not guarantee the repayment of debt issued by BNSF, BHE or any of their subsidiaries and is not committed to provide capital to support BNSF, BHE or any of their subsidiaries.

Finance and financial products assets were approximately \$38.2 billion as of June 30, 2018, a decrease of \$3.7 billion since December 31, 2017. Finance assets consist primarily of loans and finance receivables, various types of property held for lease, cash, cash equivalents and U.S. Treasury Bills. Finance and financial products liabilities declined \$4.1 billion in the first six months of 2018 to approximately \$12.6 billion at June 30, 2018, attributable to \$4.1 billion of debt maturities of a wholly-owned financing subsidiary, Berkshire Hathaway Finance Corporation ("BHFC"). An additional \$500 million of BHFC senior notes will mature over the remainder of 2018. BHFC's senior note borrowings are used to fund loans originated and acquired by Clayton Homes and a portion of assets held for lease by our UTLX railcar leasing business. Berkshire guarantees the full and timely payment of principal and interest with respect to BHFC's senior notes.

Berkshire has a common stock repurchase program, which as amended on July 17, 2018, permits Berkshire to repurchase its Class A and Class B shares at prices below Berkshire's intrinsic value, as conservatively determined by Warren Buffett, Berkshire's Chairman of the Board and Chief Executive Officer, and Charlie Munger, a Vice-Chairman of the Board. The program allows share repurchases in the open market or through privately negotiated transactions and does not specify a maximum number of shares to be repurchased. The program is expected to continue indefinitely. We will not repurchase our stock if it reduces the total amount of Berkshire's consolidated cash, cash equivalents and U.S. Treasury Bills holdings below \$20 billion. Financial strength and redundant liquidity will always be of paramount importance at Berkshire. There were no share repurchases in 2018.

### **Contractual Obligations**

We are party to contracts associated with ongoing business and financing activities, which will result in cash payments to counterparties in future periods. Certain obligations are included in our Consolidated Balance Sheets, such as notes payable, which require future payments on contractually specified dates and in fixed and determinable amounts. Other obligations pertain to the acquisition of goods or services in the future, such as minimum rentals under operating leases and certain purchase obligations, and are not currently reflected in the financial statements, but will be recognized in future periods as the goods are delivered or services are provided.

The timing and amount of the payments under certain contracts, such as insurance and reinsurance contracts, are contingent upon the outcome of future events and claim settlements. Actual payments will likely vary, perhaps materially, from the estimated liabilities currently recorded in our Consolidated Balance Sheet.

Except as otherwise disclosed in this Quarterly Report, our contractual obligations as of June 30, 2018 were, in the aggregate, not materially different from those disclosed in the "Contractual Obligations" section of "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 ended December 31, 2017.

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

### **Critical Accounting Policies**

Certain accounting policies require us to make estimates and judgments that affect the amounts reflected in the Consolidated Financial Statements. Such estimates and judgments necessarily involve varying, and possibly significant, degrees of uncertainty. Accordingly, certain amounts currently recorded in the financial statements will likely be adjusted in the future based on new available information and changes in other facts and circumstances. Reference is made to "Critical Accounting Policies" discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Berkshire's Annual Report on Form 10-K for the year ended December 31, 2017.

Our Consolidated Balance Sheet as of June 30, 2018 includes estimated liabilities for unpaid losses and loss adjustment expenses from property and casualty insurance and reinsurance contracts of approximately \$105 billion. Due to the inherent uncertainties in the process of establishing loss reserve amounts, the actual ultimate claim amounts will likely differ from the currently recorded amounts. A very small percentage change in estimates of this magnitude will result in a material effect on periodic earnings. The effects from changes in these estimates are recorded as a component of insurance losses and loss adjustment expenses in the period of the change.

Our Consolidated Balance Sheet as of June 30, 2018 includes goodwill of acquired businesses of approximately \$81 billion. We evaluate goodwill for impairment at least annually and we conducted our most recent annual review during the fourth quarter of 2017. Although we believe that the goodwill reflected in the Consolidated Balance Sheet is not impaired, goodwill may subsequently become impaired as a result of changes in facts and circumstances affecting the valuation of the reporting unit. A goodwill impairment charge could have a material effect on periodic earnings.

Our Consolidated Balance Sheets include significant derivative contract liabilities with respect to our equity index put option contracts. The fair values recorded for these liabilities are based on valuation models that utilize various inputs and assumptions that we believe are used by market participants. We further believe that fair values based on such models are inherently subjective and the values in an actual transaction may differ significantly from the model values. Changes in the assumptions utilized within the valuation models may have a significant effect on recorded fair values and periodic earnings.

Information concerning new accounting pronouncements is included in Note 2 to the accompanying 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 or its subsidiaries are "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Act"). Forward-looking statements include statements which are predictive in nature, which depend upon or refer to future events or conditions, which include words such as "expects," "anticipates," "intends," "plans," "believes," "estimates" or similar expressions. In addition, any statements concerning future financial performance (including future revenues, earnings or growth rates), ongoing business strategies or prospects and possible future 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 and its subsidiaries, economic and market factors and the industries in which we do business, among other things. These statements are not guarantees of future performance and we have no specific intention to update these statements.

Actual events and results may differ materially from those expressed or forecasted in forward-looking statements due to a number of factors. The important risk factors that could cause our 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 our investments in fixed maturity and equity securities, losses realized from derivative contracts, the occurrence of one or more catastrophic events, such as an earthquake, hurricane, act of terrorism or cyber attack that causes losses insured by our insurance subsidiaries and/or losses to our business operations, changes in laws or regulations affecting our insurance, railroad, utilities and energy and finance subsidiaries, 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 we do business.

### **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, 2018, there were no material changes in the market risks described in Berkshire's Annual Report on Form 10-K for the year ended December 31, 2017.

### **Item 4. Controls and Procedures**

As of the end of the period covered by this Quarterly Report on Form 10-Q, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Chairman (Chief Executive Officer) and the Senior Vice President (Chief Financial Officer), of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chairman (Chief Executive Officer) and the Senior Vice President (Chief Financial Officer) concluded that the Company's disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic SEC filings. During the quarter, there have been no significant changes in the Company's internal control over financial reporting or in other factors that could significantly affect internal control over financial reporting.

## **Part II Other Information**

### **Item 1. Legal Proceedings**

Berkshire and its subsidiaries are parties in a variety of legal actions that routinely arise out of the normal course of business, including legal actions seeking to establish liability directly through insurance contracts or indirectly through reinsurance contracts issued by Berkshire subsidiaries. Plaintiffs occasionally seek punitive or exemplary damages. We do not believe that such normal and routine litigation will have a material effect on our financial condition or results of operations. Berkshire and certain of its subsidiaries are also involved in other kinds of legal actions, some of which assert or may assert claims or seek to impose fines and penalties. We believe that any liability that may arise as a result of other pending legal actions will not have a material effect on our consolidated financial condition or results of operations.

### **Item 1A. Risk Factors**

Our significant business risks are described in Item 1A to Form 10-K for the year ended December 31, 2017 to which reference is made herein.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds and Issuer Repurchases of Equity Securities**

For several years, Berkshire had a common stock repurchase program, which permitted Berkshire to repurchase its Class A and Class B shares at prices no higher than a 20% premium over the book value of the shares. On July 17, 2018, Berkshire's Board of Directors authorized an amendment to the program, permitting Berkshire to repurchase shares any time that Warren Buffett, Berkshire's Chairman of the Board and Chief Executive Officer, and Charles Munger, a Vice-Chairman of the Board, believe that the repurchase price is below Berkshire's intrinsic value, conservatively determined. The program continues to allow share repurchases in the open market or through privately negotiated transactions and does not specify a maximum number of shares to be repurchased. The repurchase program does not obligate Berkshire to repurchase any specific dollar amount or number of Class A or Class B shares and there is no expiration date to the program. There were no share repurchases in 2018.

### **Item 3. Defaults Upon Senior Securities**

None

### **Item 4. Mine Safety Disclosures**

Information regarding the Company's mine safety violations and other legal matters disclosed in accordance with Section 1503(a) of the Dodd-Frank Reform Act is included in Exhibit 95 to this Form 10-Q.

### **Item 5. Other Information**

None

## Item 6. Exhibits

- a. Exhibits
- 3(i) Restated Certificate of Incorporation  
[Incorporated by reference to Exhibit 3\(i\) to Form 10-K filed on March 2, 2015.](#)
- 3(ii) By-Laws  
[Incorporated by reference to Exhibit 3\(ii\) to Form 8-K filed on May 4, 2016.](#)
- 12 [Calculation of Ratio of Consolidated Earnings to Consolidated Fixed Charges](#)
- 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](#)
- 95 [Mine Safety Disclosures](#)
- 101 The following financial information from Berkshire Hathaway Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, formatted in XBRL (Extensible Business Reporting Language) includes: (i) the Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017, (ii) the Consolidated Statements of Earnings for each of the three-month and six-month periods ended June 30, 2018 and 2017, (iii) the Consolidated Statements of Comprehensive Income for each of the three-month and six-month periods ended June 30, 2018 and 2017, (iv) the Consolidated Statements of Changes in Shareholders' Equity for the six-month periods ended June 30, 2018 and 2017, (v) the Consolidated Statements of Cash Flows for each of the six-month periods ended June 30, 2018 and 2017, and (vi) the Notes to Consolidated Financial Statements, tagged in summary and detail.

### 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, 2018

/S/ MARC D. HAMBURG

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

**BERKSHIRE HATHAWAY INC.**  
**Calculation of Ratio of Consolidated Earnings to Consolidated Fixed Charges**  
**(Dollars in millions)**

|   | Six Months Ending | Year Ended December 31, |                  |                  |                  |                  |
|---|-------------------|-------------------------|------------------|------------------|------------------|------------------|
|   | June 30, 2018     | 2017                    | 2016             | 2015             | 2014             | 2013             |
| Net earnings attributable to Berkshire Hathaway shareholders <sup>(1)</sup> | \$ 10,873         | \$ 44,940               | \$ 24,074        | \$ 24,083        | \$ 19,872        | \$ 19,476        |
| Income tax expense (benefit) <sup>(1)</sup>                                 | 2,569             | (21,515)                | 9,240            | 10,532           | 7,935            | 8,951            |
| Earnings attributable to noncontrolling interests                           | 133               | 413                     | 353              | 331              | 298              | 369              |
| Equity method net (earnings) losses   | (728)             | (2,938)                 | (923)            | 122              | 26               | 262              |
| Dividends from equity method investments                                    | 529               | 797                     | 952              | 366              | —                | —                |
| Fixed charges   | 2,239             | 4,529                   | 4,439            | 4,065            | 3,882            | 3,386            |
| Earnings available for fixed charges  | <u>\$ 15,615</u>  | <u>\$ 26,226</u>        | <u>\$ 38,135</u> | <u>\$ 39,499</u> | <u>\$ 32,013</u> | <u>\$ 32,444</u> |
| Fixed charges   |                   |                         |                  |                  |                  |                  |
| Interest expense, including amortization <sup>(2)</sup>                     | \$ 1,932          | \$ 3,927                | \$ 3,741         | \$ 3,446         | \$ 3,253         | \$ 2,801         |
| Rentals representing interest and capitalized interest                      | 307               | 602                     | 698              | 619              | 629              | 585              |
|   | <u>\$ 2,239</u>   | <u>\$ 4,529</u>         | <u>\$ 4,439</u>  | <u>\$ 4,065</u>  | <u>\$ 3,882</u>  | <u>\$ 3,386</u>  |
| Ratio of earnings to fixed charges  | <u>6.97x</u>      | <u>5.79x</u>            | <u>8.59x</u>     | <u>9.72x</u>     | <u>8.25x</u>     | <u>9.58x</u>     |

- (1) Effective January 1, 2018, all changes in the fair values of investments in equity securities are included in earnings, including unrealized gains and losses on securities still held. During the first six months of 2018, Berkshire's earnings included net pre-tax losses on investments in equity securities of approximately \$2.1 billion (\$1.7 billion after-tax), which was predominantly related to market value changes during the first six months of 2018 on securities still held at June 30, 2018.
- (2) Includes recurring interest expense and excludes foreign currency exchange gains and losses related to Berkshire's Euro denominated debt and losses from prepayments of debt.



Quarter ended June 30, 2018

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

CERTIFICATIONS

I, Warren E. Buffett, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Berkshire Hathaway Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2018

/s/ WARREN E. BUFFETT

---

**Chairman—Principal Executive Officer**

Quarter ended June 30, 2018

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

CERTIFICATIONS

I, Marc D. Hamburg, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Berkshire Hathaway Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2018

/s/ MARC D. HAMBURG

---

Senior Vice President—Principal Financial Officer

**Section 1350 Certifications**

**Quarter ended June 30, 2018**

I, Warren E. Buffett, Chairman and Chief Executive Officer of Berkshire Hathaway Inc. (the “Company”), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that to the best of my knowledge:

- (1) the Quarterly Report on Form 10-Q of the Company for the period ended June 30, 2018 (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 4, 2018

/s/ WARREN E. BUFFETT

---

**Warren E. Buffett**  
**Chairman and Chief Executive Officer**

**Section 1350 Certifications**

**Quarter ended June 30, 2018**

I, Marc D. Hamburg, Senior Vice President and Chief Financial Officer of Berkshire Hathaway Inc. (the "Company"), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that to the best of my knowledge:

- (1) the Quarterly Report on Form 10-Q of the Company for the period ended June 30, 2018 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 4, 2018

/s/ MARC D. HAMBURG

---

**Marc D. Hamburg**  
**Senior Vice President and Chief Financial Officer**

**MINE SAFETY VIOLATIONS AND OTHER LEGAL MATTER DISCLOSURES  
PURSUANT TO SECTION 1503(a) OF THE DODD-FRANK WALL STREET  
REFORM AND CONSUMER PROTECTION ACT**

PacifiCorp and its subsidiaries operate coal mines and coal processing facilities and Acme Brick and its affiliates operate clay, shale and limestone excavation facilities (collectively, the “mining facilities”) that are regulated by the Federal Mine Safety and Health Administration (“MSHA”) under the Federal Mine Safety and Health Act of 1977 (the “Mine Safety Act”). MSHA inspects mining facilities on a regular basis. The total number of reportable Mine Safety Act citations, orders, assessments and legal actions for the three-month period ended June 30, 2018 are summarized in the table below and are subject to contest and appeal. The severity and assessment of penalties may be reduced or, in some cases, dismissed through the contest and appeal process. Amounts are reported regardless of whether PacifiCorp or Acme has challenged or appealed the matter. Clay and other reserves that are not yet mined and mines that are closed or idled are not included in the information below as no reportable events occurred at those locations during the three-month period ended June 30, 2018. PacifiCorp and Acme have not received any notice of a pattern, or notice of the potential to have a pattern, of violations of mandatory health or safety standards that are of such nature as could have significantly and substantially contributed to the cause and effect of coal or other mine health or safety hazards under Section 104(e) of the Mine Safety Act during the three-month period ended June 30, 2018.

|                               | Mine Safety Act  |                                      |  |   |  | Total Value of Proposed MSHA Assessments (in thousands) | Total Number of Mining Related Fatalities | Legal Actions                                   |                          |                        |
|-------------------------------|--|--------------------------------------|--|---|--|---|---|---|--------------------------|------------------------|
|                               | Section 104 Significant and Substantial Citations <sup>(1)</sup> | Section 104(b) Orders <sup>(2)</sup> | Section 104(d) Citations/Orders <sup>(3)</sup> | Section 110(b)(2) Violations <sup>(4)</sup> | Section 107(a) Imminent Danger Orders <sup>(5)</sup> |   |   | Pending as of Last Day of Period <sup>(6)</sup> | Instituted During Period | Resolved During Period |
| <b>Mining Facilities</b>      |  |                                      |  |   |  |   |   |   |                          |                        |
| Coal:                         |  |                                      |  |   |  |   |   |   |                          |                        |
| Bridger (surface)             | —  | —                                    | —  | —   | —  | \$ —  | —   | —   | —                        | —                      |
| Bridger (underground)         | 3  | —                                    | 1  | —   | —  | 20  | —   | 2   | 2                        | 2                      |
| Wyodak Coal Crushing Facility | —  | —                                    | —  | —   | —  | —   | —   | —   | —                        | —                      |
| Clay, shale and limestone:    |  |                                      |  |   |  |   |   |   |                          |                        |
| Malvern                       | —  | —                                    | —  | —   | —  | —   | —   | —   | —                        | —                      |
| Wheeler                       | —  | —                                    | —  | —   | —  | —   | —   | —   | —                        | —                      |
| Fort Smith                    | —  | —                                    | —  | —   | —  | —   | —   | —   | —                        | —                      |
| Oklahoma City                 | —  | —                                    | —  | —   | —  | —   | —   | —   | —                        | —                      |
| Tulsa                         | —  | —                                    | —  | —   | —  | —   | —   | —   | —                        | —                      |
| Denver                        | —  | —                                    | —  | —   | —  | —   | —   | —   | —                        | —                      |
| Bennett                       | —  | —                                    | —  | —   | —  | —   | —   | —   | —                        | —                      |
| Denton                        | —  | —                                    | —  | —   | —  | —   | —   | —   | —                        | —                      |
| Elgin                         | —  | —                                    | —  | —   | —  | —   | —   | —   | —                        | —                      |
| Sealy                         | —  | —                                    | —  | —   | —  | —   | —   | —   | —                        | —                      |
| Texas Clay                    | —  | —                                    | —  | —   | —  | —   | —   | —   | —                        | —                      |
| Leeds                         | —  | —                                    | —  | —   | —  | —   | —   | —   | —                        | —                      |
| Montgomery                    | —  | —                                    | —  | —   | —  | —   | —   | —   | —                        | —                      |
| Lueders                       | —  | —                                    | —  | —   | —  | —   | —   | —   | —                        | —                      |
| Cordova                       | —  | —                                    | —  | —   | —  | —   | —   | —   | —                        | —                      |

- (1) Citations for alleged violations of mandatory health and safety standards that could significantly or substantially contribute to the cause and effect of a safety or health hazard under Section 104 of the Mine Safety Act. One of the Section 104(a) Significant and Substantial citations was modified to a Section 104(d)-1 citation which upon review by MSHA was reverted back to a Section 104(a) Significant and Substantial citation.
- (2) For alleged failure to totally abate the subject matter of a Mine Safety Act Section 104(a) citation within the period specified in the citation.
- (3) For alleged unwarrantable failure (i.e., aggravated conduct constituting more than ordinary negligence) to comply with a mandatory health or safety standard. The Section 104(d)-1 citation included in this table was subsequently modified by MSHA to a Section 104(a) Non-Significant and Substantial citation.
- (4) For alleged flagrant violations (i.e., reckless or repeated failure to make reasonable efforts to eliminate a known violation of a mandatory health or safety standard that substantially and proximately caused, or reasonably could have been expected to cause, death or serious bodily injury).
- (5) For the existence of any condition or practice in a coal or other mine which could reasonably be expected to cause death or serious physical harm before such condition or practice can be abated.
- (6) Amounts include two contests of proposed penalties under Subpart C of the Federal Mine Safety and Health Review Commission’s procedural rules. The pending legal actions are not exclusive to citations, notices, orders and penalties assessed by MSHA during the reporting period.