

BERKSHIRE HATHAWAY INC
Form 10-Q
August 04, 2017
Table of Contents

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, 2017

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 27, 2017:

Class A	755,437
Class B	1,333,772,187

Table of Contents

BERKSHIRE HATHAWAY INC.

	Page No
<u>Part I Financial Information</u>	
<u>Item 1. Financial Statements</u>	
<u>Consolidated Balance Sheets June 30, 2017 and December 31, 2016</u>	2-3
<u>Consolidated Statements of Earnings Second Quarter and First Six Months 2017 and 2016</u>	4
<u>Consolidated Statements of Comprehensive Income Second Quarter and First Six Months 2017 and 2016</u>	5
<u>Consolidated Statements of Changes in Shareholders' Equity First Six Months 2017 and 2016</u>	5
<u>Consolidated Statements of Cash Flows First Six Months 2017 and 2016</u>	6
<u>Notes to Consolidated Financial Statements</u>	7-24
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	25-42
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	43
<u>Item 4. Controls and Procedures</u>	43
<u>Part II Other Information</u>	
<u>Item 1. Legal Proceedings</u>	43
<u>Item 1A. Risk Factors</u>	43
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds and Issuer Repurchases of Equity Securities</u>	43
<u>Item 3. Defaults Upon Senior Securities</u>	43
<u>Item 4. Mine Safety Disclosures</u>	43
<u>Item 5. Other Information</u>	43
<u>Item 6. Exhibits</u>	44
<u>Signature</u>	44

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

	June 30, 2017 (Unaudited)	December 2016
ASSETS		
<i>Insurance and Other:</i>		
Cash and cash equivalents	\$ 20,142	\$ 23,583
Short-term investments in U.S. Treasury Bills	66,008	47,333
Investments in fixed maturity securities	23,381	23,433
Investments in equity securities	135,355	120,473
Investment in The Kraft Heinz Company (Fair Value: June 30, 2017 \$27,871; December 31, 2016 \$28,418)	15,584	15,341
Other investments	16,838	14,366
Receivables	28,953	27,093
Inventories	16,442	15,723
Property, plant and equipment	19,790	19,323
Goodwill	54,471	53,993
Other intangible assets	33,220	33,483
Deferred charges reinsurance assumed	13,597	8,043
Other	7,560	7,123
	451,341	409,323
<i>Railroad, Utilities and Energy:</i>		
Cash and cash equivalents	4,962	3,933
Property, plant and equipment	125,328	123,753
Goodwill	24,306	24,113
Regulatory assets	4,644	4,453
Other	14,129	13,553
	173,369	169,813
<i>Finance and Financial Products:</i>		
Cash and cash equivalents	1,314	523
Short-term investments in U.S. Treasury Bills	7,323	10,983
Investments in equity and fixed maturity securities	408	403

er investments	3,396	2,89
ans and finance receivables	14,559	13,30
erty, plant and equipment and assets held for lease	9,791	9,68
odwill	1,398	1,38
er	2,691	2,52
	40,880	41,71
	\$ 665,590	\$620,85

See accompanying Notes to Consolidated Financial Statements

Table of Contents

BERKSHIRE HATHAWAY INC.
and Subsidiaries
CONSOLIDATED BALANCE SHEETS

(dollars in millions)

	June 30, 2017 (Unaudited)	December 31, 2016
<i>Insurance and Other:</i>		
Losses and loss adjustment expenses	\$ 95,307	\$ 76,918
Unearned premiums	16,129	14,245
Life, annuity and health insurance benefits	16,663	15,977
Other policyholder liabilities	7,357	6,714
Accounts payable, accruals and other liabilities	21,024	22,164
Notes payable and other borrowings	27,781	27,175
	184,261	163,193
<i>Railroad, Utilities and Energy:</i>		
Accounts payable, accruals and other liabilities	11,273	11,434
Regulatory liabilities	3,156	3,121
Notes payable and other borrowings	60,701	59,085
	75,130	73,640
<i>Finance and Financial Products:</i>		
Accounts payable, accruals and other liabilities	1,510	1,444
Derivative contract liabilities	2,494	2,890
Notes payable and other borrowings	13,788	15,384
	17,792	19,718
Income taxes, principally deferred	84,314	77,944
Total liabilities	361,497	334,495
Shareholders' equity:		
Common stock	8	8
Capital in excess of par value	35,663	35,681
Accumulated other comprehensive income	46,652	37,298
Retained earnings	220,099	211,777
Treasury stock, at cost	(1,763)	(1,763)

Edgar Filing: BERKSHIRE HATHAWAY INC - Form 10-Q

Berkshire Hathaway shareholders equity	300,659	283,001
Noncontrolling interests	3,434	3,358
Total shareholders equity	304,093	286,359
	\$ 665,590	\$ 620,854

See accompanying Notes to Consolidated Financial Statements

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

	Second Quarter		First Six Months	
	2017	2016	2017	2016
	(Unaudited)		(Unaudited)	
Revenues:				
<i>Insurance and Other:</i>				
Insurance premiums earned	\$ 12,367	\$ 10,799	\$ 34,120	\$ 21,923
Sales and service revenues	31,733	30,542	61,962	58,821
Interest, dividend and other investment income	1,322	1,411	2,484	2,562
Investment gains/losses	287	640	599	2,486
	45,709	43,392	99,165	85,792
<i>Railroad, Utilities and Energy:</i>				
Revenues	9,843	8,851	19,247	17,696
<i>Finance and Financial Products:</i>				
Sales and service revenues	1,664	1,577	3,178	2,969
Interest, dividend and other investment income	364	411	714	743
Investment gains/losses	3	3	6	7
Derivative gains/losses	(65)	20	395	(790)
	1,966	2,011	4,293	2,929
Total revenues	57,518	54,254	122,705	106,417
Costs and expenses:				
<i>Insurance and Other:</i>				
Insurance losses and loss adjustment expenses	8,747	7,178	27,313	14,710
Life, annuity and health insurance benefits	1,263	1,241	2,490	2,408
Insurance underwriting expenses	2,378	1,870	4,717	3,947
Cost of sales and services	25,419	24,349	49,779	47,145
Selling, general and administrative expenses	4,020	4,066	8,136	7,788
Interest expense	700	28	970	415
	42,527	38,732	93,405	76,413
<i>Railroad, Utilities and Energy:</i>				
Cost of sales and operating expenses	6,940	6,339	13,694	12,658
Interest expense	697	596	1,390	1,281

	7,637	6,935	15,084	13,939
Finance and Financial Products:				
Cost of sales and services	962	875	1,829	1,643
Selling, general and administrative expenses	469	443	911	836
Interest expense	103	103	207	204
	1,534	1,421	2,947	2,683
Total costs and expenses	51,698	47,088	111,436	93,035
Earnings before income taxes and equity in earnings of Kraft Heinz Company				
Equity in earnings of Kraft Heinz Company	309	206	548	446
Earnings before income taxes	6,129	7,372	11,817	13,828
Income tax expense	1,774	2,290	3,323	3,089
Net earnings	4,355	5,082	8,494	10,739
Less: Earnings attributable to noncontrolling interests	93	81	172	149
Net earnings attributable to Berkshire Hathaway shareholders	\$ 4,262	\$ 5,001	\$ 8,322	\$ 10,590
Net earnings per share attributable to Berkshire Hathaway shareholders *				
Average equivalent Class A Shares outstanding *	\$ 2,592	\$ 3,042	\$ 5,060	\$ 6,443
	1,644,580	1,643,745	1,644,503	1,643,616

* Equivalent Class B shares outstanding are 1,500 times the equivalent Class A amount. Net earnings per equivalent Class B share outstanding are one-fifteen-hundredth (1/1,500) of the equivalent Class A amount.

See accompanying Notes to Consolidated Financial Statements

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

	Second Quarter		First Six Months	
	2017	2016	2017	2016
	(Unaudited)		(Unaudited)	
Net earnings	\$ 4,355	\$ 5,082	\$ 8,494	\$ 10,739
Other comprehensive income:				
Net change in unrealized appreciation of investments	4,711	(271)	13,088	(2,962)
Applicable income taxes	(1,659)	94	(4,531)	993
Reclassification of investment appreciation in net earnings	(284)	(9)	(589)	(1,816)
Applicable income taxes	99	4	206	636
Foreign currency translation	798	(607)	1,356	(114)
Applicable income taxes	(23)	44	(92)	14
Prior service cost and actuarial gains/losses of defined benefit pension plans	(44)	51	(54)	55
Applicable income taxes	18	(19)	25	(19)
Other, net	3	16	6	(6)
Other comprehensive income, net	3,619	(697)	9,415	(3,219)
Comprehensive income	7,974	4,385	17,909	7,520
Comprehensive income attributable to noncontrolling interests	130	61	233	135
Comprehensive income attributable to Berkshire Hathaway shareholders	\$ 7,844	\$ 4,324	\$ 17,676	\$ 7,385

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

	Berkshire Hathaway shareholders equity							
	Common stock and capital in excess of par value		Accumulated other comprehensive income		Retained earnings	Treasury stock	Non-controlling interests	Total
Balance at December 31, 2015	\$ 35,628	\$ 33,982	\$ 187,703	\$ (1,763)	\$ 3,077	\$ 258,627		
Net earnings			10,590		149	10,739		
Other comprehensive income, net		(3,205)			(14)	(3,219)		
Issuance of common stock	52					52		
Transactions with noncontrolling interests	38				21	59		
Balance at June 30, 2016	\$ 35,718	\$ 30,777	\$ 198,293	\$ (1,763)	\$ 3,233	\$ 266,258		
Balance at December 31, 2016	\$ 35,689	\$ 37,298	\$ 211,777	\$(1,763)	\$ 3,358	\$ 286,359		
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	\$ 220,099	\$ (1,763)	\$ 3,434	\$ 304,093		

See accompanying Notes to Consolidated Financial Statements

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

	First Six Months	
	2017	2016
	(Unaudited)	
Cash flows from operating activities:		
Net earnings	\$ 8,494	\$ 10,739
Adjustments to reconcile net earnings to operating cash flows:		
Investment gains/losses	(605)	(2,493)
Depreciation and amortization	4,539	4,359
Other	403	(119)
Changes in operating assets and liabilities:		
Losses and loss adjustment expenses	18,075	1,769
Deferred charges reinsurance assumed	(5,550)	35
Unearned premiums	1,830	1,444
Receivables and originated loans	(1,608)	(2,716)
Derivative contract assets and liabilities	(395)	790
Income taxes	1,893	1,822
Other	(449)	(366)
Net cash flows from operating activities	26,627	15,264
Cash flows from investing activities:		
Purchases of U.S. Treasury Bills and fixed maturity securities	(68,547)	(33,029)
Purchases of equity securities	(13,628)	(4,129)
Sales of U.S. Treasury Bills and fixed maturity securities	20,164	2,625
Redemptions and maturities of U.S. Treasury Bills and fixed maturity securities	34,164	8,828
Sales and redemptions of equity securities	7,815	12,444
Purchases of loans and finance receivables	(1,350)	(188)
Collections of loans and finance receivables	393	174
Acquisitions of businesses, net of cash acquired	(1,721)	(30,440)
Purchases of property, plant and equipment	(5,149)	(6,144)
Other	(112)	(397)
Net cash flows from investing activities	(27,971)	(50,256)
Cash flows from financing activities:		
Proceeds from borrowings of insurance and other businesses	1,295	8,600

Edgar Filing: BERKSHIRE HATHAWAY INC - Form 10-Q

Proceeds from borrowings of railroad, utilities and energy businesses	2,413	2,211
Proceeds from borrowings of finance businesses	1,298	3,494
Repayments of borrowings of insurance and other businesses	(1,180)	(1,148)
Repayments of borrowings of railroad, utilities and energy businesses	(1,768)	(1,781)
Repayments of borrowings of finance businesses	(2,897)	(195)
Changes in short term borrowings, net	462	618
Other	(92)	(46)
Net cash flows from financing activities	(469)	11,753
Effects of foreign currency exchange rate changes	183	2
Increase in cash and cash equivalents	(1,630)	(23,237)
Cash and cash equivalents at beginning of year *	28,048	67,161
Cash and cash equivalents at June 30 *	\$ 26,418	\$ 43,924

* Cash and cash equivalents are comprised of the following:

<i>Beginning of year</i>		
<i>Insurance and Other</i>	\$ 23,581	\$ 56,612
<i>Railroad, Utilities and Energy</i>	3,939	3,437
<i>Finance and Financial Products</i>	528	7,112
	\$ 28,048	\$ 67,161
<i>June 30</i>		
<i>Insurance and Other</i>	\$ 20,142	\$ 33,033
<i>Railroad, Utilities and Energy</i>	4,962	3,036
<i>Finance and Financial Products</i>	1,314	7,855
	\$ 26,418	\$ 43,924

See accompanying Notes to Consolidated Financial Statements

Table of Contents

BERKSHIRE HATHAWAY INC.

and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2017

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. At December 31, 2016, we began presenting U.S. Treasury Bills with maturity dates greater than three months from their purchase dates separately in our Consolidated Balance Sheets. Accordingly, we revised the comparative 2016 Consolidated Statement of Cash Flows to reflect this change.

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. Variations in the amount and timing of investment gains/losses can cause significant variations in periodic net earnings. In addition, changes in the fair values of liabilities associated with derivative contracts and gains and losses associated with the periodic revaluation of certain assets and liabilities denominated in foreign currencies can cause significant variations in periodic net earnings.

Note 2. New accounting pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued ASU 2014-09 Revenue from Contracts with Customers. ASU 2014-09 applies to contracts with customers, excluding, most notably, insurance and leasing contracts. The framework prescribed by ASU 2014-09 includes (a) identifying the contract, (b) identifying the related performance obligations, (c) determining the transaction price, (d) allocating the transaction price to the identified performance obligations and (e) recognizing revenues as the identified performance obligations are satisfied. Based on our evaluations to-date, we do not currently believe the adoption of ASU 2014-09 will have a material effect on our Consolidated Financial Statements. However, timing of the recognition of revenue and related costs may change with respect to certain of our contracts with customers. For instance, revenues and costs for certain contracts may be recognized over time rather than when the product or service is delivered, as is the current practice. In addition, certain contracts may be treated as leases for accounting purposes, rather than contracts with customers subject to ASU 2014-09. Our evaluations of these and other issues and implementation efforts concerning ASU 2014-09 are ongoing and also include consideration of the new disclosure requirements. We will adopt ASU 2014-09 as of January 1, 2018, under the modified retrospective method.

In January 2016, the FASB issued ASU 2016-01 Financial Instruments Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-01 generally requires that equity securities (excluding equity method investments) be measured at fair value with changes in fair value recognized in net income. Under existing GAAP, changes in fair value of available-for-sale equity investments are recorded in other comprehensive income. Given the current magnitude of our investments in equity securities, the adoption of ASU 2016-01 will have a significant impact on the periodic net earnings reported in our Consolidated Statement of Earnings, although it will not significantly affect our comprehensive income or total shareholders' equity. We will adopt ASU 2016-01 as of January 1, 2018. As of that date, the accumulated unrealized appreciation relating to our investments in equity securities, which is currently included in accumulated other comprehensive income, will be reclassified to retained earnings.

In February 2016, the 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, along with 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.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****Note 2. New accounting pronouncements (Continued)**

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, 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. Significant business acquisitions

Our long-held acquisition strategy is to acquire businesses at sensible prices that have consistent earning power, good returns on equity and able and honest management. Financial results attributable to business acquisitions are included in our Consolidated Financial Statements beginning on their respective acquisition dates.

On January 29, 2016, Berkshire acquired all outstanding common stock of Precision Castparts Corp. (PCC) for \$235 per share in cash pursuant to a merger agreement dated August 8, 2015. The aggregate consideration paid was approximately \$32.7 billion, which included the value of PCC shares we already owned. We funded the acquisition with a combination of existing cash balances and proceeds from a short-term credit facility. PCC is a worldwide, diversified manufacturer of complex metal components and products. It serves the aerospace, power and general industrial markets. PCC is a market leader in manufacturing complex structural investment castings and forged components for aerospace markets, machined airframe components and highly engineered critical fasteners for aerospace applications, and in manufacturing airfoil castings for the aerospace and industrial gas turbine markets. PCC also is a leading producer of titanium and nickel superalloy melted and mill products for the aerospace, chemical processing, oil and gas and pollution control industries, and manufactures extruded seamless pipe, fittings and forgings for power generation and oil and gas applications.

On February 29, 2016, we acquired the Duracell business from The Procter & Gamble Company (P&G) pursuant to an agreement entered into in November 2014. Pursuant to the agreement, we received a recapitalized Duracell Company in exchange for shares of P&G common stock held by Berkshire subsidiaries, which had a fair value of approximately \$4.2 billion. Duracell is a leading manufacturer of high-performance alkaline batteries and is an innovator in wireless charging technologies.

Pro forma consolidated revenues and net earnings data for 2016 was not materially different from the amounts reflected in the accompanying Consolidated Financial Statements. Goodwill from these acquisitions is not amortizable for income tax purposes. The fair values of identified assets acquired and liabilities assumed and residual goodwill of PCC and Duracell at their respective acquisition dates are summarized as follows (in millions).

	PCC	Duracell
Cash and cash equivalents	\$ 250	\$ 1,807
Inventories	3,430	319

Edgar Filing: BERKSHIRE HATHAWAY INC - Form 10-Q

Property, plant and equipment	2,765	359
Goodwill	16,011	866
Other intangible assets	23,527	1,550
Other assets	1,916	242
Assets acquired	\$ 47,899	\$ 5,143
Accounts payable, accruals and other liabilities	\$ 2,442	\$ 410
Notes payable and other borrowings	5,251	
Income taxes, principally deferred	7,548	494
Liabilities assumed	\$ 15,241	\$ 904
Net assets	\$ 32,658	\$ 4,239

Table of Contents**Notes to Consolidated Financial Statements (Continued)****Note 4. Investments in fixed maturity securities**

Investments in securities with fixed maturities as of June 30, 2017 and December 31, 2016 are summarized by type below (in millions).

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
<i>June 30, 2017</i>				
U.S. Treasury, U.S. government corporations and agencies	\$ 4,800	\$ 6	\$ (14)	\$ 4,792
States, municipalities and political subdivisions	1,050	54	(1)	1,103
Foreign governments	8,726	223	(27)	8,922
Corporate bonds	6,897	668	(6)	7,559
Mortgage-backed securities	924	115	(4)	1,035
	\$ 22,397	\$ 1,066	\$ (52)	\$ 23,411
<i>December 31, 2016</i>				
U.S. Treasury, U.S. government corporations and agencies	\$ 4,519	\$ 16	\$ (8)	\$ 4,527
States, municipalities and political subdivisions	1,159	58	(1)	1,216
Foreign governments	8,860	207	(66)	9,001
Corporate bonds	6,899	714	(9)	7,604
Mortgage-backed securities	997	126	(6)	1,117
	\$ 22,434	\$ 1,121	\$ (90)	\$ 23,465

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

	June 30, 2017	December 31, 2016
Insurance and other	\$ 23,381	\$ 23,432
Finance and financial products	30	33
	\$ 23,411	\$ 23,465

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, 2017, approximately 93% of foreign government holdings were rated AA or higher by at least one of the major rating agencies. Approximately 81% of foreign government holdings were issued or guaranteed by the United Kingdom, Germany, Australia or

Canada.

The amortized cost and estimated fair value of securities with fixed maturities at June 30, 2017 are summarized below by contractual maturity dates. Actual maturities may differ from contractual maturities due to early call or prepayment rights held by issuers. Amounts are in millions.

	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	Mortgage- backed securities	Total
Amortized cost	\$8,690	\$10,009	\$ 607	\$2,167	\$ 924	\$22,397
Fair value	8,762	10,280	660	2,674	1,035	23,411

Table of Contents**Notes to Consolidated Financial Statements (Continued)****Note 5. Investments in equity securities**

Investments in equity securities as of June 30, 2017 and December 31, 2016 are summarized based on the primary industry of the investee in the table below (in millions).

	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
<i>June 30, 2017 *</i>				
Banks, insurance and finance	\$ 20,887	\$ 32,754	\$	\$ 53,641
Consumer products	19,495	22,267		41,762
Commercial, industrial and other	31,540	10,946	(776)	41,710
	\$ 71,922	\$ 65,967	\$ (776)	\$ 137,113

* Approximately 62% of the aggregate fair value was concentrated in the equity securities of five companies: American Express Company - \$12.8 billion, Apple Inc. - \$19.4 billion, The Coca-Cola Company - \$17.9 billion, International Business Machines Corporation (IBM) - \$8.3 billion and Wells Fargo & Company - \$27.3 billion.

	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
<i>December 31, 2016*</i>				
Banks, insurance and finance	\$ 19,852	\$ 30,572	\$	\$ 50,424
Consumer products	10,657	16,760	(9)	27,408
Commercial, industrial and other	35,868	9,033	(701)	44,200
	\$ 66,377	\$ 56,365	\$ (710)	\$ 122,032

* Approximately 62% of the aggregate fair value was concentrated in the equity securities of five companies: American Express Company - \$11.2 billion, Apple Inc. - \$7.1 billion, The Coca-Cola Company - \$16.6 billion, IBM - \$13.5 billion and Wells Fargo & Company - \$27.6 billion.

As of June 30, 2017 and December 31, 2016, unrealized losses on equity securities in a continuous unrealized loss position for more than twelve consecutive months were \$110 million and \$551 million, respectively.

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

	June 30, 2017	December 31, 2016
Insurance and other	\$ 135,355	\$ 120,471
Railroad, utilities and energy *	1,380	1,186
Finance and financial products	378	375
	\$ 137,113	\$ 122,032

* *Included in other assets.*

Note 6. Investments in The Kraft Heinz Company

In June 2013, Berkshire invested \$12.25 billion in a newly-formed company, H.J. Heinz Holding Corporation (*Heinz Holding*), consisting of 425 million shares of common stock, warrants to acquire approximately 46 million additional shares of common stock at \$0.01 per share and cumulative compounding preferred stock (*Preferred Stock*) with a liquidation preference of \$8 billion. An affiliate of the global investment firm 3G Capital (such affiliate, *3G*) also acquired 425 million shares of Heinz Holding common stock for \$4.25 billion. At that time, Berkshire and 3G each owned a 50% share of Heinz Holding common stock. Heinz Holding then acquired H.J. Heinz Company.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****Note 6. Investments in The Kraft Heinz Company (Continued)**

In March 2015, Heinz Holding entered into an agreement to acquire all of the outstanding common stock of Kraft Foods Group, Inc. (Kraft). In June 2015, Berkshire exercised the aforementioned common stock warrants. On July 1, 2015, Berkshire and 3G also acquired new shares of Heinz Holding common stock for \$5.26 billion and \$4.74 billion, respectively. After these transactions, Berkshire owned approximately 52.5% of the outstanding shares of Heinz Holding. On July 2, 2015, Heinz Holding completed its acquisition of Kraft, at which time Heinz Holding was renamed The Kraft Heinz Company (Kraft Heinz). In connection with its acquisition of Kraft, Kraft Heinz issued one new share of Kraft Heinz common stock for each share of Kraft common stock, which reduced Berkshire's and 3G's ownership interests in Kraft Heinz to 26.8% and 24.2%, respectively.

Berkshire currently owns 26.7% of the outstanding shares of Kraft Heinz common stock. We account for our investment in Kraft Heinz common stock pursuant to the equity method. The carrying value of this investment was approximately \$15.6 billion at June 30, 2017 and \$15.3 billion at December 31, 2016. Our earnings determined under the equity method for the first six months were \$548 million in 2017 and \$446 million in 2016. We received dividends on the common stock of \$391 million in the first six months of 2017 and \$374 million in the first six months of 2016, which we recorded as reductions of our investment. In the second quarter of 2016, we also received dividends of \$180 million on our Preferred Stock investment, which Kraft Heinz redeemed for cash of \$8.32 billion on June 7, 2016.

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

	July 1, 2017	December 31, 2016
Assets	\$ 119,416	\$ 120,480
Liabilities	60,870	62,906

	Second Quarter		First Six Months	
	2017	2016	2017	2016
Sales	\$ 6,677	\$ 6,793	\$ 13,041	\$ 13,363
Net earnings attributable to Kraft Heinz common shareholders	\$ 1,159	\$ 770	\$ 2,052	\$ 1,666

Note 7. Other investments

Other investments include preferred stock of Bank of America Corporation (BAC), warrants to purchase common stock of BAC and preferred stock of Restaurant Brands International, Inc. (RBI). Other investments are classified as available-for-sale and carried at fair value and are shown in our Consolidated Balance Sheets as follows (in millions).

	Cost		Fair Value	
	June 30, 2017	December 31, 2016	June 30, 2017	December 31, 2016
Insurance and other	\$ 6,720	\$ 6,720	\$ 16,838	\$ 14,364
Finance and financial products	1,000	1,000	3,396	2,892
	\$ 7,720	\$ 7,720	\$ 20,234	\$ 17,256

We currently own 50,000 shares of 6% Non-Cumulative Perpetual Preferred Stock of BAC (BAC Preferred) with a liquidation value of \$100,000 per share and warrants to purchase 700,000,000 shares of common stock of BAC (BAC Warrants). The BAC Preferred is redeemable at the option of BAC beginning on May 7, 2019 at a redemption price of \$105,000 per share (or \$5.25 billion in aggregate). The BAC Warrants expire in 2021 and are exercisable for an aggregate cost of \$5 billion (\$7.142857/share). On June 28, 2017, BAC's Board of Directors announced plans to increase the quarterly dividend on BAC's common stock to \$0.12 per share, beginning in the third quarter of 2017. On June 30, 2017, we announced our intention to exercise all of the BAC Warrants we currently own when the BAC quarterly dividend increase occurs. We currently expect to use substantially all of our BAC Preferred as consideration for the \$5 billion cost to exercise the BAC Warrants.

We currently own Class A 9% Cumulative Compounding Perpetual Preferred Shares of RBI (RBI Preferred) having a stated value of \$3 billion. RBI, domiciled in Canada, franchises and operates quick service restaurants. The RBI Preferred is entitled to dividends on a cumulative basis of 9% per annum plus an additional amount, if necessary, to produce an after-tax yield to Berkshire as if the dividends were paid by a U.S.-based company. The RBI Preferred is redeemable at the option of RBI beginning on December 12, 2017. In the second quarter of 2017, RBI announced its intention to redeem all or a portion of our RBI Preferred investment. If not redeemed prior to December 12, 2024, we can cause RBI to redeem the RBI Preferred. In either case, the redemption price will be 109.9% of the stated value of such shares.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****Note 8. Income taxes**

Our consolidated effective income tax rates for the second quarter and first six months of 2017 were 28.9% and 28.1%, respectively, and 31.1% and 22.3%, respectively, in the second quarter and first six months of 2016. Our effective income tax rate normally reflects recurring benefits from: (a) dividends received deductions applicable to certain investments in equity securities, (b) income production tax credits related to wind-powered electricity generation placed in service in the U.S. and (c) lower income tax rates applicable to earnings of certain foreign subsidiaries.

On February 29, 2016, we exchanged our long-held investment in P&G common stock for the common stock of Duracell. This exchange produced a pre-tax gain of \$1.1 billion for financial reporting purposes. The exchange transaction was structured as a tax-free reorganization under the Internal Revenue Code. As a result, no income taxes were payable on the excess of the fair value of the business received over the tax basis of the P&G shares exchanged, and we recorded a one-time reduction of certain deferred income tax liabilities (approximately \$750 million) that were recorded in 2005 in connection with our exchange of The Gillette Company common stock for P&G common stock upon the merger of those two companies. The P&G/Duracell exchange produced an 8.3 percentage point reduction in our consolidated effective income tax rate for the first six months of 2016.

Note 9. Investment gains/losses

Investment gains/losses included in earnings are summarized below (in millions).

	Second Quarter		First Six Months	
	2017	2016	2017	2016
Fixed maturity securities				
Gross gains from sales and redemptions	\$ 15	\$ 20	\$ 26	\$ 39
Gross losses from sales and redemptions	(8)	(14)	(14)	(17)
Equity securities				
Gross gains from sales and redemptions	359	740	784	2,547
Gross losses from sales and redemptions	(82)	(53)	(207)	(63)
Other-than-temporary impairment losses		(63)		(63)
Other	6	13	16	50
	\$ 290	\$ 643	\$ 605	\$ 2,493

We record investments in equity and fixed maturity securities classified as available-for-sale at fair value and record the difference between fair value and cost in other comprehensive income. We recognize investment gains and losses when we sell or otherwise dispose such securities. Gains from sales and redemptions of equity securities in the second quarter of 2016 included \$610 million from the redemption of our investment in Kraft Heinz Preferred Stock. Gains in the first six months of 2016 also included approximately \$1.1 billion from the exchange of our P&G common stock in connection with the acquisition of Duracell.

Note 10. Inventories

Inventories are comprised of the following (in millions).

	June 30, 2017	December 31, 2016
Raw materials	\$ 2,935	\$ 2,789
Work in process and other	2,787	2,506
Finished manufactured goods	4,199	4,033
Goods acquired for resale	6,521	6,399
	\$ 16,442	\$ 15,727

Note 11. Receivables

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

	June 30, 2017	December 31, 2016
Insurance premiums receivable	\$ 11,124	\$ 10,462
Reinsurance recoverable on unpaid losses	3,076	3,338
Trade and other receivables	15,089	13,630
Allowances for uncollectible accounts	(336)	(333)
	\$ 28,953	\$ 27,097

Table of Contents**Notes to Consolidated Financial Statements (Continued)****Note 11. Receivables (Continued)**

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

	June 30, 2017	December 31, 2016
Loans and finance receivables before allowances and discounts	\$ 14,967	\$ 13,728
Allowances for uncollectible loans	(177)	(182)
Unamortized acquisition discounts	(231)	(246)
	\$ 14,559	\$ 13,300

Loans and finance receivables are primarily installment loans originated or acquired by our manufactured housing business. In June 2017, we agreed to provide a Canada-based financial institution with a C\$2 billion (approximately \$1.5 billion) one-year secured revolving credit facility. The agreement expires on June 29, 2018. The outstanding loan balance of C\$1.4 billion at June 30, 2017 was repaid during July. Provisions for loan losses in both the first six months of 2017 and 2016 were \$78 million. Loan charge-offs, net of recoveries, in the first six months were \$83 million in 2017 and \$78 million in 2016. At June 30, 2017, we evaluated approximately 98% of the manufactured housing loan balances collectively for impairment. As a part of the evaluation process, credit quality indicators are reviewed and loans are designated as performing or non-performing. At June 30, 2017, we considered approximately 99% of the loan balances to be performing and approximately 95% of the loan balances current as to payment status.

Note 12. 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).

	Ranges of estimated useful life	June 30, 2017	December 31, 2016
Land		\$ 2,213	\$ 2,108
Buildings and improvements	5 40 years	8,538	8,360
Machinery and equipment	3 25 years	21,220	20,463
Furniture, fixtures and other	2 15 years	4,395	4,080
		36,366	35,011
Accumulated depreciation		(16,576)	(15,686)
		\$ 19,790	\$ 19,325

A summary of property, plant and equipment of our railroad and our utilities and energy businesses follows (in millions).

	Ranges of estimated useful life	June 30, 2017	December 31, 2016
Railroad:			
Land		\$ 6,074	\$ 6,063
Track structure and other roadway	7 100 years	50,344	48,277
Locomotives, freight cars and other equipment	6 41 years	12,264	12,075
Construction in progress		896	965
		69,578	67,380
Accumulated depreciation		(7,936)	(6,130)
		61,642	61,250
Utilities and energy:			
Utility generation, transmission and distribution systems	5 80 years	72,317	71,536
Interstate natural gas pipeline assets	3 80 years	6,969	6,942
Independent power plants and other assets	3 30 years	7,044	6,596
Construction in progress		2,607	2,098
		88,937	87,172
Accumulated depreciation		(25,251)	(24,663)
		63,686	62,509
		\$ 125,328	\$ 123,759

Table of Contents**Notes to Consolidated Financial Statements (Continued)****Note 12. Property, plant and equipment and assets held for lease (Continued)**

The utility generation, transmission and distribution systems and interstate natural gas pipeline assets are owned by regulated public utility and natural gas pipeline subsidiaries.

Assets held for lease and property, plant and equipment of our finance and financial products businesses are summarized below (in millions).

	Ranges of estimated useful life	June 30, 2017	December 31, 2016
Assets held for lease	5 35 years	\$ 12,110	\$ 11,902
Land		226	224
Buildings, machinery and other	3 50 years	1,365	1,302
		13,701	13,428
Accumulated depreciation		(3,910)	(3,739)
		\$ 9,791	\$ 9,689

A summary of depreciation expense follows (in millions).

	First Six Months	
	2017	2016
Insurance and other	\$ 1,089	\$ 1,037
Railroad, utilities and energy	2,389	2,298
Finance and financial products	321	308
	\$ 3,799	\$ 3,643

Note 13. Goodwill and other intangible assets

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

June 30, 2017	December 31, 2016
------------------------------	------------------------------

Edgar Filing: BERKSHIRE HATHAWAY INC - Form 10-Q

Balance at beginning of year	\$ 79,486	\$ 62,708
Acquisitions of businesses	616	17,650
Other, including foreign currency translation	73	(872)
Balance at end of period	\$ 80,175	\$ 79,486

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

	June 30, 2017		December 31, 2016	
	Gross carrying amount	Accumulated amortization	Gross carrying amount	Accumulated amortization
Insurance and other	\$40,419	\$7,199	\$39,976	\$6,495
Railroad, utilities and energy	903	312	898	293
	\$41,322	\$7,511	\$40,874	\$6,788
Trademarks and trade names	\$ 5,275	\$ 653	\$ 5,175	\$ 616
Patents and technology	4,435	2,512	4,341	2,328
Customer relationships	28,457	3,299	28,243	2,879
Other	3,155	1,047	3,115	965
	\$41,322	\$7,511	\$40,874	\$6,788

Amortization expense in the first six months was \$740 million in 2017 and \$716 million in 2016. Intangible assets with indefinite lives were approximately \$18.8 billion as of June 30, 2017 and \$18.7 billion as of December 31, 2016.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****Note 14. 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 include equity index put option contracts written between 2004 and 2008. The liabilities and related notional values of such contracts follows (in millions).

	June 30, 2017		December 31, 2016	
	Notional		Notional	
	Liabilities	Value	Liabilities	Value
Equity index put options	\$ 2,494	\$27,911 ⁽¹⁾	\$ 2,890	\$26,497 ⁽¹⁾

⁽¹⁾ 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 gains/losses. We entered into these contracts with the expectation that the premiums received would exceed the amounts ultimately paid to counterparties. A summary of the derivative gains/losses included in our Consolidated Statements of Earnings follows (in millions).

	Second Quarter		First Six Months	
	2017	2016	2017	2016
Equity index put options	\$ (65)	\$ (83)	\$ 395	\$ (879)
Credit default		103		89
	\$ (65)	\$ 20	\$ 395	\$ (790)

The equity index put option contracts are European style options written on four major equity indexes and expire between June 2018 and January 2026. 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 \$4.2 billion on these contracts at the contract inception dates and therefore 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 \$842 million at June 30, 2017 and \$1.0 billion at December 31, 2016. However, these contracts may not be unilaterally terminated or fully settled before the expiration

dates. Therefore, the ultimate amount of cash basis gains or losses on these contracts will not be determined for several years. The remaining weighted average life of all contracts was approximately 3.4 years at June 30, 2017.

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, 2017, 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.

In July 2016, our last remaining credit default contract was terminated by mutual agreement with the counterparty. We paid \$195 million upon termination of the contract.

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. Derivative instruments, including forward purchases and sales, futures, swaps and options, are used to manage a portion of these price risks. Derivative contract assets are included in other assets and were \$123 million as of June 30, 2017 and \$142 million as of December 31, 2016. Derivative contract liabilities are included in accounts payable, accruals and other liabilities and were \$139 million as of June 30, 2017 and \$145 million as of December 31, 2016. Net derivative contract assets or liabilities of our regulated utilities that are probable of recovery through rates, are offset by regulatory liabilities or assets. Unrealized gains or losses on contracts accounted for as cash flow or fair value hedges are recorded in other comprehensive income or in net earnings, as appropriate.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****Note 15. Supplemental cash flow information**

Supplemental cash flow information follows (in millions).

	First Six Months	
	2017	2016
Cash paid during the period for:		
Income taxes	\$ 1,082	\$ 1,055
Interest:		
Insurance and other businesses	390	253
Railroad, utilities and energy businesses	1,410	1,406
Finance and financial products businesses	211	184
Non-cash investing and financing activities:		
Liabilities assumed in connection with business acquisitions	167	16,997
Equity securities exchanged in connection with business acquisition		4,239

Note 16. Unpaid losses and loss adjustment expenses

The liabilities for unpaid losses and loss adjustment expenses (also referred to as claim liabilities) under our 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 for the six months ending June 30, 2017 and 2016 follows (in millions).

	2017	2016
Unpaid losses and loss adjustment expenses beginning of year:		
Gross liabilities	\$ 76,918	\$ 73,144
Reinsurance recoverable and deferred charges	(11,385)	(10,994)
Net balance	65,533	62,150
Incurred losses and loss adjustment expenses with respect to:		
Current accident year events	16,980	14,898
Prior accident years events	(199)	(1,071)
Retroactive reinsurance and discount accretion	10,532	883
Total incurred losses and loss adjustment expenses	27,313	14,710

Paid losses and loss adjustment expenses with respect to:

Current accident year events	(6,656)	(6,049)
Prior accident years events	(7,265)	(6,512)
Retroactive reinsurance	(618)	(534)
Total payments	(14,539)	(13,095)
Foreign currency translation adjustment	327	(168)
Unpaid losses and loss adjustment expenses June 30:		
Net balance	78,634	63,597
Reinsurance recoverable and deferred charges	16,673	11,111
Gross liabilities	\$ 95,307	\$ 74,708

Incurred losses and loss adjustment expenses in the preceding table reflect the losses and loss adjustment expenses recorded in earnings in each period related to insured events occurring in the current year and in prior years. We present incurred and paid losses under retroactive reinsurance contracts and discount accretion separately. Such amounts relate to prior accident years.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****Note 16. Unpaid losses and loss adjustment expenses (Continued)**

Incurred losses and loss adjustment expenses in the first six months of 2017 and 2016 reflected decreases of \$199 million and \$1,071 million, respectively, in the estimated ultimate liabilities for prior accident years' events. In the first six months of 2017, the decrease included a \$532 million decrease related to primary insurance operations (primarily private passenger automobile, healthcare malpractice and workers' compensation coverages), which was partly offset by an increase attributable to reinsurance operations. The increase related to our reinsurance operations included \$215 million with respect to certain personal injury claims in the United Kingdom due to a regulatory decision that increases calculated lump sum settlement amounts. In addition, during 2017, we increased ultimate liability estimates under certain reinsurance contracts due to higher than expected reported losses from hurricane and earthquake events that occurred in 2016. In the first six months of 2016, we reduced estimated ultimate liabilities for prior accident years' events for reinsurance operations (\$619 million) and primary insurance (\$452 million). The reductions related to reinsurance operations were primarily attributable to lower than expected reported losses, while the reductions for primary insurance primarily related to private passenger automobile, healthcare malpractice and workers' compensation coverages.

In January 2017, a Berkshire subsidiary, National Indemnity Company (NICO), entered into a retroactive reinsurance agreement with various subsidiaries of American International Group, Inc. (collectively, AIG). NICO received cash consideration of \$10.2 billion and agreed to indemnify AIG for 80% of up to \$25 billion, excess of \$25 billion retained by AIG, of losses and allocated loss adjustment expenses with respect to certain commercial insurance loss events occurring in years prior to 2016. The transaction became effective on February 2, 2017. Berkshire agreed to guarantee the timely payment of all amounts due to AIG under the agreement.

We accounted for the AIG agreement as retroactive reinsurance of short-duration insurance contracts. As of the effective date, we recorded premiums earned and losses and loss adjustment expenses incurred of \$10.2 billion. We also recorded a liability for unpaid losses and loss adjustment expenses of \$16.4 billion, representing the estimated ultimate liabilities assumed, and a deferred charge reinsurance assumed asset of \$6.2 billion, representing the excess of the liability over the premiums earned. This deferred charge asset will be amortized over the estimated claims settlement period using the interest method based on the estimated timing and amount of future loss payments. Amortization charges are included in losses and loss adjustment expenses in the Consolidated Statements of Earnings.

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, 2017.

	Weighted Average Interest Rate	June 30, 2017	December 31, 2016
<i>Insurance and other:</i>			

Issued by Berkshire:

U.S. Dollar denominated borrowings due 2017-2047	2.8%	\$10,615	\$11,709
Euro denominated borrowings due 2020-2035	1.1%	7,766	5,994
Short-term subsidiary borrowings	3.0%	2,013	2,094
Other subsidiary borrowings due 2017-2045	3.9%	7,387	7,378
		\$27,781	\$27,175

In January 2017, Berkshire issued 1.1 billion in senior unsecured notes. The notes consisted of 550 million of 0.25% notes due in 2021 and 550 million of 0.625% notes due in 2023. In January 2017, senior notes of \$1.1 billion matured. The increase in the carrying value of Berkshire's Euro denominated senior notes in the first six months of 2017 included \$597 million that was charged to earnings as additional interest expense for the first six months of 2017 (including \$526 million in the second quarter) and resulted from the revaluation attributable to changes in foreign currency exchange rates.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****Note 17. Notes payable and other borrowings (Continued)**

	Weighted Average Interest Rate	June 30, 2017	December 31, 2016
<i>Railroad, utilities and energy:</i>			
Issued by Berkshire Hathaway Energy Company (BHE) and its subsidiaries:			
BHE senior unsecured debt due 2018-2045	5.4%	\$ 7,420	\$ 7,818
Subsidiary and other debt due 2017-2064	4.6%	30,729	29,223
Issued by BNSF due 2017-2097	4.8%	22,552	22,044
		\$ 60,701	\$ 59,085

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 including, but not limited to, leverage ratios, interest coverage ratios and debt service coverage ratios. During the first six months of 2017, BHE and its subsidiaries issued approximately \$1.275 billion of debt with maturity dates ranging from 2027 to 2057 and a weighted average interest rate of 3.7%.

BNSF's borrowings are primarily senior unsecured debentures. In March 2017, BNSF issued \$1.25 billion of senior unsecured debentures consisting of \$500 million of 3.25% debentures due in 2027 and \$750 million of 4.125% debentures due in 2047. In May 2017, \$650 million of BNSF debentures matured. As of June 30, 2017, 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 Average Interest Rate	June 30, 2017	December 31, 2016
<i>Finance and financial products:</i>			
Issued by Berkshire Hathaway Finance Corporation (BHFC) due 2017-2043	2.7%	\$ 13,323	\$ 14,423
Issued by other subsidiaries due 2017-2036	4.7%	465	961
		\$ 13,788	\$ 15,384

In January 2017, BHFC issued \$1.3 billion of senior notes consisting of \$950 million of floating rate notes due in 2019 and \$350 million of floating rate notes due in 2020. In the first six months of 2017, senior notes of \$2.4 billion matured. The borrowings of BHFC, a wholly owned finance subsidiary of Berkshire, are fully and unconditionally guaranteed by Berkshire.

As of June 30, 2017, our subsidiaries had unused lines of credit and commercial paper capacity aggregating approximately \$8.4 billion to support short-term borrowing programs and provide additional liquidity. Such unused lines of credit included about \$4.8 billion related to BHE and its subsidiaries. In addition to BHFC's borrowings, at June 30, 2017, Berkshire guaranteed approximately \$2.6 billion of other subsidiary borrowings. 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.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****Note 18. Fair value measurements**

Our financial assets and liabilities are summarized below as of June 30, 2017 and December 31, 2016 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 Observable Inputs (Level 2)	Other Significant Observable Inputs (Level 3)
June 30, 2017					
Investments in fixed maturity securities:					
U.S. Treasury, U.S. government corporations and agencies	\$ 4,792	\$ 4,792	\$ 3,326	\$ 1,466	\$
States, municipalities and political subdivisions	1,103	1,103		1,103	
Foreign governments	8,922	8,922	7,143	1,779	
Corporate bonds	7,559	7,559		7,552	7
Mortgage-backed securities	1,035	1,035		1,035	
Investments in equity securities	137,113	137,113	137,104	8	1
Investment in Kraft Heinz common stock	15,584	27,871	27,871		
Other investments	20,234	20,234		20,234	
Loans and finance receivables	14,559	15,015		1,095	13,920
Derivative contract assets ⁽¹⁾	123	123	2	15	106
Derivative contract liabilities:					
Railroad, utilities and energy ⁽¹⁾	139	139	2	120	17
Equity index put options	2,494	2,494			2,494
Notes payable and other borrowings:					
Insurance and other	27,781	28,489		28,489	
Railroad, utilities and energy	60,701	68,603		68,603	
Finance and financial products	13,788	14,296		13,973	323
December 31, 2016					
Investments in fixed maturity securities:					
U.S. Treasury, U.S. government corporations and agencies	\$ 4,527	\$ 4,527	\$ 3,099	\$ 1,428	\$
States, municipalities and political subdivisions	1,216	1,216		1,216	
Foreign governments	9,001	9,001	7,237	1,764	
Corporate bonds	7,604	7,604		7,540	64
Mortgage-backed securities	1,117	1,117		1,117	
Investments in equity securities	122,032	122,032	122,031		1

Edgar Filing: BERKSHIRE HATHAWAY INC - Form 10-Q

Investment in Kraft Heinz common stock	15,345	28,418	28,418		
Other investments	17,256	17,256			17,256
Loans and finance receivables	13,300	13,717		13	13,704
Derivative contract assets ⁽¹⁾	142	142	5	43	94
Derivative contract liabilities:					
Railroad, utilities and energy ⁽¹⁾	145	145	3	114	28
Equity index put options	2,890	2,890			2,890
Notes payable and other borrowings:					
Insurance and other	27,175	27,712		27,712	
Railroad, utilities and energy	59,085	65,774		65,774	
Finance and financial products	15,384	15,825		15,469	356

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

Table of Contents**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. Considerable judgment may be required in interpreting market data used to develop the estimates of fair value. Accordingly, the fair values presented are not necessarily indicative of the amounts that could be realized in an actual current market exchange. The use of alternative market assumptions and/or estimation methodologies may have a material effect on the estimated fair value. 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, 2017 and 2016 follow (in millions).

	Investments in fixed maturity securities	Investments in equity securities and other investments	Net derivative contract liabilities
<u>Six months ending June 30, 2017</u>			
Balance at December 31, 2016	\$ 64	\$ 17,257	\$ (2,824)
Gains (losses) included in:			
Earnings			473
Other comprehensive income	1	1,156	(2)
Regulatory assets and liabilities			(2)

Edgar Filing: BERKSHIRE HATHAWAY INC - Form 10-Q

Acquisitions, dispositions and settlements	(58)		(50)
Transfers into/out of Level 3		(18,412)	
Balance at June 30, 2017	\$ 7	\$ 1	\$ (2,405)
<u>Six months ending June 30, 2016</u>			
Balance at December 31, 2015	\$100	\$ 21,403	\$ (3,785)
Gains (losses) included in:			
Earnings			(737)
Other comprehensive income	1	(927)	
Regulatory assets and liabilities			(11)
Acquisitions, dispositions and settlements	5		(35)
Transfers into/out of Level 3	(1)		195
Balance at June 30, 2016	\$105	\$ 20,476	\$ (4,373)

Gains and losses included in earnings are included as components of investment gains/losses, derivative gains/losses and other revenues, as appropriate and are primarily related to changes in the values of derivative contracts and settlement transactions. Gains and losses included in other comprehensive income are 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.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****Note 18. Fair value measurements (Continued)**

As disclosed in Note 7, we expect to exercise our BAC Warrants in the third quarter of 2017 using the BAC Preferred as consideration and additionally, RBI intends to redeem our RBI Preferred investment. As of June 30, 2017, we based our valuations of these investments on these 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 were not significant and that the valuations of such investments were Level 2 measurements as of June 30, 2017.

Quantitative information as of June 30, 2017, with respect to significant 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).

	Principal Valuation		
	Fair Value	Techniques	Weighted Unobservable Inputs Average
Derivative contract liabilities:			
Equity index put options	\$ 2,494	Option pricing model	Volatility 19%

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 first six months of 2017 are shown in the table below.

	Class A, \$5 Par Value (1,650,000 shares authorized)			Class B, \$0.0033 Par Value (3,225,000,000 shares authorized)		
	Issued	Treasury	Outstanding	Issued	Treasury	Outstanding
Balance at December 31, 2016	788,058	(11,680)	776,378	1,303,323,927	(1,409,762)	1,301,914,165
Conversions of Class A common stock to Class B common stock and exercises of replacement stock options issued in a business acquisition	(8,124)		(8,124)	12,609,748		12,609,748
Balance at June 30, 2017	779,934	(11,680)	768,254	1,315,933,675	(1,409,762)	1,314,523,913

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 1,644,603 shares outstanding as of June 30, 2017 and 1,644,321 shares outstanding as of December 31, 2016. In addition to our common stock, 1,000,000 shares of preferred stock are authorized, but none are issued.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****Note 19. Common stock (Continued)**

Berkshire's Board of Directors (Berkshire's Board) has approved a common stock repurchase program under which Berkshire may repurchase its Class A and Class B shares at prices no higher than a 20% premium over the book value of the shares. Berkshire may repurchase shares in the open market or through privately negotiated transactions. Berkshire's Board authorization 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 dollar amount or number of Class A or Class B shares and there is no expiration date to the program.

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 significant amounts reclassified out of accumulated other comprehensive income for the six months ending June 30, 2017 and 2016 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
2017					
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 from accumulated other comprehensive income into net earnings	(383)		34	13	(336)
Balance at June 30, 2017	\$ 51,333	\$ (4,047)	\$ (623)	\$ (11)	\$ 46,652
Reclassifications into net earnings:					
Investment gains/losses	\$ (589)	\$	\$	\$	\$ (589)
Other			45	24	69
Reclassifications before income taxes	(589)		45	24	(520)
Applicable income taxes	(206)		11	11	(184)
	\$ (383)	\$	\$ 34	\$ 13	\$ (336)

2016

Balance at December 31, 2015	\$ 38,598	\$ (3,856)	\$ (762)	\$ 2	\$ 33,982
Other comprehensive income, net before reclassifications	(1,971)	(78)	(5)	(22)	(2,076)
Reclassifications from accumulated other comprehensive income into net earnings	(1,180)		35	16	(1,129)
Balance at June 30, 2016	\$ 35,447	\$ (3,934)	\$ (732)	\$ (4)	\$ 30,777
Reclassifications into net earnings:					
Investment gains/losses	\$ (1,816)	\$	\$	\$	\$ (1,816)
Other			51	35	86
Reclassifications before income taxes	(1,816)		51	35	(1,730)
Applicable income taxes	(636)		16	19	(601)
	\$ (1,180)	\$	\$ 35	\$ 16	\$ (1,129)

Table of Contents**Notes to Consolidated Financial Statements (Continued)****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 the third quarter of 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. MLMIC 's assets and policyholders ' surplus determined under statutory accounting principles as of March 31, 2017 were approximately \$5.6 billion and \$2.1 billion, respectively. The acquisition price will be an amount equal to the sum of: (i) the tangible book value of MLMIC at the closing date (determined under U.S. GAAP); plus (ii) \$100 million. 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 transaction will be completed in late 2017.

We own a 50% interest in a joint venture, Berkadia Commercial Mortgage LLC (Berkadia), with Leucadia National Corporation (Leucadia) owning the other 50% interest. Berkadia is a servicer of commercial real estate loans in the U.S. A significant source of funding for Berkadia 's operations is through the issuance of commercial paper, which is limited to \$1.5 billion. Berkadia 's commercial paper outstanding is supported by a surety policy issued by a Berkshire insurance subsidiary. Leucadia has agreed to indemnify us for one-half of any losses we incur under the policy.

On July 7, 2017, Berkshire Hathaway Energy Company (BHE) agreed to acquire 80.03% of the outstanding equity interests of Oncor Electric Delivery Company LLC (Oncor) for \$9 billion pursuant to an agreement between BHE and Energy Future Holdings Corp. (EFH). Since April 2014, EFH and the substantial majority of its direct and indirect subsidiaries, excluding Oncor, have operated as debtors-in-possession under the jurisdiction of the U.S. Bankruptcy Court and pursuant to Chapter 11 of the U.S. Bankruptcy Code.

Oncor is a regulated electricity transmission and distribution company that operates the largest transmission and distribution system in Texas, delivering electricity to more than 3.4 million homes and businesses and operating more than 122,000 miles of transmission and distribution lines. Texas Transmission Investment LLC owns 19.75% and certain Oncor directors, employees and retirees own the remaining 0.22% of Oncor 's equity interests. BHE intends to acquire the remaining 19.97% minority interest positions in Oncor through transactions separate from the agreement with EFH.

The completion of this transaction is subject to numerous approvals, rulings and conditions, including those from the U.S. Bankruptcy Court, the Public Utility Commission of Texas and the Federal Energy Regulatory Commission (FERC), and the expiration of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. Subject to obtaining the necessary approvals, we expect the transaction between BHE and EFH will close in the fourth quarter of 2017.

Table of Contents**Notes to Consolidated Financial Statements (Continued)****Note 22. Business segment data**

Our operating businesses include a large and diverse group of insurance, 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 2017 and 2016 were as follows (in millions).

	Second Quarter		First Six Months	
	2017	2016	2017	2016
Operating Businesses:				
Insurance group:				
Underwriting:				
GEICO	\$ 7,244	\$ 6,247	\$ 14,089	\$ 12,297
General Re	1,578	1,389	2,969	2,779
Berkshire Hathaway Reinsurance Group	1,786	1,652	13,627	3,895
Berkshire Hathaway Primary Group	1,759	1,511	3,435	2,952
Investment income	1,284	1,236	2,416	2,385
Total insurance group	13,651	12,035	36,536	24,308
BNSF	5,250	4,585	10,435	9,352
Berkshire Hathaway Energy	4,623	4,299	8,880	8,417
Manufacturing	12,738	12,201	24,835	22,755
McLane Company	12,581	12,049	24,682	23,850
Service and retailing	6,550	6,385	12,643	12,276
Finance and financial products	2,033	1,989	3,898	3,715
	57,426	53,543	121,909	104,673
Reconciliation of segments to consolidated amount:				
Investment and derivative gains/losses	225	663	1,000	1,703
Eliminations and other	(133)	48	(204)	41
	\$ 57,518	\$ 54,254	\$ 122,705	\$ 106,417

Earnings before income taxes by segment were as follows (in millions).

	Second Quarter		First Six Months	
	2017	2016	2017	2016
Operating Businesses:				

Edgar Filing: BERKSHIRE HATHAWAY INC - Form 10-Q

Insurance group:

Underwriting:

GEICO	\$	119	\$	150	\$	294	\$	414
General Re		25		2		(118)		44
Berkshire Hathaway Reinsurance Group		(400)		184		(1,000)		105
Berkshire Hathaway Primary Group		232		174		421		295
Investment income		1,283		1,235		2,412		2,377
Total insurance group		1,259		1,745		2,009		3,235
BNSF		1,537		1,238		2,882		2,496
Berkshire Hathaway Energy		670		666		1,285		1,235
Manufacturing		1,939		1,687		3,426		3,169
McLane Company		69		129		157		265
Service and retailing		555		457		948		781
Finance and financial products		508		583		974		1,061
		6,537		6,505		11,681		12,242
Reconciliation of segments to consolidated amount:								
Investment and derivative gains/losses		225		663		1,000		1,703
Income from Kraft Heinz		309		386		548		626
Interest expense, not allocated to segments		(646)		31		(857)		(317)
Eliminations and other		(296)		(213)		(555)		(426)
	\$	6,129	\$	7,372	\$	11,817	\$	13,828

Table of Contents**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	
	2017	2016	2017	2016
Insurance underwriting	\$ (22)	\$ 337	\$ (289)	\$ 550
Insurance investment income	965	978	1,873	1,897
Railroad	958	772	1,796	1,556
Utilities and energy	516	482	1,017	923
Manufacturing, service and retailing	1,662	1,493	2,979	2,759
Finance and financial products	332	396	635	707
Investment and derivative gains/losses	143	394	647	2,246
Other	(292)	149	(336)	(48)
Net earnings attributable to Berkshire Hathaway shareholders	\$ 4,262	\$ 5,001	\$ 8,322	\$ 10,590

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 (such as sales, marketing, purchasing, legal or human resources) 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. It also is responsible for establishing and monitoring Berkshire's corporate governance practices, including, but not limited to, communicating the appropriate tone at the top messages to employees and associates, monitoring governance efforts, including those at the operating businesses, and participating in the resolution of governance-related issues as needed. The business segment data (Note 22 to the accompanying Consolidated Financial Statements) should be read in conjunction with this discussion.

Our insurance businesses generated after-tax losses from underwriting in the second quarter and first six months of 2017. These losses included foreign currency exchange rate losses from the revaluation of reinsurance liabilities denominated in foreign currencies of \$122 million in the second quarter and \$196 million in the first six months of 2017. Our after-tax underwriting earnings in 2016 included foreign currency exchange rate gains of \$185 million in the second quarter and \$223 million in the first six months. Additionally, underwriting results in 2017 declined as compared to 2016 due to decreased earnings from the re-estimation of ultimate liabilities for prior years' loss events, higher losses from current year catastrophe events and increased deferred charge amortization on retroactive reinsurance contracts. Our railroad business generated comparative increases in earnings in the second quarter and first six months of 2017 compared to 2016, reflecting increased unit volume, partly offset by increased fuel and other costs. Our utility and energy business produced higher earnings in the second quarter and first six months of 2017 compared to 2016, reflecting lower effective income tax rates. Earnings of our manufacturing, service and retailing businesses in 2017 increased 11.3% in the second quarter and 8.0% in the first six months compared to the same periods in 2016. These increases reflected comparatively higher earnings from several of our larger operations and the impact of businesses acquired in 2016 (PCC and Duracell), partly offset by losses and impairment charges related to the disposition of a prior bolt-on acquisition by one of our manufacturing businesses.

After-tax investment and derivative gains in the second quarter and first six months of 2017 were \$143 million and \$647 million, respectively, and \$394 million and \$2.25 billion in the second quarter and first six months of 2016, respectively. After-tax investment gains in the first six months of 2016 included a non-cash gain of approximately \$1.9 billion related to the exchange of P&G common stock for 100% of the common stock of Duracell. We believe that investment and derivative gains/losses are often meaningless in terms of understanding our reported results or evaluating our economic performance. Investment and derivative gains and losses have caused and will likely continue to cause significant volatility in our periodic earnings. Other earnings in 2017 are net of after-tax foreign currency exchange rate losses of \$342 million in the second quarter and \$399 million for the first six months from the revaluation of parent company Euro denominated notes payable. In 2016, other earnings included after-tax foreign currency exchange rate gains of \$101 million in the second quarter and losses of \$60 million in the first six months from the revaluation of Euro denominated notes payable.

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 disaggregated as follows: GEICO, General Re, Berkshire Hathaway Reinsurance Group (BHRG) and Berkshire Hathaway Primary Group.

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)*****Insurance Underwriting (Continued)***

Our management views insurance businesses as possessing two distinct operations — underwriting and investing. Underwriting decisions are the responsibility of the unit managers; investing decisions, with limited exceptions, are the responsibility of Berkshire's Chairman and CEO, Warren E. Buffett. Accordingly, we evaluate performance of underwriting operations without any allocation of investment income or investment gains/losses.

The timing and amount of catastrophe losses can produce significant volatility in our periodic underwriting results, particularly with respect to our reinsurance businesses. Our periodic underwriting results may be affected significantly by changes in estimates for unpaid losses and loss adjustment expenses, including amounts established for occurrences in prior years. Actual claim settlements and revised loss estimates will develop over time and the unpaid loss estimates recorded as of the balance sheet date will develop upward or downward in future periods, producing a corresponding decrease or increase to pre-tax earnings. Our periodic underwriting results may also include significant 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 as a result of foreign currency exchange rate fluctuations. Foreign currency exchange rates can be volatile and the resulting impact on our underwriting earnings can be relatively significant. Underwriting results of our insurance businesses are summarized below. Amounts are in millions.

	Second Quarter		First Six Months	
	2017	2016	2017	2016
Underwriting gain (loss) attributable to:				
GEICO	\$ 119	\$ 150	\$ 294	\$ 414
General Re	25	2	(118)	44
Berkshire Hathaway Reinsurance Group	(400)	184	(1,000)	105
Berkshire Hathaway Primary Group	232	174	421	295