

# BERKSHIRE HATHAWAY INC.

## Berkshire Hathaway Annual Report 2020

Form 10-K (NYSE:BRK.B)

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549  
**FORM 10-K**

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

For the fiscal year ended December 31, 2019  
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  
3555 Farnam Street, Omaha, Nebraska  
(Address of principal executive office)

47-0813844  
(I.R.S. Employer  
Identification No.)  
68131  
(Zip Code)

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

**Securities registered pursuant to Section 12(b) of the Act:**

<u>Title of each class</u>	<u>Trading Symbols</u>	<u>Name of each exchange on which registered</u>
Class A Common Stock	BRK.A	New York Stock Exchange
Class B Common Stock	BRK.B	New York Stock Exchange
0.750% Senior Notes due 2023	BRK23	New York Stock Exchange
1.125% Senior Notes due 2027	BRK27	New York Stock Exchange
1.625% Senior Notes due 2035	BRK35	New York Stock Exchange
0.500% Senior Notes due 2020	BRK20	New York Stock Exchange
1.300% Senior Notes due 2024	BRK24	New York Stock Exchange
2.150% Senior Notes due 2028	BRK28	New York Stock Exchange
0.250% Senior Notes due 2021	BRK21	New York Stock Exchange
0.625% Senior Notes due 2023	BRK23A	New York Stock Exchange
2.375% Senior Notes due 2039	BRK39	New York Stock Exchange
2.625% Senior Notes due 2059	BRK59	New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act: NONE**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 (or for such shorter period that the registrant was required to file such reports), 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 every Interactive Data File required to be submitted 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 such files). Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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  Accelerated filer  Non-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

State the aggregate market value of the voting stock held by non-affiliates of the Registrant as of June 30, 2019: \$17,300,000,000\*

Indicate the number of shares outstanding of each of the Registrant's classes of common stock:

February 13, 2020—Class A common stock, \$5 par value	700,396 shares
February 13, 2020—Class B common stock, \$0.0033 par value	1,385,994,959 shares

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Proxy Statement for the Registrant's Annual Meeting to be held May 2, 2020 are incorporated in Part III.

\* This aggregate value is computed at the last sale price of the common stock as reported on the New York Stock Exchange on June 30, 2019. It does not include the value of Class A common stock and Class B common stock held by Directors and Executive Officers of the Registrant and members of their immediate families, some of whom may not constitute "affiliates" for purpose of the Securities Exchange Act of 1934.

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## Part I

### Item 1. Business Description

Berkshire Hathaway Inc. (“Berkshire,” “Company” or “Registrant”) is a holding company owning subsidiaries engaged in a large number of diverse business activities. The most important of these are insurance businesses conducted on both a primary basis and a reinsurance basis, a freight rail transportation business and a group of utility and energy generation and distribution businesses. Berkshire also owns and operates numerous other businesses engaged in a variety of activities, as identified herein. Berkshire is domiciled in the state of Delaware, and its corporate headquarters is in Omaha, Nebraska.

Berkshire’s operating businesses are managed 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 Berkshire’s corporate headquarters in the day-to-day business activities of the operating businesses. Berkshire’s corporate senior 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 its employees and associates, monitoring governance efforts, including those at the operating businesses, and participating in the resolution of governance-related issues as needed.

Berkshire and its consolidated subsidiaries employ approximately 391,500 people worldwide.

#### Insurance and Reinsurance Businesses

Berkshire’s insurance and reinsurance business activities are conducted through numerous domestic and foreign-based insurance entities. Berkshire’s insurance businesses provide insurance and reinsurance of property and casualty and life, accident and health risks worldwide.

In direct or primary insurance activities, the insurer assumes the risk of loss from persons or organizations that are directly subject to the risks. Such risks may relate to property, casualty (or liability), life, accident, health, financial or other perils that may arise from an insurable event. In reinsurance activities, the reinsurer assumes defined portions of risks that other direct insurers or reinsurers assumed in their own insuring activities.

Reinsurance contracts are normally classified as treaty or facultative contracts. Treaty reinsurance refers to reinsurance coverage for all or a portion of a specified group or class of risks ceded by the direct insurer, while facultative reinsurance involves coverage of specific individual underlying risks. Reinsurance contracts are further classified as quota-share or excess. Under quota-share (proportional or pro-rata) reinsurance, the reinsurer shares proportionally in the original premiums and losses of the direct insurer or reinsurer. Excess (or non-proportional) reinsurance provides for the indemnification of the direct insurer or reinsurer for all or a portion of the loss in excess of an agreed upon amount or “retention.” Both quota-share and excess reinsurance contracts may provide for aggregate limits of indemnification.

Insurance and reinsurance are generally subject to regulatory oversight throughout the world. Except for regulatory considerations, there are virtually no barriers to entry into the insurance and reinsurance industry. Competitors may be domestic or foreign, as well as licensed or unlicensed. The number of competitors within the industry is not known. Insurers and reinsurers compete on the basis of reliability, financial strength and stability, financial ratings, underwriting consistency, service, business ethics, price, performance, capacity, policy terms and coverage conditions.

Insurers based in the United States (“U.S.”) are subject to regulation by their states of domicile and by those states in which they are licensed to write policies on an admitted basis. The primary focus of regulation is to assure that insurers are financially solvent and that policyholder interests are otherwise protected. States establish minimum capital levels for insurance companies and establish guidelines for permissible business and investment activities. States have the authority to suspend or revoke a company’s authority to do business as conditions warrant. States regulate the payment of dividends by insurance companies to their shareholders and other transactions with affiliates. Dividends, capital distributions and other transactions of extraordinary amounts are subject to prior regulatory approval.

Insurers may market, sell and service insurance policies in the states where they are licensed. These insurers are referred to as admitted insurers. Admitted insurers are generally required to obtain regulatory approval of their policy forms and premium rates. Non-admitted insurance markets have developed to provide insurance that is otherwise unavailable through admitted insurers. Non-admitted insurance, often referred to as “excess and surplus” lines, is procured by either state-licensed surplus lines brokers who place risks with insurers not licensed in that state or by the insured party’s direct procurement from non-admitted insurers. Non-admitted insurance is subject to considerably less regulation with respect to policy rates and forms. Reinsurers are normally not required to obtain regulatory approval of premium rates or reinsurance contracts.

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The insurance regulators of every state participate in the National Association of Insurance Commissioners (“NAIC”). The NAIC adopts forms, instructions and accounting procedures for use by U.S. insurers and reinsurers in preparing and filing annual statutory financial statements. However, an insurer’s state of domicile has ultimate authority over these matters. In addition to its activities relating to the annual statement, the NAIC develops or adopts statutory accounting principles, model laws, regulations and programs for use by its members. Such matters deal with regulatory oversight of solvency, risk management, compliance with financial regulation standards and risk-based capital reporting requirements.

U.S. states, through the NAIC, and international insurance regulators through the International Association of Insurance Supervisors (“IAIS”) have been developing standards and best practices focused on establishing a common set of principles (“Insurance Core Principles”) and framework (“ComFrame”) for the regulation of large multi-national insurance groups. The standards address a variety of topics regarding supervision, coordination of regulators, insurance capital standards, risk management and governance. While the IAIS standards do not have legal effect, the states and the NAIC are implementing, and are expected to continue to implement, various regulatory tools and mandates. For example, the U.S. state regulators now require insurance groups to file an annual report, called an Own Risk Solvency Assessment or ORSA, with the group’s lead regulator. U.S. state regulators formed supervisory colleges intended to promote communication and cooperation amongst the various domestic international insurance regulators. The Nebraska Department of Insurance acts as the lead group wide supervisor for our group of insurance companies and chairs the Berkshire supervisory college. The NAIC is also developing further tools, including a group capital calculation tool and various liquidity assessments, that could be imposed on insurance groups in the future.

Berkshire’s insurance companies maintain capital strength at exceptionally high levels, which differentiates them from their competitors. Collectively, the combined statutory surplus of Berkshire’s U.S. based insurers was approximately \$216 billion at December 31, 2019. Berkshire’s major insurance subsidiaries are rated AA+ by Standard & Poor’s and A++ (superior) by A.M. Best with respect to their financial condition and claims paying ability.

The Terrorism Risk Insurance Act of 2002 established within the Department of the Treasury a Terrorism Insurance Program (“Program”) for commercial property and casualty insurers by providing federal reinsurance of insured terrorism losses. The Program currently extends to December 31, 2027 through other Acts, most recently the Terrorism Risk Insurance Program Reauthorization Act of 2019 (the “2019 TRIA Reauthorization”). Hereinafter these Acts are collectively referred to as TRIA. Under TRIA, the Department of the Treasury is charged with certifying “acts of terrorism.” Coverage under TRIA occurs if the industry insured loss for certified events occurring during the calendar year exceeds \$200 million in 2020, or any calendar year thereafter.

To be eligible for federal reinsurance, insurers must make available insurance coverage for acts of terrorism, by providing policyholders with clear and conspicuous notice of the amount of premium that will be charged for this coverage and of the federal share of any insured losses resulting from any act of terrorism. Assumed reinsurance is specifically excluded from TRIA participation. TRIA currently also excludes certain forms of direct insurance (such as personal and commercial auto, burglary, theft, surety and certain professional liability lines). Reinsurers are not required to offer terrorism coverage and are not eligible for federal reinsurance of terrorism losses.

During 2020 and thereafter, in the event of a certified act of terrorism, the federal government will reimburse insurers (conditioned on their satisfaction of policyholder notification requirements) for 80% of their insured losses in excess of an insurance group’s deductible. Under the Program, the deductible is 20% of the aggregate direct subject earned premium for relevant commercial lines of business in the immediately preceding calendar year. The aggregate deductible in 2020 for Berkshire’s insurance group is expected to approximate \$1.3 billion. There is also an aggregate program limit of \$100 billion on the amount of the federal government coverage for each TRIA year.

The extent of insurance regulation varies significantly among the countries in which our non-U.S. operations conduct business. While each country imposes licensing, solvency, auditing, and financial reporting requirements, the type and extent of the requirements differ substantially. For example:

- in some countries, insurers are required to prepare and file monthly and/or quarterly financial reports, and in others, only annual reports;
  - some regulators require intermediaries to be involved in the sale of insurance products, whereas other regulators permit direct sales contact between the insurer and the customer;
  - the extent of restrictions imposed upon an insurer’s use of local and offshore reinsurance vary;
  - policy form filing and rate regulation vary by country;
  - the frequency of contact and periodic on-site examinations by insurance authorities differ by country;
  - the scope and prescriptive requirements of an insurer’s risk management and governance framework vary significantly by country; and
  - regulatory requirements relating to insurer dividend policies vary by country.
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Significant variations can also be found in the size, structure, and resources of the local regulatory departments that oversee insurance activities. Certain regulators prefer close relationships with all subject insurers and others operate a risk-based approach.

Berkshire's insurance group operates in some countries through subsidiaries and in some countries through branches of subsidiaries. Berkshire insurance subsidiaries are located in several countries, including Germany, the United Kingdom, Ireland, Australia and South Africa, and also maintain branches in other countries, including Canada, various members of the European Union, Australia, New Zealand, Singapore, Hong Kong, Macau and Dubai. Most of these foreign jurisdictions impose local capital requirements. Other legal requirements include discretionary licensing procedures, local retention of funds and records, and data privacy and protection program requirements. Berkshire's international insurance companies are also subject to multinational application of certain U.S. laws.

There are various regulatory bodies and initiatives that impact Berkshire in multiple international jurisdictions and the potential for significant effect on the Berkshire insurance group could be heightened as a result of recent industry and economic developments.

On June 23, 2016, the United Kingdom ("UK") voted in a national referendum to withdraw from the EU ("Brexit"), which resulted in the UK's withdrawal from the EU on January 31, 2020. In anticipation of the UK leaving the EU, Berkshire Hathaway European Insurance DAC in Ireland was established to permit property and casualty insurance and reinsurance businesses to continue to operate in the European Union following Brexit. Following the withdrawal of the UK from the EU as result of Brexit, Berkshire expects to continue to maintain a substantial presence in London.

Berkshire's insurance underwriting operations include the following groups: (1) GEICO, (2) Berkshire Hathaway Primary Group and (3) Berkshire Hathaway Reinsurance Group. Except for retroactive reinsurance and periodic payment annuity products that generate significant amounts of up-front premiums along with estimated claims expected to be paid over very long time periods (creating "float," see Investments section below), Berkshire expects to achieve a net underwriting profit over time and to reject inadequately priced risks. Underwriting profit is defined as earned premiums less associated incurred losses, loss adjustment expenses and underwriting and policy acquisition expenses. Underwriting profit does not include income earned from investments. Berkshire's insurance businesses employ approximately 50,000 people. Additional information related to each of Berkshire's underwriting groups follows.

**GEICO**—GEICO is headquartered in Chevy Chase, Maryland. GEICO's insurance subsidiaries consist of Government Employees Insurance Company, GEICO General Insurance Company, GEICO Indemnity Company, GEICO Casualty Company, GEICO Advantage Insurance Company, GEICO Choice Insurance Company, GEICO Secure Insurance Company, GEICO County Mutual Insurance Company and GEICO Marine Insurance Company. The GEICO companies primarily offer private passenger automobile insurance to individuals in all 50 states and the District of Columbia. GEICO also insures motorcycles, all-terrain vehicles, recreational vehicles, boats and small commercial fleets and acts as an agent for other insurers who offer homeowners, renters, life and identity management insurance to individuals who desire insurance coverages other than those offered by GEICO.

GEICO's marketing is primarily through direct response methods in which applications for insurance are submitted directly to the companies via the Internet or by telephone, and to a lesser extent, through captive agents. GEICO conducts business through regional service centers and claims adjustment and other facilities in 39 states.

The automobile insurance business is highly competitive in the areas of price and service. GEICO competes for private passenger automobile insurance customers in the preferred, standard and non-standard risk markets with other companies that sell directly to the customer as well as with companies that use agency sales forces, including State Farm, Allstate (including Esurance), Progressive and USAA. Significant advertising campaigns and competitive rates contributed to a cumulative increase in voluntary policies-in-force of approximately 35% over the past five years. According to most recently published A.M. Best data for 2018, the five largest automobile insurers had a combined market share in 2018 of approximately 57%, with GEICO's market share being second largest at approximately 13.4%. Since the publication of that data, GEICO's management estimates its current market share is approximately 13.6%. Seasonal variations in GEICO's insurance business are not significant. However, extraordinary weather conditions or other factors may have a significant effect upon the frequency or severity of automobile claims.

State insurance departments stringently regulate private passenger auto insurance. As a result, it is difficult for insurance companies to differentiate their products. Competition for private passenger automobile insurance, which is substantial, tends to focus on price and level of customer service provided. GEICO's cost-efficient direct response marketing methods and emphasis on customer satisfaction enable it to offer competitive rates and value to its customers. GEICO primarily uses its own claims staff to manage and settle claims. The name and reputation of GEICO are material assets and management protects it and other service marks through appropriate registrations.

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**Berkshire Hathaway Primary Group**—The Berkshire Hathaway Primary Group (“BH Primary”) is a collection of independently managed insurers that provide a wide variety of insurance coverages to policyholders located principally in the United States. These various operations are discussed below.

NICO and certain affiliates (“NICO Primary”) underwrite commercial motor vehicle and general liability insurance on an admitted basis and on an excess and surplus basis. Insurance coverages are offered nationwide primarily through insurance agents and brokers.

The Berkshire Hathaway Homestate Companies (“BHHC”) is a group of insurers offering workers’ compensation, commercial auto and commercial property coverages to a diverse client base. BHHC has a national reach, with the ability to provide first-dollar and small to large deductible workers’ compensation coverage to employers in all states, except those where coverage is available only through state-operated workers’ compensation funds. NICO Primary and BHHC are each based in Omaha, Nebraska.

Berkshire Hathaway Specialty Insurance (“BH Specialty”) provides commercial property, casualty, healthcare professional liability, executive and professional lines, surety, travel, medical stop loss and homeowners insurance. BH Specialty writes business on both an excess and surplus lines basis and an admitted basis in the U.S., and on a locally admitted basis outside the U.S. BH Specialty is based in Boston, Massachusetts, with regional offices currently in several cities in the U.S. and international offices located in Australia, New Zealand, Canada and several countries in Asia and Europe. BH Specialty currently intends to further expand its operations. BH Specialty writes business through wholesale and retail insurance brokers, as well as managing general agents.

MedPro Group (“MedPro”) is a leading provider of healthcare liability (“HCL”) insurance in the United States. MedPro provides customized HCL insurance, claims, patient safety and risk solutions to physicians, surgeons, dentists and other healthcare professionals, as well as hospitals, senior care and other healthcare facilities. Additionally, MedPro provides HCL insurance solutions in Europe, delivers liability insurance to other professionals, and offers specialized accident and health insurance solutions to colleges and other customers through its subsidiaries and other Berkshire affiliates. MedPro is based in Fort Wayne, Indiana.

U.S. Liability Insurance Company (“USLI”) includes a group of five specialty insurers that underwrite commercial, professional and personal lines insurance on an admitted basis, as well as an excess and surplus basis. USLI markets policies in all 50 states and the District of Columbia and Canada through wholesale and retail insurance agents. USLI companies also underwrite and market a wide variety of specialty insurance products. USLI is based in Wayne, Pennsylvania.

The Berkshire Hathaway GUARD Insurance Companies (“GUARD”) is a group of five insurance companies that provide workers’ compensation, business owners’, commercial auto, commercial package and homeowners’ products to over 350,000 small and mid-sized businesses. GUARD also offers complementary professional liability and umbrella products nationwide. Policies are offered through independent agents and retail and wholesale brokers. GUARD is based in Wilkes-Barre, Pennsylvania. Central States Indemnity Company of Omaha, based in Omaha, Nebraska, primarily writes Medicare Supplement insurance.

On October 1, 2018, NICO acquired MLMIC Insurance Company (“MLMIC”). MLMIC has been the leading writer of medical professional liability insurance in New York State for over 40 years. MLMIC distributes its policies mostly on a direct basis to medical and dental professionals, health care providers and hospitals. In October 2019, Berkshire sold its 81% interest in Applied Underwriters, Inc. (“Applied”).

**Berkshire Hathaway Reinsurance Group**—Berkshire’s combined global reinsurance business, referred to as the Berkshire Hathaway Reinsurance Group (“BHRG”), offers a wide range of coverages on property, casualty, life and health risks to insurers and reinsurers worldwide. Reinsurance business is written through National Indemnity Company (“NICO”), domiciled in Nebraska, its subsidiaries and various other insurance subsidiaries wholly owned by Berkshire (collectively, the “NICO Group”) and General Re Corporation, domiciled in Delaware, and its subsidiaries (collectively the “General Re Group”). BHRG’s underwriting operations in the U.S. are based in Stamford, Connecticut. BHRG also conducts business activities globally in 23 countries.

The type and volume of business written is dependent on market conditions, including prevailing premium rates and coverage terms. The level of underwriting activities often fluctuates significantly from year to year depending on the perceived level of price adequacy in specific insurance and reinsurance markets as well as from the timing of particularly large reinsurance transactions.

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### *Property/casualty*

The NICO Group offers traditional property/casualty reinsurance on both an excess-of-loss and a quota-share basis, catastrophe excess-of-loss treaty and facultative reinsurance, and primary insurance on an excess-of-loss basis for large or unusual risks for clients worldwide. The NICO Group periodically participates in underwriting placements with major brokers in the London Market through Berkshire Hathaway International Insurance, Ltd., based in Great Britain. Business is written through intermediary brokers or directly with the insured or reinsured.

The type and volume of business written by the NICO Group may vary significantly from period to period resulting from changes in perceived premium rate adequacy and from unique or large transactions. A significant portion of NICO Group's annual reinsurance premium volume currently derives from a 20% quota-share agreement with Insurance Australia Group Limited ("IAG") that expires July 1, 2025. IAG is a multi-line insurer in Australia, New Zealand and other Asia Pacific countries. The General Re Group conducts a global property and casualty reinsurance business. Reinsurance contracts are written on both a quota-share and excess basis for multiple lines of business. Contracts are primarily in the form of treaties, and to a lesser degree, on a facultative basis.

General Re Group conducts business in North America primarily through General Reinsurance Corporation ("GRC"), which is licensed in the District of Columbia and all states, except Hawaii, where it is an accredited reinsurer. GRC conducts operations in North America from its headquarters in Stamford, Connecticut and through 13 branch offices in the U.S. and Canada.

In North America, the General Re Group includes General Star National Insurance Company, General Star Indemnity Company and Genesis Insurance Company, which offer a broad array of specialty and surplus lines and property, casualty and professional liability coverages. Such business is marketed through a select group of wholesale brokers, managing general underwriters and program administrators, and offer solutions for the unique needs of public entity, commercial and captive customers.

General Re Group's international reinsurance business is conducted on a direct basis through General Reinsurance AG ("GRAG"), based in Cologne Germany, and through several other subsidiaries and branches in 23 countries. International business is also written through brokers, including Faraday Underwriting Limited ("Faraday"), a wholly-owned subsidiary. Faraday owns the managing agent of Syndicate 435 at Lloyd's of London and provides capacity and participates in 100% of the results of Syndicate 435.

### *Life/health*

The General Re Group also conducts a global life and health reinsurance business. In the U.S. and internationally, the General Re Group writes life, disability, supplemental health, critical illness and long-term care coverages. The life/health business is marketed on a direct basis. Approximately 27% of the aggregate life/health net premiums written by the General Re Group were in the United States, compared to 18% in Western Europe and 55% throughout the rest of the world.

Berkshire Hathaway Life Insurance Company of Nebraska ("BHLN"), a subsidiary of NICO, and its affiliates write reinsurance covering various forms of traditional life insurance exposures and, on a limited basis, health insurance exposures. BHLN and its affiliates have also periodically reinsured certain guaranteed minimum death, income, and similar benefit coverages on closed-blocks of variable annuity reinsurance contracts.

### *Retroactive reinsurance*

NICO also periodically writes retroactive reinsurance contracts. Retroactive reinsurance contracts indemnify ceding companies against the adverse development of claims arising from loss events that have already occurred under property and casualty policies issued in prior years. Coverages under such contracts are provided on an excess basis (above a stated retention) or for losses payable immediately after the inception of the contract. Contracts are normally subject to aggregate limits of indemnification and are occasionally exceptionally large in amount. Significant amounts of asbestos, environmental and latent injury claims may arise under these contracts. For instance, in January 2017, NICO entered into a retroactive reinsurance agreement with various subsidiaries of American International Group, Inc. (collectively, "AIG"). Under the agreement, NICO agreed to indemnify AIG for 80% of up to \$25 billion in 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 concept of time-value-of-money is an important element in establishing retroactive reinsurance contract prices and terms, since loss payments may occur over decades. Normally, expected ultimate losses payable under these policies are expected to exceed premiums, thus producing underwriting losses. Nevertheless, this business is written, in part, because of the large amounts of policyholder funds generated for investment, the economic benefit of which will be reflected through investment results in future periods.

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### *Periodic payment annuity*

BHLN writes periodic payment annuity insurance policies and reinsures existing annuity-like obligations. Under these policies, BHLN receives upfront premiums and agrees in the future to make periodic payments that often extend for decades. These policies, generally relate to the settlement of underlying personal injury or workers' compensation cases of other insurers, known as structured settlements. Similar to retroactive reinsurance contracts, time-value-of-money concepts are an important factor in establishing such premiums and underwriting losses are expected from the periodic accretion of time-value discounted liabilities.

**Investments of insurance businesses**—Berkshire's insurance subsidiaries hold significant levels of invested assets. Investment portfolios are managed by Berkshire's Chief Executive Officer and other in-house investment managers. Investments include a very large portfolio of publicly traded equity securities, which are concentrated in relatively few issuers, as well as fixed maturity securities and cash and short-term investments. Generally, there are no targeted allocations by investment type or attempts to match investment asset and insurance liability durations. However, investment portfolios have historically included a much greater proportion of equity securities than is customary in the insurance industry.

Invested assets derive from shareholder capital as well as funds provided from policyholders through insurance and reinsurance business ("float"). Float is the approximate amount of net policyholder funds generated through underwriting activities that is available for investment. The major components of float are unpaid losses and loss adjustment expenses, life, annuity and health benefit liabilities, unearned premiums and other policyholder liabilities less premium and reinsurance receivables, deferred policy acquisition costs and deferred charges on reinsurance contracts. On a consolidated basis, float has grown from approximately \$84 billion at the end of 2014 to approximately \$129 billion at the end of 2019, primarily through internal growth. The cost of float can be measured as the net pre-tax underwriting loss as a percentage of average float. Over the past five years, with the exception of 2017, Berkshire's cost of float was negative, as its insurance businesses produced net underwriting gains.

### **Railroad Business—Burlington Northern Santa Fe**

Burlington Northern Santa Fe, LLC ("BNSF") is based in Fort Worth, Texas, and through BNSF Railway Company ("BNSF Railway") operates one of the largest railroad systems in North America. BNSF Railway had approximately 40,750 employees at the end of 2019. BNSF also operates a relatively smaller third-party logistics services business.

In serving the Midwest, Pacific Northwest, Western, Southwestern and Southeastern regions and ports of the United States, BNSF transports a range of products and commodities derived from manufacturing, agricultural and natural resource industries. Freight revenues are covered by contractual agreements of varying durations or common carrier published prices or company quotations. BNSF's financial performance is influenced by, among other things, general and industry economic conditions at the international, national and regional levels.

BNSF's primary routes, including trackage rights, allow it to access major cities and ports in the western and southern United States as well as parts of Canada and Mexico. In addition to major cities and ports, BNSF Railway efficiently serves many smaller markets by working closely with approximately 200 shortline railroads. BNSF Railway has also entered into marketing agreements with other rail carriers, expanding the marketing reach for each railroad and their customers. For the year ending December 31, 2019, approximately 35% of freight revenues were derived from consumer products, 27% from industrial products, 21% from agricultural products and 17% from coal.

### *Regulatory Matters*

BNSF is subject to federal, state and local laws and regulations generally applicable to its businesses. Rail operations are subject to the regulatory jurisdiction of the Surface Transportation Board ("STB") the Federal Railroad Administration of the United States Department of Transportation ("DOT"), the Occupational Safety and Health Administration ("OSHA"), as well as other federal and state regulatory agencies and Canadian regulatory agencies for operations in Canada. The STB has jurisdiction over disputes and complaints involving certain rates, routes and services, the sale or abandonment of rail lines, applications for line extensions and construction, and the merger with or acquisition of control of rail common carriers. The outcome of STB proceedings can affect the profitability of BNSF Railway's business.

The DOT and OSHA have jurisdiction under several federal statutes over a number of safety and health aspects of rail operations, including the transportation of hazardous materials. BNSF Railway is required to transport these materials to the extent of its common carrier obligation. State agencies regulate some aspects of rail operations with respect to health and safety in areas not otherwise preempted by federal law.

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### *Environmental Matters*

BNSF's rail operations, as well as those of its competitors, are also subject to extensive federal, state and local environmental regulation covering discharges to water, air emissions, toxic substances and the generation, handling, storage, transportation and disposal of waste and hazardous materials. Such regulations effectively increase the costs and liabilities associated with rail operations. Environmental risks are also inherent in rail operations, which frequently involve transporting chemicals and other hazardous materials.

Many of BNSF's land holdings are or have been used for industrial or transportation-related purposes or leased to commercial or industrial companies whose activities may have resulted in discharges onto the property. Under federal (in particular, the Comprehensive Environmental Response, Compensation and Liability Act) and state statutes, BNSF may be held jointly and severally liable for cleanup and enforcement costs associated with a particular site without regard to fault or the legality of the original conduct. BNSF may also be subject to claims by third parties for investigation, cleanup, restoration or other environmental costs under environmental statutes or common law with respect to properties they own that have been impacted by BNSF operations.

### *Competition*

The business environment in which BNSF operates is highly competitive. Depending on the specific market, deregulated motor carriers and other railroads, as well as river barges, ships and pipelines, may exert pressure on price and service levels. The presence of advanced, high service truck lines with expedited delivery, subsidized infrastructure and minimal empty mileage continues to affect the market for non-bulk, time-sensitive freight. The potential expansion of longer combination vehicles could further encroach upon markets traditionally served by railroads. In order to remain competitive, BNSF and other railroads seek to develop and implement operating efficiencies to improve productivity.

As railroads streamline, rationalize and otherwise enhance their franchises, competition among rail carriers intensifies. BNSF Railway's primary rail competitor in the Western region of the United States is the Union Pacific Railroad Company. Other Class I railroads and numerous regional railroads and motor carriers also operate in parts of the same territories served by BNSF.

### **Utilities and Energy Businesses—Berkshire Hathaway Energy**

Berkshire currently owns 90.9% of the outstanding common stock of Berkshire Hathaway Energy Company ("BHE"). BHE is a global energy company with subsidiaries that generate, transmit, store, distribute and supply energy. BHE's locally managed businesses are organized as separate operating units. BHE's domestic regulated energy interests are comprised of four regulated utility companies serving approximately 5.1 million retail customers, two interstate natural gas pipeline companies with approximately 16,300 miles of pipeline and a design capacity of approximately 8.5 billion cubic feet of natural gas per day and ownership interests in electricity transmission businesses. BHE's Great Britain electricity distribution subsidiaries serve about 3.9 million electricity end-users and its electricity transmission-only business in Alberta, Canada serves approximately 85% of Alberta's population. BHE's interests also include a diversified portfolio of independent power projects, the largest residential real estate brokerage firm in the United States, and one of the largest residential real estate brokerage franchise networks in the United States. BHE employs approximately 23,000 people in connection with its various operations.

### *General Matters*

PacifiCorp is a regulated electric utility company headquartered in Oregon, serving electric customers in portions of Utah, Oregon, Wyoming, Washington, Idaho and California. The combined service territory's diverse regional economy ranges from rural, agricultural and mining areas to urban, manufacturing and government service centers. No single segment of the economy dominates the combined service territory, which helps mitigate PacifiCorp's exposure to economic fluctuations. In addition to retail sales, PacifiCorp sells electricity on a wholesale basis to other electricity retailers and wholesalers.

MidAmerican Energy Company ("MEC") is a regulated electric and natural gas utility company headquartered in Iowa, serving electric and natural gas customers primarily in Iowa and also in portions of Illinois, South Dakota and Nebraska. MEC has a diverse retail customer base consisting of urban and rural residential customers and a variety of commercial and industrial customers. In addition to retail sales and natural gas transportation, MEC sells electricity principally to markets operated by regional transmission organizations and natural gas on a wholesale basis.

NV Energy, Inc. ("NV Energy") is an energy holding company headquartered in Nevada, primarily consisting of two regulated utility subsidiaries, Nevada Power Company ("Nevada Power") and Sierra Pacific Power Company ("Sierra Pacific") (collectively, the "Nevada Utilities"). Nevada Power serves retail electric customers in southern Nevada and Sierra Pacific serves retail electric and natural gas customers in northern Nevada. The Nevada Utilities' combined service territory's economy includes gaming, mining, recreation, warehousing, manufacturing and governmental services. In addition to retail sales and natural gas transportation, the Nevada Utilities sell electricity and natural gas on a wholesale basis.