PETROBRAS - PETROLEO BRASILEIRO SA
Form 6-K
November 13, 2015

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16 of the
Securities Exchange Act of 1934

For the month of November, 2015

Commission File Number 1-15106

PETRÓLEO BRASILEIRO S.A. - PETROBRAS

(Exact name of registrant as specified in its charter)

Brazilian Petroleum Corporation - PETROBRAS

(Translation of Registrant's name into English)

Avenida República do Chile, 65
20031-912 - Rio de Janeiro, RJ
Federative Republic of Brazil
(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F ___X___ Form 40-F _______

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes _______ No___X____

THIRD QUARTER OF 2015 RESULTS

Reviewed by independent auditors, stated in millions of U.S. dollars, prepared in accordance with International

Financial Reporting Standards - IFRS issued by the International Accounting Standards Board - IASB.

Rio de Janeiro – November 12, 2015

Net income was US$ 971 million in Jan-Sep/2015, 59% lower than in Jan-Sep/2014. Loss of US$ 1,062 million in the 3Q-2015.

Operating income was US$ 9,382 million in Jan-Sep/2015, 80% higher than in Jan-Sep/2014.

Adjusted EBITDA was US$ 18,320 million in Jan-Sep/2015, 7% higher than in Jan-Sep/2014.

Net debt was US$ 101,273 million as of September 30, 2015, a 5% decrease when compared to December 31, 2014.

The average maturity of outstanding debt increased from 6.10 years as of December 31, 2014 to 7.49 years as of September 30, 2015.

Jan-Sep

971	2,355	(59)	**Consolidated net income (loss) attributable to the shareholders of Petrobras**	(1,062)	171	(721)	(2,150)

9,382	5,205	80	**Operating income**	1,637	3,087	(47)	(1,967)

18,320	17,085	7	**Adjusted EBITDA**	4,369	6,435	(32)	3,730

Net income was US$ 971 million in Jan-Sep/2015, 59% lower when compared to US$ 2,355 million in Jan-Sep/2014, mainly attributable to higher finance expenses in the Jan-Sep/2015 period. The 80% increase in operating income was mainly a result of higher margins in oil product sales in the domestic market and increased crude oil export volumes driven by a 7% increase in domestic crude oil production, despite a decrease in domestic demand.

Key events in Jan-Sep/2015:

- 6% increase of crude oil and natural gas production (in Brazil and abroad);
- Higher crude oil export volumes (60%, 132 thousand barrels/day);
- Lower domestic demand for oil products (8%, 195 thousand barrels/day);
- Lower import costs and production taxes; and
- Net finance expense was US$ 7,158 million, a 676% increase when compared to Jan-Sep/2014 as a result of foreign exchange losses and higher interest expense, attributable to an increase in the Company's debt and a decrease in the level of capitalized borrowing costs, attributable to a lower balance of assets under construction.

Key events in the 3Q-2015, when compared to the 2Q-2015:

- 1% increase of crude oil and natural gas production (in Brazil and abroad);
- Increased domestic demand for oil products (1%, 32 thousand barrels/day);
- Lower crude oil export volumes (10%, 40 thousand barrels/day); and
- A US$ 1,257 million increase in net finance expense as a result of foreign exchange losses.

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FINANCIAL AND OPERATING HIGHLIGHTS

Main Items and Consolidated Economic Indicators

Jan-Sep

			Results and investments				
75,167	110,248	(32)	**Sales revenues**	23,179	26,021	(11)	38,844

22,842	25,531	(11)	**Gross profit**	6,695	8,320	(20)	8,985

9,382	5,205	80	**Net income (loss) before finance income (expense), share of earnings in equity-accounted investments, profit sharing and income taxes**	1,637	3,087	(47)	(1,967)

(7,158)	(922)	(676)	**Net finance income (expense)**	(3,226)	(1,969)	(64)	(427)

971	2,355	(59)	**Consolidated net income (loss) attributable to the shareholders of Petrobras**	(1,062)	171	(721)	(2,150)

0.07	0.18	(61)	**Basic and diluted earnings (losses) per share [1]**	(0.09)	0.02	(550)	(0.16)

18,320	17,085	7	**Adjusted EBITDA – U.S.$ million [2]**	4,369	6,435	(32)	3,730

30	23	7	**Gross margin (%)** [3]	29	32	(3)	23

12	7	5	**Operating margin (%)** [3]	7	12	(5)	1

1	2	(1)	**Net margin (%) [3]**	(5)	1	(6)	(6)

17,644	27,340	(35)	**Capital expenditures and investments**	5,443	5,968	(9)	9,250

Jan-Sep

			Net income (loss) before finance income (expense), share of earnings in equity-accounted investments, profit sharing and income taxes				
7,152	(10,889)	166	**. Refining, Transportation and Marketing**	1,292	2,595	(50)	(5,096)

5,612	20,210	(72)	**. Exploration & Production**	1,108	2,798	(60)	5,955

872	(907)	196	**. Gas & Power**	273	(135)	302	(1,534)

298	524	(43)	**. Distribution**	(100)	100	(200)	(128)

310	478	(35)	**. International**	(63)	233	(127)	(7)

(54)	(90)	40	**. Biofuel**	(19)	(21)	10	(30)

(4,639)	(4,213)	(10)	**. Corporate**	(1,224)	(1,944)	37	(1,574)

Jan-Sep

			Financial and economic indicators				
71.79	98.70	(27)	**Domestic basic oil products price (U.S.$/bbl)**	64.86	72.91	(11)	98.67

55.39	106.57	(48)	**Brent crude (U.S.$/bbl)**	50.26	61.92	(19)	101.85

Domestic Sales price

45.04	95.77	(53)	**. Crude oil (U.S.$/bbl)** [4]	39.76	52.14	(24)	90.73

37.45	48.76	(23)	**. Natural gas (U.S.$/bbl)**	35.47	39.29	(10)	49.28

3.17	2.29	38	**Average commercial selling rate for U.S. dollar (R$/U.S.$)**	3.54	3.07	15	2.27

3.97	2.45	62	**Period-end commercial selling rate for U.S. dollar (R$/U.S.$)**	3.97	3.10	28	2.45

49.6	4.6	45	**Variation of the period-end commercial selling rate for U.S. dollar (%)**	28.1	(3.3)	31	11.3

13.13	10.74	2	**Selic interest rate - average (%)**	13.99	13.14	1	10.90

2,232	2,115	6	**Total crude oil and NGL production (Mbbl/d)**	2,234	2,213	1	2,209

558	512	9	**Total natural gas production (Mbbl/d)**	566	552	3	537

2,790	2,627	6	**Total crude oil and natural gas production (Mbbl/d)**	2,800	2,765	1	2,746

3,836	3,951	(3)	**Total sales volume (Mbbl/d)**	3,889	3,904	−	4,143

[1]Net income (loss) per share calculated based on the weighted average number of shares.

[2] Adjusted EBITDA equals net income plus net finance income (expense); income taxes; depreciation, depletion and amortization; share of earnings in equity-accounted investments; impairment and *write-offs of overpayments incorrectly capitalized*. Adjusted EBITDA is not a measure defined by IFRS and it is possible that it may not be comparable to similar measures reported by other companies. It should not be considered as a substitute for income before taxes, finance income (expense), profit sharing and share of earnings in equity-accounted investments or as a better measure of liquidity than cash flow provided by operations, both of which are calculated in accordance with IFRS. The Company reports its Adjusted EBITDA to give additional information about its ability to pay debt, carry out investments and cover working capital needs. See Consolidated Adjusted EBITDA by Business Segment and a reconciliation of Adjusted EBITDA to net income on page 21.

[3] Gross margin equals sales revenues less cost of sales divided by sales revenues; Operating margin equals net income (loss) before finance income (expense), share of earnings in equity-accounted investments, profit sharing and income taxes, excluding *write-offs of overpayments incorrectly capitalized* divided by sales revenues; Net margin equals consolidated net income (loss) attributable to the shareholders of Petrobras divided by sales revenues.

[4] Average between the prices of exports and the internal transfer prices from Exploration & Production to Refining, Transportation and Marketing.

FINANCIAL AND OPERATING HIGHLIGHTS

RESULTS OF OPERATIONS - Jan-Sep/2015 compared to Jan-Sep/2014:

Virtually all revenues and expenses of our Brazilian operations are denominated and payable in Brazilian Reais. When the Brazilian Real depreciates relative to the U.S. dollar, as it did during Jan-Sep/2015 (a 38% depreciation), revenues and expenses decrease when translated into U.S. dollars. Nevertheless, the depreciation of the Brazilian Real against the U.S. dollar affects the line items discussed below in different ways.

Gross profit decreased by 11% (US$ 2,689 million) in Jan-Sep/2015 compared to Jan-Sep/2014, mainly due to:

Ø A 32% decrease in sales revenues (US$75,167 million in Jan-Sep/2015 compared to US$ 110,248 million in Jan-Sep/2014), resulting from:

• Lower crude oil and oil product export prices and decreased domestic price of naphta, jet fuel and fuel oil;

• Decreased domestic demand for oil products (8%), reflecting lower economic activity in Brazil;

• Decreased oil product exports (12%);

• Higher crude oil export volumes (60%) attributable to an increase in domestic crude oil production (7%) and to a decrease in feedstock processed by our domestic refineries (5%); and

• Higher diesel and gasoline prices, following a price increase in November 2014.

Sales revenues were 6% lower when expressed in Brazilian *Reais*. Foreign currency translation effects (depreciation of the Brazilian Real against the U.S. dollar) reduced sales revenues when expressed in U.S. dollars.

Ø A 38% decrease in cost of sales (US$ 52,325 million in Jan-Sep/2015 compared to US$ 84,717 million in Jan-Sep/2014), due to:

• Lower crude oil and oil product import costs, as well as lower production taxes;

• Decreased domestic demand for oil products;

- Lower share of crude oil imports on feedstock processing and a lower share of oil product imports in the sales mix; and

- Higher crude oil production costs.

Cost of sales was 15% lower when expressed in Brazilian *Reais*. Foreign currency translation effects (depreciation of the Brazilian Real against the U.S. dollar) reduced cost of sales when expressed in U.S. dollars.

Net income before finance expense, share of earnings in equity-accounted investments, profit sharing and income taxes was US$ 9,382 million in Jan-Sep/2015, US$ 4,177 million higher compared to US$ 5,205 million in Jan-Sep/2014 (an 80% increase), resulting from:

- Non-recurring events that affected net income in Jan-Sep/2014, including:

  - (i) write-off of overpayments incorrectly capitalized (US$ 2,527 million);

  - (ii) allowance for impairment of trade receivables from companies in the isolated electricity sector (US$ 1,651 million);

  - (iii) write-off of capitalized costs with respect to Premium I and Premium II refineries (US$ 1,190 million); and

  - (iv) expenses related to our Voluntary Separation Incentive Plan - PIDV (US$ 1,040 million).

- Translation effect: operating expenses, when translated into U.S. dollars, decreased in Jan-Sep/2015 when compared to Jan-Sep/2014 as a result of the depreciation of the Brazilian *Real* against the U.S. dollar;

- Lower write-offs of dry and/or subcommercial wells (US$ 819 million);

- Those effects were partially offset by higher tax expenses (US$ 1,892 million) mainly attributable to the Company’s decision to benefit from a tax amnesty program in 2015 (*Programa de Parcelamento Especial de Débitos Tributários*) – see note 20.2 to our 3Q-2015 Financial Statements;

- A lower gross profit;

- Higher legal proceedings expenses (US$ 819 million), mainly related to labour and tax claims and a non-recurring positive effect in Jan-Sep/2014 related to a legal proceeding with respect to recoverable taxes (PIS and COFINS overpaid on finance income);

- Higher pension and medical benefits expenses (retirees) in 2015 attributable to an increase in the Company’s net actuarial liability as a result of a decrease in real interest rates, following the Company’s interim valuation review of its pension and medical benefits in 2014 (US$ 248 million); and

- Impairment losses attributable to projects removed from the 2015-19 Business and Management Plan investment portfolio (US$ 419 million).

Net finance expense was US$ 7,158 million in Jan-Sep/2015, US$ 6,236 million higher than in Jan-Sep/2014 (US$ 922 million), resulting from:

- Foreign exchange losses caused by the impact of a 49.6% depreciation of the Brazilian *Real* against the U.S. dollar on the Company's net debt (compared to a 4.6% depreciation in Jan-Sep/2014), partially offset by our cash flow hedge;

- Foreign exchange losses caused by the impact of a 37.4% depreciation of the Brazilian *Real* against the Euro on the Company's net debt (compared to a 4.1% appreciation in Jan-Sep/2014); and

- Higher interest expenses due to:

i) an increase in the Company's debt;

ii) a decrease in the level of capitalized borrowing costs due to a lower balance of assets under construction, reflecting the relevant projects concluded during 2014 and the write-offs and impairment losses recognized in December 2014; and

iii) interest expenses on tax deficiency notices related to tax on financial operations (Imposto sobre Operações Financeiras - IOF) and withholding income tax.

Net income attributable to the shareholders of Petrobras was US$ 971 million in Jan-Sep/2015, compared to US$ 2,355 million in Jan-Sep/2014. This 59% decrease (US$ 1384 million) results mainly from:

- Higher net finance expenses; and

- A lower gross profit.

FINANCIAL AND OPERATING HIGHLIGHTS

NET INCOME BY BUSINESS SEGMENT

Petrobras is an integrated energy company and most of the crude oil and natural gas production from the Exploration & Production segment is transferred to other business segments of the Company. Our results by business segment include transactions carried out with third parties, transactions between companies of Petrobras’s Group and transfers between Petrobras’s business segments that are calculated using internal transfer prices defined through methodologies based on market parameters.

EXPLORATION & PRODUCTION

Jan-Sep

Net Income Attributable to the Shareholders of Petrobras	3,532	12,989	(73)

Net income was US$ 3,532 million in Jan-Sep/2015, a 73% decrease when compared to Jan-Sep/2014 (US$ 12,989 million), attributable to a decrease in crude oil sales/transfer prices.

The increase in crude oil volume transferred and lower write-offs of dry and/or subcommercial wells partially offset these effects.

The Jan-Sep/2014 period was affected by the Company's Voluntary Separation Incentive Plan (PIDV) and the write-off of overpayments incorrectly capitalized.

Jan-Sep

Exploration & Production - Brazil (Mbbl/d) (*)

Crude oil and NGLs [5]	2,132	1,995	7

Natural gas [6]	469	418	12

Total	**2,601**	**2,413**	8

Crude oil and NGL production increased by 7% in Jan-Sep/2015 compared to Jan-Sep/2014 due to the start-ups of FPSOs Cidade de Mangaratiba (Iracema Sul area, Lula field) and Cidade de Ilhabela (Sapinhoá), Cidade de Itaguaí (Iracema Norte, Lula field) and P-61 (Papa-Terra), along with the continuing ramp-ups of P-55 and P-62 (both in Roncador field), P-58 (Parque das Baleias), and of FPSOs Cidade de Paraty (Lula NE) and Cidade de São Paulo (Sapinhoá). This increase was partially offset by the natural decline of production in fields.

The 12% increase in natural gas production is attributable to the production start-up of the units mentioned above and also to the higher productivity of Mexilhão platform and of FPSO Cidade de Santos (Uruguá-Tambaú), which were partially offset by the natural decline of production in fields.

(*) Not reviewed by independent auditor.

[5] NGL – Natural Gas Liquids.

[6] Does not include LNG. Includes gas reinjection.

FINANCIAL AND OPERATING HIGHLIGHTS

Jan-Sep

Lifting Cost [7] - Brazil (*)

U.S.$/barrel:

Excluding production taxes	12.40	14.70	(16)

Including production taxes	19.62	32.28	(39)

Lifting Cost - Excluding production taxes

Lifting cost excluding production taxes was 16% lower in Jan-Sep/2015 compared to Jan-Sep/2014. Excluding foreign exchange variation effects, lifting cost excluding production taxes increased by 4% due to higher well intervention expenses and higher engineering and subsea maintenance costs in the Campos Basin, partially offset by an increase in crude oil production.

Lifting Cost - Including production taxes

Lifting cost including production taxes was 39% lower in Jan-Sep/2015 compared to Jan-Sep/2014, due to lower production taxes (royalties and special participation charges) attributable to a decrease in the average reference price for domestic crude oil in U.S. dollars (a 52% decrease) reflecting lower international crude oil prices and decreased lifting cost mentioned above.

(*) Not reviewed by independent auditor.

[7] Crude oil and natural gas lifting cost.

FINANCIAL AND OPERATING HIGHLIGHTS

REFINING, TRANSPORTATION AND MARKETING

Jan-Sep

Net Income Attributable to the Shareholders of Petrobras	5,039	(7,582)	166

Earnings in Jan-Sep/2015 were a US$ 5,039 million gain, compared to a US$ 7,582 million loss in Jan-Sep/2014, attributable to a decrease in crude oil purchase/transfer costs, to a lower share of crude oil imports on feedstock processing, a lower share of oil product imports in our sales mix and diesel (5%) and gasoline (3%) price increases in November 2014.

The US$ 7,582 million loss in Jan-Sep/2014 reflects the non-recurring effect of write-off of overpayments incorrectly capitalized, the write-off of capitalized costs from Premium I and Premium II refineries and our 2014 Voluntary Separation Incentive Plan (PIDV).

Jan-Sep

Imports and Exports of Crude Oil and Oil Products (Mbbl/d) (*)

Crude oil imports	298	399	(25)

Oil product imports	292	414	(29)

Imports of crude oil and oil products	**590**	**813**	(27)

Crude oil exports [8]	351	219	60

Oil product exports	150	170	(12)

Exports of crude oil and oil products	**501**	**389**	29

Exports (imports) net of crude oil and oil products	**(89)**	**(424)**	79

Other exports	1	3	(67)

Crude oil exports were higher due to increased production.

Lower crude oil imports reflect a lower share of crude oil imports in feedstock processing.

Oil product imports decreased as a result of a lower domestic demand.

Oil product exports were lower due to a decrease in feedstock processed.

(*) Not reviewed by independent auditor.

[8] It includes crude oil export volumes made both by our Refining, Transportation and Marketing segment and by our Exploration & Production segment.

FINANCIAL AND OPERATING HIGHLIGHTS

Refining Operations (Mbbl/d) (*)	**Jan-Sep**		
Output of oil products	2,049	2,170	(6)
Reference feedstock [9]	2,176	2,102	4
Refining plants utilization factor (%) [10]	90	98	(8)
Feedstock processed (excluding NGL) - Brazil [11]	1,962	2,059	(5)
Feedstock processed - Brazil [12]	2,002	2,099	(5)
Domestic crude oil as % of total feedstock processed	86	82	4

Feedstock processed was 5% lower, reflecting a decrease in domestic demand, a scheduled stoppage in the distillation unit of Landulpho Alves Refinery (RLAM) and an unscheduled production suspension in REDUC, partially offset by the production start-up of RNEST in November 2014.

Refining Cost - Brazil (*)	**Jan-Sep**		
Refining cost (U.S.$/barrel)	2.52	2.96	(15)

Refining cost decreased by 15% in Jan-Sep/2015 when compared to Jan-Sep/2014, mainly due to a depreciation of the Brazilian Real against the U.S. dollar. Excluding foreign exchange variation effects, refining cost, in R$/barrel, increased by 18%, reflecting higher employee compensation costs attributable to the 2014 Collective Bargaining Agreement, along with a decrease in feedstock processed.

(*) Not reviewed by independent auditor.

[9] Reference feedstock or Installed capacity of primary processing considers the maximum sustainable feedstock processing reached at the distillation units at the end of each period, respecting the project limits of equipment and the safety, environment and product quality requirements. It is lower than the authorized capacity set by ANP (including temporary authorizations) and by environmental protection agencies.

[10] Refining plants utilization factor is the feedstock processed (excluding NGL) divided by the reference feedstock.

[11] Feedstock processed (excluding NGL) – Brazil is the volume of crude oil processed in the Company´s refineries and is factored into the calculation of the Refining Plants Utilization Factor.

[12] Feedstock processed - Brazil includes crude oil and NGL processing.

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FINANCIAL AND OPERATING HIGHLIGHTS

GAS & POWER

Jan-Sep

Net Income Attributable to the Shareholders of Petrobras	576	(549)	205

Earnings were a US$ 576 million gain in Jan-Sep/2015 compared to a US$ 549 million loss in Jan-Sep/2014 mainly due to an increase in natural gas sales margins, resulting from higher natural gas prices (when expressed in Brazilian *Reais*) and lower natural gas import costs (LNG and Bolivian gas).

The net loss of US$ 549 million in Jan-Sep/2014 was due to impairment of trade receivables from companies in northern Brazil (operating in the isolated electricity system) and write-off of overpayments incorrectly capitalized.

Jan-Sep

Physical and Financial Indicators (*)

Electricity sales (Free contracting market - ACL) [13] - average MW	878	1,201	(27)

Electricity sales (Regulated contracting market - ACR) [14] - average MW	3,194	2,341	36

Generation of electricity - average MW	4,830	4,534	7

Imports of LNG (Mbbl/d)	112	128	(13)

Imports of natural gas (Mbbl/d)	202	206	(2)

Electricity price in the spot market - Differences settlement price (PLD) - US$/MWh [15]	101	287	(65)

Electricity sales to the Brazilian free contracting market (*Ambiente de Contratação Livre – ACL*) were 27% lower, attributable to the shift of a portion of our available capacity (1,049 average MW) to the Brazilian regulated market (*Ambiente de Contratação Regulada – ACR*).

Electricity generation was 7% higher due to an increase in the domestic demand for thermal power (coordinated and controlled by the Brazilian Electric System National Operator – *Operador Nacional do Sistema ONS*) and to an increase in the available capacity of the Petrobras's Thermal Power Plants Complex.

LNG imports decreased by 13% and natural gas imports from Bolivia were 2% lower, reflecting an increase in domestic natural gas supply attributable to a 12% increase in production.

Electricity prices in the spot market decreased by 65% as a result of changes in the spot market price regulation established by the Brazilian National Electricity Agency (*Agência Nacional de Energia Elétrica – ANEEL*), which reduced the maximum spot price after December 27, 2014.

(*) Not reviewed by independent auditor.

[13] ACL – *Ambiente de Contratação Livre* (Free contracting market).

[14] ACR - *Ambiente de Contratação Regulada* (Regulated contracting market).

[15] Differences settlement price is the price of electricity in the spot market and is computed based on weekly weighed prices per output level (light, medium and heavy), number of hour and submarket capacity.

FINANCIAL AND OPERATING HIGHLIGHTS

DISTRIBUTION

	Jan-Sep		
Net Income Attributable to the Shareholders of Petrobras	171	330	(48)

Net income was US$ 171 million in Jan-Sep/2015, a 48% decrease when compared to Jan-Sep/2014 (US$ 330 million), mainly due to lower average trade margins (9.1%) and to a decrease in sales volumes (5%).

The Jan-Sep/2014 period was affected by our Voluntary Separation Incentive Plan (PIDV).

Jan-Sep

Market Share (*) [16]

35.6%	37.0%	(1)

Market share decreased mainly due to a general increase of the hydrated ethanol market (a 42.2% increase), in which Petrobras Distribuidora has a lower market share and to lower sales to the thermoelectric sector. Other players have also increased their competitiveness by importing gasoline and diesel and purchasing higher volumes of gasoline.

(*) Not reviewed by independent auditors. Our market share in the Distribution Segment in Brazil is based on estimates made by Petrobras Distribuidora.

[16] Beginning in 2015, our market share excludes sales made to wholesalers. Market share for prior periods was revised pursuant to the changes made by the Brazilian National Petroleum, Natural Gas and Biofuels Agency (ANP) and by the Brazilian Wholesalers and Fuel Traders Syndicate (Sindicom). Prior periods are presented based on the new methodology.

FINANCIAL AND OPERATING HIGHLIGHTS

INTERNATIONAL

As a result of the creation of the position of Chief Governance, Risk and Compliance Officer, which replaced the position of Chief International Officer in March 2015, the Company has approved adjustments to the structure of other business segments to allocate its international activities to those other segments. Considering the necessary steps to integrate the management of those activities, the Company is still presenting the results of international activities separately.

	Jan-Sep		
Net Income Attributable to the Shareholders of Petrobras	254	400	(37)

Net income was lower in Jan-Sep/2015 when compared to Jan-Sep/2014 due to higher selling expenses, write-off of exploration areas returned and impairment charges. In addition, the Company also recognized a gain on disposal of onshore E&P areas in Colombia in Jan-Sep/2014.

	Jan-Sep		
Exploration & Production-International (Mbbl/d)[17] (*)			
Consolidated international production			
Crude oil and NGLs	70	88	(20)
Natural gas	89	94	(5)
Total consolidated international production	159	182	(13)
Non-consolidated international production	30	32	(6)
Total international production	**189**	**214**	(12)

Consolidated international crude oil and NGL production decreased by 20%, reflecting the disposal of onshore areas in Peru in November 2014, in Colombia in April 2014 and in the Austral Basin in Santa Cruz, Argentina, in March 2015. These effects were partially offset by an increase in production due to the start-up of the Saint Malo field in December 2014 and the Lucius field in January 2015 in the United States.

Natural gas production decreased by 5% mainly due to the disposal of onshore assets in Peru, in November 2014, and in the Austral Basin in Argentina, in March 2015. These effects were partially offset by the production start-up of the Hadrian South field in the United States in the end of March 2015.

Jan-Sep

			International Sales price				
58.25	85.46	(32)	**. Crude oil (U.S.$/bbl)**	55.69	60.52	(8)	84.05

23.68	20.83	14	**. Natural gas (U.S.$/bbl)**	25.84	22.66	14	19.06

(*) Not reviewed by independent auditor.

[17] Some of the countries that comprise the international production are operating under the production-sharing model, with the production taxes charged in crude oil barrels.

FINANCIAL AND OPERATING HIGHLIGHTS

	Jan-Sep		
Lifting Cost - International (U.S.$/barrel) [18] [(*)]			
	7.73	8.55	(10)

International lifting cost was 10% lower, mainly in the United States, as a result of the production start-up of the Saint Malo, Lucius and Hadrian South fields that have lower-than-average lifting costs, and to the disposal of onshore assets in Peru and Colombia, which had higher-than-average lifting costs.

	Jan-Sep

Refining Operations - International (Mbbl/d) (*)

Total feedstock processed [19]	136	168	(19)

Output of oil products	148	181	(18)

Reference feedstock [20]	230	230	−

Refining plants utilization factor (%) [21]	57	71	(14)

International feedstock processed was 19% lower due to the interruption of feedstock processing at the Okinawa Refinery in Japan since April 2015, and due to a maintenance scheduled stoppage in the Pasadena Refinery distillation unit in the United States from the beginning of March 2015 to mid-April 2015.

	Jan-Sep		
Refining Cost - International (U.S.$/barrel) (*)			
	4.01	3.81	5

International refining cost per unit was 5% higher, mainly due to higher employee compensation costs in Argentina and to the interruption of feedstock processing at the Okinawa Refinery in Japan since April 2015, which had lower-than-average costs per unit.

BIOFUEL

	Jan-Sep		
Net Income Attributable to the Shareholders of Petrobras	(145)	(101)	(44)

Biofuel losses were 44% higher in Jan-Sep/2015, when compared to Jan-Sep/2014, due to impairment losses in biofuel investees, reflecting changes in the Company’s 2015-2019 Business and Management Plan, partially offset by improved biodiesel trade margins attributable to higher average sales prices and increased sales volumes in 2015.

(*) Not reviewed by independent auditor.

[18] Crude oil and natural gas lifting cost.

[19] Total feedstock processed is the crude oil processed abroad at the atmospheric distillation plants, plus the intermediate products acquired from third parties and used as feedstock in other refining units.

[20] Reference feedstock is the maximum sustainable crude oil feedstock processing reached at distillation plants.

[21] Refining Plants Utilization Factor is the crude oil processed at the distillation plant divided by the reference feedstock.

FINANCIAL AND OPERATING HIGHLIGHTS

Sales Volumes – (Mbbl/d)(*)

	Jan-Sep		
Diesel	928	998	(7)
Gasoline	550	612	(10)
Fuel oil	106	117	(9)
Naphtha	143	167	(14)
LPG [22]	234	235	−
Jet fuel [23]	111	110	1
Others	182	210	(13)
Total oil products	2,254	2,449	(8)
Ethanol, nitrogen fertilizers, renewables and other products	123	94	31
Natural gas	438	442	(1)
Total domestic market	**2,815**	**2,985**	(6)
Exports	502	392	28
International sales	519	574	(10)
Total international market	**1,021**	**966**	6
Total	**3,836**	**3,951**	(3)

Our domestic sales volumes decreased by 6%, primarily due to:

• Diesel (a 7% decrease):

i) a lower consumption by infrastructure construction projects in Brazil;

ii) a higher share of diesel sales from other market players (based on diesel imports); and

iii) an increased percentage of mandatory biodiesel content requirement in diesel (diesel/biodiesel mix).

These effects were partially offset by an increase in the Brazilian diesel-moved light vehicle fleet (vans, pick-ups and SUVs).

- Gasoline (a 10% decrease):

i) an increase in the anhydrous ethanol content requirement for Type C gasoline (from 25% to 27%);

ii) a higher share of gasoline sales from other market players; and

iii) a decrease in the automotive gasoline-moved fleet.

- Naphtha (a 14% decrease): due to a lower demand by domestic customers, mainly Braskem; and

- Fuel oil (a 9% decrease): due to lower demand from thermoelectric and industrial sectors in several Brazilian states.

(*) Not reviewed by independent auditor.

[22] LPG – Liquified petroleum gas.

[23] Jet fuel.

FINANCIAL AND OPERATING HIGHLIGHTS

LIQUIDITY AND CAPITAL RESOURCES

Consolidated Statement of Cash Flows – Summary[24]

Jan-Sep

25,957	**19,746**	**Adjusted cash and cash equivalents at the beginning of period [25]**	**29,536**	**21,254**	**30,130**

(9,302)	(3,878)	Government bonds and time deposits at the beginning of period	(3,375)	(10,515)	(3,733)

16,655	**15,868**	**Cash and cash equivalents at the beginning of period**	**26,161**	**10,739**	**26,397**

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19,336	20,747	Net cash provided by (used in) operating activities	6,147	7,450	10,353

(9,000)	(29,805)	Net cash provided by (used in) investing activities	(3,260)	1,710	(13,675)

(16,825)	(26,033)	Capital expenditures and investments in operating segments	(5,067)	(5,583)	(8,848)

215	584	Proceeds from disposal of assets (divestment)	4	31	133

7,610	(4,356)	Investments in marketable securities	1,803	7,262	(4,960)

10,336	**(9,058)**	**(=) Net cash flow**	**2,887**	**9,160**	**(3,322)**

(741)	17,445	Net financings	(3,288)	6,147	(2,197)

15,830	29,548	Proceeds from long-term financing	3,545	10,981	2,207

(16,571)	(12,103)	Repayments	(6,833)	(4,834)	(4,404)

−	(3,924)	Dividends paid to shareholders	−	−	(8)

119	(22)	Acquisition of non-controlling interest	(54)	35	(25)

(1,231)	(63)	Effect of exchange rate changes on cash and cash equivalents	(568)	80	(599)

25,138	**20,246**	**Cash and cash equivalents at the end of period** [24]	**25,138**	**26,161**	**20,246**

1,099	8,419	Government bonds and time deposits at the end of period	1,099	3,375	8,419

26,237	**28,665**	**Adjusted cash and cash equivalents at the end of period [25]**	**26,237**	**29,536**	**28,665**

As of September 30, 2015, the balance of cash and cash equivalents increased by 51% when compared to the balance as of December 31, 2014 and the balance of adjusted cash and cash equivalents[25] for the same period increased by 1% . Our principal uses of funds in Jan-Sep/2015 were for repayment of long-term financing (and interest payments) and for capital expenditures. We met these requirements with cash provided by operating activities of US$ 19,336 million and with proceeds from long-term financing of US$ 15,830 million.

Net cash provided by operating activities decreased by 7% in Jan-Sep/2015 when compared to Jan-Sep/2014, mainly due to a depreciation of the Brazilian *Real* against the U.S. dollar. Excluding foreign currency translation effects, net cash provided by operating activities increased by 29% when expressed in Brazilian *Reais*, reflecting higher diesel and gasoline prices, increased crude oil export volumes, lower production taxes and decreased crude oil and oil product imports costs, along with a higher share of domestic crude oil on feedstock processing and lower oil product imports.

Capital expenditures and investments in operating segments were 35% lower in Jan-Sep/2015 compared to Jan-Sep/2014, mainly due to a decrease in capital expenditures in our Refining, Transportation and Marketing (RTM) segment. The US$ 7,610 million of divestments in marketable securities relates to proceeds from the maturity of financial investments with maturities longer than three months, most of which were invested in other financial investments, with maturities of less than three months (classified as cash and cash equivalents).

Net cash flow was positive in Jan-Sep/2015 (US$ 10,336 million) compared to a negative net cash flow in Jan-Sep/2014 (US$ 9,058 million).

The Company raised long-term financing of US$ 15,830 million in Jan-Sep/2015, mainly through a US$ 5 billion funding agreement with the Chinese Development Bank (CDB), US$ 2 billion raised through the issuance of Global Notes maturing in 2115, and also through bilateral credit agreements with Brazilian banks. The average maturity of outstanding debt was 7.49 years as of September 30, 2015.

Repayments of interest and principal were US$ 16,571 million in Jan-Sep/2015, 37% higher than US$ 12,103 million in Jan-Sep/2014 and 41% higher in the 3Q-2015 when compared to 2Q-2015.

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[24] For more details, see the Consolidated Statement of Cash Flows on page 18.

[25] Our adjusted cash and cash equivalents include government bonds and time deposits from highly rated financial institutions abroad with maturities of more than 3 months from the date of acquisition, considering the expected realization of those financial investments in the short-term. This measure is not defined under the International Financial Reporting Standards – IFRS and should not be considered in isolation or as a substitute for cash and cash equivalents computed in accordance with IFRS. It may not be comparable to adjusted cash and cash equivalents of other companies, however management believes that it is an appropriate supplemental measure that helps investors assess our liquidity and supports leverage management.

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FINANCIAL AND OPERATING HIGHLIGHTS

Capital expenditures and investments

Jan-Sep

Exploration & Production	13,776	78	17,866	65	(23)

Refining, Transportation and Marketing	1,872	11	6,025	22	(69)

Gas & Power	618	3	1,812	7	(66)

International	991	6	984	4	1

Exploration & Production	845	85	863	88	(2)

Refining, Transportation and Marketing	112	11	91	9	23

Gas & Power	14	2	9	1	56

Distribution	18	2	17	2	6

Other	2	–	4	–	(50)

Distribution	163	1	310	1	(47)

Biofuel	18	–	11	–	64

Corporate	206	1	332	1	(38)

Total capital expenditures and investments	**17,644**	**100**	**27,340**	**100**	**(35)**

Pursuant to the Company’s strategic objectives, it operates through joint ventures in Brazil and abroad, as a concessionaire of oil and gas exploration, development and production rights.

The Company invested US$ 17,644 million in Jan-Sep/2015, primarily aiming at increasing crude oil and natural gas production.

FINANCIAL AND OPERATING HIGHLIGHTS

Consolidated debt

Current debt [26]	13,435	11,884	13
Non-current debt [27]	114,075	120,274	(5)
Total	127,510	132,158	(4)
Cash and cash equivalents	25,138	16,655	51
Government securities and time deposits (maturity of more than 3 months)	1,099	9,302	(88)
Adjusted cash and cash equivalents	26,237	25,957	1
Net debt [28]	101,273	106,201	(5)
Net debt/(net debt+shareholders' equity)	58%	48%	10
Total net liabilities [29]	208,242	272,730	(24)
Capital structure (Net third parties capital / total net liabilities)	65%	57%	8
Net debt/LTM Adjusted EBITDA ratio [30]	3.87	4.25	(9)
Average maturity of outstanding debt (years)	7.49	6.10	1.39

Summarized information on financing

Floating rate or fixed rate

Floating rate debt	63,717	65,494	(3)

Fixed rate debt	63,742	66,592	(4)

Total	**127,459**	**132,086**	(4)

Currency

Reais	20,280	23,425	(13)

US Dollars	94,808	95,173	–

Euro	8,859	9,719	(9)

Other currencies	3,512	3,769	(7)

Total	**127,459**	**132,086**	(4)

Maturity

2015	4,381	11,868	(63)

2016	12,653	12,572	1

2017	11,274	11,948	(6)

2018	16,018	17,789	(10)

2019	22,468	24,189	(7)

2020 and thereafter	60,665	53,720	13

Total	**127,459**	**132,086**	(4)

As of September 30, 2015, net debt in U.S. dollars was 5% lower when compared to December 31, 2014.

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[26] Includes finance lease obligations (Current debt: US$ 11 million on September 30, 2015 and US$16 million on December 31, 2014).

[27] Includes finance lease obligations (Non-current debt: US$ 40 million on September 30, 2015 and US$56 million on December 31, 2014).

[28] Net debt is not a measure defined in the International Standards -IFRS and should not be considered in isolation or as a substitute for total long-term debt calculated in accordance with IFRS. Our calculation of net debt may not be comparable to the calculation of net debt by other companies. Management believes that net debt is an appropriate supplemental measure that helps investors assess our liquidity and supports leverage management.

[29] Total liabilities net of adjusted cash and cash equivalents.

[30] Beginning in the period ended June 30, 2015, the Company calculated its ratios including Adjusted EBITDA by adding the last four quarters (or Last Twelve Months - LTM Adjusted EBITDA), consistently with the market best practices. The Company previously annualized its Adjusted EBITDA by multiplying the year-to-date amount by the remaining period.

FINANCIAL AND OPERATING HIGHLIGHTS

FINANCIAL STATEMENTS

Income Statement - Consolidated[31]

Jan-Sep

75,167	110,248	**Sales revenues**	23,179	26,021	38,844

(52,325)	(84,717)	Cost of sales	(16,484)	(17,701)	(29,859)

22,842	25,531	**Gross profit**	6,695	8,320	8,985

(2,954)	(5,356)	Selling expenses	(1,087)	(1,265)	(2,959)

(2,622)	(3,430)	General and administrative expenses	(776)	(900)	(1,190)

(1,435)	(2,471)	Exploration costs	(630)	(462)	(1,017)

(553)	(812)	Research and development expenses	(157)	(199)	(292)

(2,413)	(521)	Other taxes	(861)	(1,289)	(243)

−	(2,527)	Write-off - overpayments incorrectly capitalized	−	−	(2,527)

(3,483)	(5,209)	Other income and expenses, net	(1,547)	(1,118)	(2,724)

(13,460)	(20,326)	(5,058)	(5,233)	(10,952)

9,382	**5,205**	**Net income (loss) before finance income (expense), share of earnings in equity-accounted investments, profit sharing and income taxes**	**1,637**	**3,087**	**(1,967)**

982	1,297	Finance income	526	200	516

(4,904)	(2,791)	Finance expenses	(1,805)	(1,810)	(1,003)

(3,236)	572	Foreign exchange and inflation indexation charges	(1,947)	(359)	60

(7,158)	(922)	Net finance income (expense)	(3,226)	(1,969)	(427)

171	430	Share of earnings in equity-accounted investments	56	55	87

(61)	(338)	Profit-sharing	65	(9)	(56)

2,334	**4,375**	**Net income (loss) before income taxes**	**(1,468)**	**1,164**	**(2,363)**

(1,877)	(2,014)	Income taxes	49	(870)	(51)

457	**2,361**	**Net income (loss)**	**(1,419)**	**294**	**(2,414)**

Net income (loss) attributable to:

971	2,355	Shareholders of Petrobras	(1,062)	171	(2,150)

(514)	6	Non-controlling interests	(357)	123	(264)

457	**2,361**	**(1,419)**	**294**	**(2,414)**

[31] Beginning in 2014, the amount of inventory write-downs to net realizable value (market value) was reclassified from Other Income and Expenses to Cost of Sales.

FINANCIAL AND OPERATING HIGHLIGHTS

Statement of Financial Position – Consolidated

ASSETS

Current assets	**44,397**	**50,832**

Cash and cash equivalents	25,138	16,655

Marketable securities	1,102	9,323

Trade and other receivables, net	5,325	7,969

Inventories	8,202	11,466

Recoverable taxes	2,561	3,811

Assets classified as held for sale	74	5

Other current assets	1,995	1,603

Non-current assets	**190,082**	**247,855**

Long-term receivables	**17,414**	**18,863**

Trade and other receivables, net	4,283	4,832

Marketable securities	86	109

Judicial deposits	2,244	2,682

Deferred taxes	3,713	1,006

Other tax assets	2,688	4,008

Advances to suppliers	1,984	2,409

Other non-current assets	2,416	3,817

Investments	**4,024**	**5,753**

Property, plant and equipment	**165,590**	**218,730**

Intangible assets	**3,054**	**4,509**

Total assets	**234,479**	**298,687**

LIABILITIES

Current liabilities	**27,616**	**31,118**

Trade payables	6,706	9,760

Current debt	13,435	11,884

Taxes payable	3,526	4,311

Employee compensation (payroll, profit-sharing and related charges)	1,549	2,066

Pension and medical benefits	567	796

Liabilities associated with assets classified as held for sale	49	−

Other current liabilities	1,784	2,301

Non-current liabilities	**133,621**	**150,591**

Non-current debt	114,075	120,274

Deferred taxes	291	3,031

Pension and medical benefits	11,880	16,491

Provision for decommissioning costs	5,078	8,267

Provisions for legal proceedings	1,651	1,540

Other non-current liabilities	646	988

Shareholders' equity	**73,242**	**116,978**

Share capital (net of share issuance costs)	107,101	107,101

Profit reserves and others	(34,247)	9,171

Non-controlling interests	388	706

Total liabilities and shareholders' equity	**234,479**	**298,687**

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FINANCIAL AND OPERATING HIGHLIGHTS

Statement of Cash Flows – Consolidated

Jan-Sep

971	**2,355**	**Net income (loss) attributable to the shareholders of Petrobras**	**(1,062)**	**171**	**(2,150)**

18,365	**18,392**	**(+) Adjustments for:**	**7,209**	**7,279**	**12,503**

8,580	9,563	Depreciation, depletion and amortization	2,667	2,939	3,092

7,100	2,410	Foreign exchange and inflation indexation and finance charges	3,087	1,815	1,148

(514)	6	Non-controlling interests	(357)	123	(264)

(171)	(430)	Share of earnings in equity-accounted investments	(56)	(55)	(87)

−	2,527	Write-off - overpayments incorrectly capitalized	−	−	2,527

141	1,831	Allowance for impairment of trade receivables	153	289	1,738

274	1,669	(Gains) / losses on disposal / write-offs of non-current assets, returned areas and cancelled projects	345	70	1,794

1,011	966	Deferred income taxes, net	(278)	575	(48)

1,050	1,869	Exploration expenditures written-off	495	354	752

678	613	Impairment of property, plant and equipment, intangible and other assets	238	339	408

1,613	1,383	Pension and medical benefits (actuarial expense)	477	548	400

(379)	103	Inventories	510	(531)	2,175

64	(1,987)	Trade and other receivables, net	174	(135)	(622)

(839)	(491)	Trade payables	15	(59)	(575)

(510)	(578)	Pension and medical benefits	(135)	(230)	(182)

1,378	(112)	Taxes payable	(580)	1,845	755

(1,111)	(950)	Other assets and liabilities	454	(608)	(508)

19,336	**20,747**	**(=) Net cash provided by (used in) operating activities**	**6,147**	**7,450**	**10,353**

(9,000)	**(29,805)**	**(-) Net cash provided by (used in) investing activities**	**(3,260)**	**1,710**	**(13,675)**

(16,825)	(26,033)	Capital expenditures and investments in operating segments	(5,067)	(5,583)	(8,848)

215	584	Proceeds from disposal of assets (divestment)	4	31	133

7,610	(4,356)	Divestments (investments) in marketable securities	1,803	7,262	(4,960)

10,336	**(9,058)**	**(=) Net cash flow**	**2,887**	**9,160**	**(3,322)**

(622)	**13,499**	**(-) Net cash provided by (used in) financing activities**	**(3,342)**	**6,182**	**(2,230)**

15,830	29,548	Proceeds from long-term financing	3,545	10,981	2,207

(11,682)	(7,543)	Repayment of principal	(5,152)	(3,582)	(2,736)

(4,889)	(4,560)	Repayment of interest	(1,681)	(1,252)	(1,668)

−	(3,924)	Dividends paid to shareholders	−	−	(8)

119	(22)	Acquisition of non-controlling interest	(54)	35	(25)

(1,231)	(63)	Effect of exchange rate changes on cash and cash equivalents	(568)	80	(599)

8,483	**4,378**	**(=) Net increase (decrease) in cash and cash equivalents in the period**	**(1,023)**	**15,422**	**(6,151)**

16,655	15,868	Cash and cash equivalents at the beginning of period	26,161	10,739	26,397

25,138	20,246	Cash and cash equivalents at the end of period	25,138	26,161	20,246

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FINANCIAL AND OPERATING HIGHLIGHTS

SEGMENT INFORMATION

Consolidated Income Statement by Segment – Jan/Sep-2015

Sales revenues	**26,991**	**56,015**	**9,962**	**22,858**	**7,013**	**166**	**–**	**(47,838)**	**75,167**
Intersegments	26,575	18,700	1,593	433	383	154	–	(47,838)	–
Third parties	416	37,315	8,369	22,425	6,630	12	–	–	75,167
Cost of sales	(18,734)	(45,740)	(8,035)	(21,204)	(5,933)	(184)	–	47,505	(52,325
Gross profit	**8,257**	**10,275**	**1,927**	**1,654**	**1,080**	**(18)**	**–**	**(333)**	**22,842**
Expenses	**(2,645)**	**(3,123)**	**(1,055)**	**(1,356)**	**(770)**	**(36)**	**(4,639)**	**164**	**(13,46**
Selling, general and administrative expenses	(330)	(1,759)	(314)	(1,289)	(581)	(25)	(1,443)	165	(5,576)
Exploration costs	(1,324)	–	–	–	(111)	–	–	–	(1,435)
Research and development expenses	(218)	(91)	(45)	–	(2)	(8)	(189)	–	(553)
Other taxes	(117)	(608)	(316)	(8)	(83)	(1)	(1,280)	–	(2,413)
Other income and expenses, net	(656)	(665)	(380)	(59)	7	(2)	(1,727)	(1)	(3,483)
Net income (loss) before finance income (expense), share of earnings in equity-accounted investments, profit sharing and income taxes	**5,612**	**7,152**	**872**	**298**	**310**	**(54)**	**(4,639)**	**(169)**	**9,382**
Net finance income (expense)	–	–	–	–	–	–	(7,158)	–	(7,158)
Share of earnings in equity-accounted investments	(170)	330	81	(12)	89	(110)	(37)	–	171
Profit-sharing	(9)	(24)	(3)	(21)	–	–	(4)	–	(61)
Net income (loss) before income	**5,433**	**7,458**	**950**	**265**	**399**	**(164)**	**(11,838)**	**(169)**	**2,334**

taxes									
Income taxes	(1,908)	(2,423)	(295)	(94)	(66)	19	2,833	57	(1,877)
Net income (loss)	**3,525**	**5,035**	**655**	**171**	**333**	**(145)**	**(9,005)**	**(112)**	**457**
Net income (loss) attributable to:									
Shareholders of Petrobras	3,532	5,039	576	171	254	(145)	(8,344)	(112)	971
Non-controlling interests	(7)	(4)	79	−	79	−	(661)	−	(514)
	3,525	**5,035**	**655**	**171**	**333**	**(145)**	**(9,005)**	**(112)**	**457**

Consolidated Income Statement by Segment – Jan/Sep-2014[12]

Sales revenues	**51,835**	**86,649**	**13,336**	**31,827**	**11,005**	**192**	**−**	**(84,596)**	**110,248**

Intersegments	51,510	30,267	1,183	880	589	167	−	(84,596)	−

Third parties	325	56,382	12,153	30,947	10,416	25	−	−	110,248

Cost of sales	(26,503)	(91,682)	(11,735)	(29,231)	(9,854)	(230)	−	84,518	(84,717)

Gross profit	**25,332**	**(5,033)**	**1,601**	**2,596**	**1,151**	**(38)**	**−**	**(78)**	**25,531**

Expenses	**(5,122)**	**(5,856)**	**(2,508)**	**(2,072)**	**(673)**	**(52)**	**(4,213)**	**170**	**(20,326)**

Selling, general and administrative expenses	(276)	(2,293)	(1,886)	(1,925)	(590)	(36)	(1,952)	172	(8,786)

Exploration costs	(2,354)	−	−	—	—

Other revenues	—		—			—	
Other expenses [2]	—		—			—	
Amortization of intangible assets [3]	—		—			—	
Segment profit (loss)	$	74,274	$	23,561		$	210,4
Interest expense							
Net foreign exchange gains							
Income before income taxes							
U.S. GAAP combined ratio [4]	92	%	90		%		

(1) Other segment profit (loss) represents the total profit (loss) attributable to the Company's operations that are not included in a reportable segment as well as any amortization of intangible assets that is not allocated to a reportable segment.

(2) Other expenses for the Markel Ventures segment include depreciation expense of $12.8 million for the quarter ended June 30, 2018.

(3) Segment profit for the Markel Ventures segment includes amortization of intangible assets attributable to Markel Ventures. Amortization of intangible assets is not allocated to any other reportable segments.

(4) The U.S. GAAP combined ratio is a measure of underwriting performance and represents the relationship of incurred losses, loss adjustment expenses and underwriting, acquisition and insurance expenses to earned premiums.

(5) NM - Ratio is not meaningful

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	Quarter Ended June 30, 2017					
(dollars in thousands)	Insurance	Reinsurance	Investing	Markel Ventures	Other [1]	Consolidated
Gross premium volume	$1,109,278	$247,902	$—	$—	$(16)	$1,357,164
Net written premiums	917,286	220,466	—	—	(95)	1,137,657
Earned premiums	804,189	229,480	—	—	(95)	1,033,574
Losses and loss adjustment expenses:						
Current accident year	(538,399)	(146,186)	—	—	—	(684,585)
Prior accident years	132,528	28,151	—	—	928	161,607
Amortization of policy acquisition costs	(160,388)	(53,086)	—	—	—	(213,474)
Other operating expenses	(163,480)	(24,181)	—	—	(135)	(187,796)
Underwriting profit	74,450	34,178	—	—	698	109,326
Net investment income	—	—	99,239	60	—	99,299
Net realized investment gains	—	—	17,627	—	—	17,627
Other revenues	—	—	—	313,597	17,396	330,993
Other expenses [2]	—	—	—	(271,045)	(27,711)	(298,756)
Amortization of intangible assets [3]	—	—	—	(6,956)	(11,070)	(18,026)
Segment profit (loss)	$74,450	$34,178	$116,866	$35,656	$(20,687)	$240,463
Interest expense						(31,797)
Net foreign exchange gains						879
Income before income taxes						$209,545
U.S. GAAP combined ratio [4]	91%	85%			NM [5]	89%

(1) Other segment profit (loss) represents the total profit (loss) attributable to the Company's operations that are not included in a reportable segment as well as any amortization of intangible assets that is not allocated to a reportable segment.

(2) Other expenses for the Markel Ventures segment include depreciation expense of $9.6 million for the quarter ended June 30, 2017.

(3) Segment profit for the Markel Ventures segment includes amortization of intangible assets attributable to Markel Ventures. Amortization of intangible assets is not allocated to any other reportable segments.

(4) The U.S. GAAP combined ratio is a measure of underwriting performance and represents the relationship of incurred losses, loss adjustment expenses and underwriting, acquisition and insurance expenses to earned premiums.

(5) NM - Ratio is not meaningful

Table of Contents

	Six Months Ended June 30, 2018					
(dollars in thousands)	Insurance	Reinsurance	Investing	Markel Ventures	Other [1]	Consolidated
Gross premium volume	$2,327,190	$701,138	$—	$—	$1,015,989	$4,044,317
Net written premiums	1,914,105	599,787	—	—	1,516	2,515,408
Earned premiums	1,821,045	477,577	—	—	583	2,299,205
Losses and loss adjustment expenses:						
Current accident year	(1,180,661)	(299,173)	—	—	(48)	(1,479,882)
Prior accident years	258,658	5,454	—	—	1,474	265,586
Amortization of policy acquisition costs	(371,328)	(119,827)	—	—	—	(491,155)
Other operating expenses	(350,899)	(33,308)	—	—	(598)	(384,805)
Underwriting profit	176,815	30,723	—	—	1,411	208,949
Net investment income	—	—	213,089	314	—	213,403
Net investment losses	—	—	(17,749)	—	—	(17,749)
Other revenues	—	—	—	970,813	96,812	1,067,625
Other expenses [2]	—	—	—	(914,138)	(83,335)	(997,473)
Amortization of intangible assets [3]	—	—	—	(20,193)	(38,271)	(58,464)
Segment profit (loss)	$176,815	$30,723	$195,340	$36,796	$(23,383)	$416,291
Interest expense						(76,761)
Net foreign exchange gains						64,044
Income before income taxes						$403,574
U.S. GAAP combined ratio [4]	90%	94%			NM [5]	91%

(1) Other segment profit (loss) represents the total profit (loss) attributable to the Company's operations that are not included in a reportable segment as well as any amortization of intangible assets that is not allocated to a reportable segment.

(2) Other expenses for the Markel Ventures segment include depreciation expense of $25.5 million for the six months ended June 30, 2018.

(3) Segment profit for the Markel Ventures segment includes amortization of intangible assets attributable to Markel Ventures. Amortization of intangible assets is not allocated to any other reportable segments.

(4) The U.S. GAAP combined ratio is a measure of underwriting performance and represents the relationship of incurred losses, loss adjustment expenses and underwriting, acquisition and insurance expenses to earned premiums.

(5) NM - Ratio is not meaningful

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	Six Months Ended June 30, 2017					
(dollars in thousands)	Insurance	Reinsurance	Investing	Markel Ventures	Other [1]	Consolidated
Gross premium volume	$2,022,275	$795,639	$—	$—	$1	$2,817,915
Net written premiums	1,687,803	710,062	—	—	21	2,397,886
Earned premiums	1,561,038	455,117	—	—	21	2,016,176
Losses and loss adjustment expenses:						
Current accident year	(1,031,135)	(291,796)	—	—	—	(1,322,931)
Prior accident years	225,414	(43,412)	—	—	6,232	188,234
Amortization of policy acquisition costs	(308,077)	(109,945)	—	—	—	(418,022)
Other operating expenses	(309,877)	(46,350)	—	—	(299)	(356,526)
Underwriting profit (loss)	137,363	(36,386)	—	—	5,954	106,931
Net investment income	—	—	199,564	103	—	199,667
Net investment gains	—	—	38,492	—	—	38,492
Other revenues	—	—	—	600,532	38,377	638,909
Other expenses [2]	—	—	—	(522,357)	(59,032)	(581,389)
Amortization of intangible assets [3]	—	—	—	(13,860)	(20,936)	(34,796)
Segment profit (loss)	$137,363	$(36,386)	$238,056	$64,418	$(35,637)	$367,814
Interest expense						(65,199)
Net foreign exchange gains						974
Income before income taxes						$303,589
U.S. GAAP combined ratio [4]	91 %	108 %			NM [5]	95 %

(1) Other segment profit (loss) represents the total profit (loss) attributable to the Company's operations that are not included in a reportable segment as well as any amortization of intangible assets that is not allocated to a reportable segment.

(2) Other expenses for the Markel Ventures segment include depreciation expense of $19.0 million for the six months ended June 30, 2017.

(3) Segment profit for the Markel Ventures segment includes amortization of intangible assets attributable to Markel Ventures. Amortization of intangible assets is not allocated to any other reportable segments.

(4) The U.S. GAAP combined ratio is a measure of underwriting performance and represents the relationship of incurred losses, loss adjustment expenses and underwriting, acquisition and insurance expenses to earned premiums.

(5) NM - Ratio is not meaningful

b) The following table reconciles segment assets to the Company's consolidated balance sheets.

(dollars in thousands)	June 30, 2018	December 31, 2017
Segment assets:		
Investing	$20,303,090	$20,317,160
Underwriting	6,955,342	6,828,048
Markel Ventures	1,936,966	1,900,728
Total segment assets	29,195,398	29,045,936
Other operations	4,051,633	3,759,080
Total assets	$33,247,031	$32,805,016

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7. Unpaid Losses and Loss Adjustment Expenses

The following table presents a reconciliation of consolidated beginning and ending reserves for losses and loss adjustment expenses.

	Six Months Ended June 30,	
(dollars in thousands)	2018	2017
Net reserves for losses and loss adjustment expenses, beginning of year	$8,964,945	$8,108,717
Foreign currency movements	(20,554)	57,991
Adjusted net reserves for losses and loss adjustment expenses, beginning of year	8,944,391	8,166,708
Incurred losses and loss adjustment expenses:		
Current accident year	1,479,882	1,322,931
Prior accident years	(265,613)	(184,367)
Total incurred losses and loss adjustment expenses	1,214,269	1,138,564
Payments:		
Current accident year	195,873	186,138
Prior accident years	1,073,004	829,126
Total payments	1,268,877	1,015,264
Effect of foreign currency rate changes	(101)	2,333
Net reserves for losses and loss adjustment expenses of acquired insurance companies	—	12,702
Net reserves for losses and loss adjustment expenses, end of period	8,889,682	8,305,043
Reinsurance recoverable on unpaid losses	4,739,259	2,007,652
Gross reserves for losses and loss adjustment expenses, end of period	$13,628,941	$10,312,695

Effective March 31, 2017, reserves of $69.1 million, were formally transferred to a third party by way of a Part VII transfer pursuant to the Financial Services and Markets Act 2000 of the United Kingdom. Upon completion of the transfer in the first quarter of 2017, the Company recognized a previously deferred gain of $3.9 million, which is included in losses and loss adjustment expenses on the consolidated statement of income (loss) and comprehensive income (loss) for the six months ended June 30, 2017. This amount is excluded from the prior years' incurred losses and loss adjustment expenses for the six months ended June 30, 2017 in the above table as the deferred gain was included in other liabilities on the consolidated balance sheet as of December 31, 2016, rather than unpaid losses and loss adjustment expenses.

For the six months ended June 30, 2018, incurred losses and loss adjustment expenses included $265.6 million of favorable development on prior years' loss reserves, which included $211.9 million of favorable development on the Company's general liability, professional liability, worker's compensation and marine and energy product lines within the Insurance segment, and surety and marine and energy product lines within the Reinsurance segment.

For the six months ended June 30, 2017, incurred losses and loss adjustment expenses included $184.4 million of favorable development on prior years' loss reserves, which included $195.7 million of loss reserve redundancies on the Company's general liability, professional liability, marine and energy, personal lines business and worker's compensation product lines within the Insurance segment and property and whole account product lines within the Reinsurance segment. Redundancies for the six months ended June 30, 2017 were partially offset by $85.0 million of adverse development resulting from a decrease in the discount rate, known as the Ogden Rate, used to calculate lump sum awards in United Kingdom bodily injury cases.

During the six months ended June 30, 2017, the Company recorded net reserves for losses and loss adjustment expenses of $12.7 million as a result of the acquisition of SureTec.

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8. Other Revenues

The amount of revenues from contracts with customers included in other revenues on the consolidated statements of income and comprehensive income (loss) is $581.4 million and $307.1 million for the quarters ended June 30, 2018 and 2017, respectively, and $978.6 million and $592.0 million for the six months ended June 30, 2018 and 2017, respectively.

The following tables disaggregate revenues from contracts with customers by type.

	Quarter Ended June 30,					
	2018			2017		
(dollars in thousands)	Markel Ventures	Other	Total	Markel Ventures	Other	Total
Products	$461,007	$—	$461,007	$204,839	$—	$204,839
Services	94,035	8,972	103,007	85,617	7,348	92,965
Investment management	—	17,418	17,418	—	9,277	9,277
Total revenues from contracts with customers	555,042	26,390	581,432	290,456	16,625	307,081
Program services	—	22,635	22,635	—	—	—
Other	23,714	412	24,126	23,141	771	23,912
Total Other Revenues	$578,756	$49,437	$628,193	$313,597	$17,396	$330,993

	Six Months Ended June 30,					
	2018			2017		
(dollars in thousands)	Markel Ventures	Other	Total	Markel Ventures	Other	Total
Products	$744,480	$—	$744,480	$389,572	$—	$389,572
Services	181,477	17,896	199,373	165,229	18,534	183,763
Investment management	—	34,707	34,707	—	18,636	18,636
Total revenues from contracts with customers	925,957	52,603	978,560	554,801	37,170	591,971
Program services	—	43,332	43,332	—	—	—
Other	44,856	877	45,733	45,731	1,207	46,938
Total Other Revenues	$970,813	$96,812	$1,067,625	$600,532	$38,377	$638,909

The following table presents receivables and customer deposits related to our contracts with customers.

(dollars in thousands)	June 30, 2018	December 31, 2017
Receivables	$277,624	$176,865
Customer deposits	78,083	61,546

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9. Reinsurance

The following tables summarize the effect of reinsurance and retrocessional reinsurance on premiums written and earned.

	Quarter Ended June 30,							
	2018				2017			
(dollars in thousands)	Direct	Assumed	Ceded	Net Premiums	Direct	Assumed	Ceded	Net Premiums
Underwriting:								
Written	$1,182,683	$259,960	$(262,781)	$1,179,862	$1,046,833	$310,331	$(219,507)	$1,137,657
Earned	1,070,248	316,718	(239,152)	1,147,814	914,249	312,538	(193,213)	1,033,574
Program Services:								
Written	549,630	5,160	(554,046)	744	—	—	—	—
Earned	470,824	2,286	(472,740)	370	—	—	—	—
Consolidated:								
Written	1,732,313	265,120	(816,827)	1,180,606	1,046,833	310,331	(219,507)	1,137,657
Earned	$1,541,072	$319,004	$(711,892)	$1,148,184	$914,249	$312,538	$(193,213)	$1,033,574

	Six Months Ended June 30,							
	2018				2017			
(dollars in thousands)	Direct	Assumed	Ceded	Net Premiums	Direct	Assumed	Ceded	Net Premiums
Underwriting:								
Written	$2,222,061	$806,273	$(514,338)	$2,513,996	$1,896,317	$921,598	$(420,029)	$2,397,886
Earned	2,108,183	652,208	(461,665)	2,298,726	1,777,235	620,107	(381,166)	2,016,176
Program Services:								
Written	1,007,454	8,529	(1,014,571)	1,412	—	—	—	—
Earned	893,749	3,738	(897,008)	479	—	—	—	—
Consolidated:								
Written	3,229,515	814,802	(1,528,909)	2,515,408	1,896,317	921,598	(420,029)	2,397,886
Earned	$3,001,932	$655,946	$(1,358,673)	$2,299,205	$1,777,235	$620,107	$(381,166)	$2,016,176

Substantially all of the premium written and earned in the Company's fee-based program services business, which was acquired as part of the State National acquisition in November 2017, for the quarter and six months ended June 30, 2018 was ceded to third parties. The percentage of ceded earned premiums to gross earned premiums was 38% and 37% for the quarter and six months ended June 30, 2018, respectively, and 16% for the quarter and six months ended June 30, 2017. The percentage of assumed earned premiums to net earned premiums was 28% and 29% for the quarter and six months ended June 30, 2018, respectively, and 30% and 31%, for the quarter and six months ended June 30, 2017, respectively.

Substantially all of the incurred losses and loss adjustment expenses in the Company's program services business for the quarter and six months ended June 30, 2018, which totaled $373.3 million and $629.6 million, respectively, were ceded to third parties. Incurred losses and loss adjustment expenses for the Company's underwriting operations were net of reinsurance recoverables (ceded incurred losses and loss adjustment expenses) of $52.0 million and $109.0 million for the quarters ended June 30, 2018 and 2017, respectively, and $223.8 million and $208.6 million for the six months ended June 30, 2018 and 2017, respectively.

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10. Income Taxes

The effective tax rate was 47% and 27% for the six months ended June 30, 2018 and 2017, respectively. During the first quarter of 2018, the Company decided to make the election to have two of its most significant U.K. subsidiaries treated as domestic corporations for U.S. tax purposes. As a result, during the six months ended June 30, 2018, the Company recorded a $102.0 million provision for deferred U.S. income taxes on the book and tax basis differences attributable to those subsidiaries, which added 25% to the effective tax rate. The Company continues to be indefinitely reinvested in its other foreign subsidiaries, with the exception of certain Bermuda-based subsidiaries.

The Company uses the estimated annual effective tax rate method for calculating its tax provision in interim periods. This method applies the Company's best estimate of the effective tax rate expected for the full year to year-to-date earnings before income taxes. Certain items, including those deemed to be unusual, infrequent or that cannot be reliably estimated (discrete items), are excluded from the estimated annual effective tax rate and the related tax expense or benefit is reported in the same period as the related item. The Company's estimated annual effective tax rate, which excludes the tax attributable to the change in tax status of the two U.K. subsidiaries, was 20% and 27% for the six months ended June 30, 2018 and 2017, respectively. For the six months ended June 30, 2018 and 2017, the estimated annual effective tax rate differs from the U.S. statutory tax rate of 21% and 35%, respectively, primarily as a result of tax-exempt investment income. The decrease in the estimated annual effective tax rate in 2018 compared to 2017 was primarily attributable to the TCJA, which reduced the U.S. corporate tax rate from 35% to 21%, partially offset by anticipating a smaller tax benefit from tax-exempt investment income in 2018 compared to 2017.

11. Variable Interest Entities

Markel CATCo Investment Management Ltd. (MCIM), a wholly-owned consolidated subsidiary of the Company, is an insurance-linked securities investment fund manager and insurance manager headquartered in Bermuda. Results attributable to MCIM are not included in a reportable segment.

MCIM manages a mutual fund company and reinsurance company, both of which were organized under Bermuda law. The mutual fund company issues multiple classes of nonvoting, redeemable preference shares to investors through its funds (the Funds) and the Funds are primarily invested in nonvoting shares of the reinsurance company. The underwriting results of the reinsurance company are attributed to the Funds through the issuance of nonvoting preference shares.

The Funds and the reinsurance company are considered VIEs, as their preference shareholders have no voting rights. MCIM has the power to direct the activities that most significantly impact the economic performance of these entities, but does not have a variable interest in any of the entities. Except as described below, the Company is not the primary beneficiary of the Funds or the reinsurance company, as the Company's involvement is generally limited to that of an investment or insurance manager, receiving fees that are at market and commensurate with the level of effort required. Investment management fees earned by the Company from unconsolidated Funds were $17.4 million and $9.3 million for the quarters ended June 30, 2018 and 2017, respectively, and $34.7 million and $18.6 million for the six months ended June 30, 2018 and 2017, respectively. The Company is the sole investor in one of the Funds, the Markel Diversified Fund, and consolidates that fund as its primary beneficiary. The Company also holds an investment in another one of the Funds ($26.4 million as of June 30, 2018) but does not have the obligation to absorb losses or right to receive benefits from the VIE that could potentially be significant to the VIE, and therefore does not consolidate that Fund.

As of June 30, 2018, total assets of the Markel Diversified Fund were $95.2 million and total liabilities were $25.1 million. As of December 31, 2017, total assets of the Markel Diversified Fund were $170.3 million and total liabilities were $62.7 million. The assets of the Markel Diversified Fund are available for use only by the Markel Diversified

Fund, and are not available for use by the Company. Total assets of the Markel Diversified Fund include an investment in one of the unconsolidated Funds totaling $93.2 million as of June 30, 2018 and $168.2 million as of December 31, 2017, which represents 2% of the outstanding preference shares of that fund as of June 30, 2018 and 7% as of December 31, 2017. This investment is included in equity securities on the Company's consolidated balance sheets. At June 30, 2018 and December 31, 2017, total liabilities of the Markel Diversified Fund included a $24.9 million and $62.5 million note payable, delivered as part of the consideration provided for its investment. The Company repaid $37.5 million of the note payable in January 2018. Other than the note payable, any liabilities held by the Markel Diversified Fund have no recourse to the Company's general credit.

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The Company also holds an investment in CATCo Reinsurance Opportunities Fund Ltd. (CROF), a limited liability closed-end fund listed on the London and Bermuda Stock Exchanges, which is not a VIE. This investment is included in equity securities on the Company's consolidated balance sheets. CROF is managed by MCIM and invests substantially all of its assets in one of the unconsolidated Funds. At June 30, 2018 and December 31, 2017, the fair value of the Company's investment in CROF was $12.0 million and $20.5 million, respectively.

The Company's exposure to risk from the unconsolidated Funds and the reinsurance company is generally limited to its investment and any earned but uncollected fees. The Company has not issued any investment performance guarantees to these VIEs or their investors. As of June 30, 2018, total investment and insurance assets under management of MCIM for unconsolidated VIEs were $6.5 billion, which includes funds held that will be used to settle claims for incurred losses.

12. Shareholders' Equity

a)During the six months ended June 30, 2018, the Company repurchased 15,509 shares of common stock at a cost of $17.6 million under a share repurchase program that was approved by the Company’s Board of Directors in November 2013 (the 2013 Program). As of June 30, 2018, the Company had repurchased 199,244 shares of common stock at a cost of $175.6 million under the 2013 Program. In May 2018, the Board of Directors approved a new share repurchase program that provides for the repurchase of up to $300 million of common stock (the 2018 Program) to replace the 2013 Program. The 2018 Program has no expiration date but may be terminated by the Board of Directors at any time. As of June 30, 2018, the Company had repurchased 4,950 shares of common stock at a cost of $5.5 million under the 2018 Program.

b)Net income per share was determined by dividing adjusted net income to shareholders by the applicable weighted average shares outstanding. Diluted net income per share is computed by dividing adjusted net income to shareholders by the weighted average number of common shares and dilutive potential common shares outstanding during the period.

	Quarter Ended June 30,		Six Months Ended June 30,	
(in thousands, except per share amounts)	2018	2017	2018	2017
Net income to shareholders	$278,231	$149,660	$213,925	$219,529
Adjustment of redeemable noncontrolling interests	363	(5,141)	5,414	(20,284)
Adjusted net income to shareholders	$278,594	$144,519	$219,339	$199,245
Basic common shares outstanding	13,925	13,977	13,929	13,987
Dilutive potential common shares from conversion of options	—	2	—	2
Dilutive potential common shares from conversion of restricted stock units and restricted stock	25	40	24	43
Diluted shares outstanding	13,950	14,019	13,953	14,032
Basic net income per share [1]	$20.01	$10.34	$15.75	$14.25
Diluted net income per share [1]	$19.97	$10.31	$15.72	$14.20

(1) Effective January 1, 2018, the Company adopted ASU No. 2016-01 and equity securities are no longer classified as available-for-sale with unrealized gains and losses recognized in other comprehensive income, rather, changes in the fair value of equity securities are now recognized in net income. Prior periods have not been restated to conform to the current presentation. See note 2.

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13. Other Comprehensive Income (Loss)

Other comprehensive income (loss) includes net holding gains (losses) on available-for-sale investments arising during the period, changes in unrealized other-than-temporary impairment losses on fixed maturities arising during the period and reclassification adjustments for net gains included in net income. Other comprehensive income (loss) also includes changes in foreign currency translation adjustments and changes in net actuarial pension loss.

The following table presents the change in accumulated other comprehensive income (loss) by component, net of taxes and noncontrolling interests, for the six months ended June 30, 2018 and 2017.

(dollars in thousands)	Unrealized Holding Gains on Available-for-Sale Securities	Foreign Currency	Net Actuarial Pension Loss	Total
December 31, 2016	$ 1,714,930	$(84,406)	$(64,658)	$1,565,866
Other comprehensive income before reclassifications	350,349	3,491	—	353,840
Amounts reclassified from accumulated other comprehensive income	(9,391)	—	1,618	(7,773)
Total other comprehensive income	340,958	3,491	1,618	346,067
June 30, 2017	$ 2,055,888	$(80,915)	$(63,040)	$1,911,933
December 31, 2017	$ 2,477,973	$(74,003)	$(58,399)	$2,345,571
Cumulative effect of adoption of ASU No. 2016-01	(2,615,734)	2,492	—	(2,613,242)
Cumulative effect of adoption of ASU No. 2018-02	401,539	—	—	401,539
Other comprehensive income (loss) before reclassifications	(215,067)	(5,516)	1,232	(219,351)
Amounts reclassified from accumulated other comprehensive loss [1]	(5,077)	—	—	(5,077)
Total other comprehensive income (loss)	(2,434,339)	(3,024)	1,232	(2,436,131)
June 30, 2018	$ 43,634	$(77,027)	$(57,167)	$(90,560)

(1) Effective January 1, 2018, the Company adopted ASU No. 2016-01 and equity securities are no longer classified as available-for-sale with unrealized gains and losses recognized in other comprehensive income, rather, changes in the fair value of equity securities are now recognized in net income. Prior periods have not been restated to conform to the current presentation. See note 2.

The following table summarizes the tax expense (benefit) associated with each component of other comprehensive income (loss).

(dollars in thousands)	Quarter Ended June 30, 2018	Quarter Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Change in net unrealized gains on available-for-sale investments: [1]				
Net holding gains (losses) arising during the period	$(32,548)	$93,935	$(60,778)	$168,928
Reclassification adjustments for net gains (losses) included in net income	(1,566)	136	(1,349)	(2,396)
Change in net unrealized gains on available-for-sale investments	(34,114)	94,071	(62,127)	166,532
Change in foreign currency translation adjustments	(4,288)	(466)	(3,522)	(503)
Change in net actuarial pension loss	192	154	328	333
Total	$(38,210)	$93,759	$(65,321)	$166,362

(1) Effective January 1, 2018, the Company adopted ASU No. 2016-01 and equity securities are no longer classified as available-for-sale with unrealized gains and losses recognized in other comprehensive income, rather, changes in the fair value of equity securities are now recognized in net income. Prior periods have not been restated to

conform to the current presentation. See note 2.

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The following table presents the details of amounts reclassified from accumulated other comprehensive income (loss) into income, by component.

	Quarter Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2018	2017	2018	2017
Unrealized holding gains on available-for-sale investments: [1]				
Other-than-temporary impairment losses	$—	$(604)	$—	$(3,817)
Net realized investment gains, excluding other-than-temporary impairment losses	7,457	690	6,426	15,604
Total before taxes	7,457	86	6,426	11,787
Income taxes	(1,566)	136	(1,349)	(2,396)
Reclassification of unrealized holding gains, net of taxes	$5,891	$222	$5,077	$9,391
Net actuarial pension loss:				
Underwriting, acquisition and insurance expenses	$(760)	$(1,056)	$(1,560)	$(1,951)
Income taxes	192	154	328	333
Reclassification of net actuarial pension loss, net of taxes	$(568)	$(902)	$(1,232)	$(1,618)

(1) Effective January 1, 2018, the Company adopted ASU No. 2016-01 and equity securities are no longer classified as available-for-sale with unrealized gains and losses recognized in other comprehensive income, rather, changes in the fair value of equity securities are now recognized in net income. Prior periods have not been restated to conform to the current presentation. See note 2.

14. Contingencies

Aspen Holdings. In October 2010, the Company completed its acquisition of Aspen Holdings, Inc. (Aspen). As part of the consideration for that acquisition, Aspen shareholders received contingent value rights (CVRs), which are currently expected to result in the payment of additional cash consideration to CVR holders. Absent the litigation described below, the final amount to be paid to CVR holders would be determined after December 31, 2017, the CVR maturity date, based on, among other things, adjustments for the development of pre-acquisition loss reserves and loss sensitive profit commissions.

The CVR holder representative, Thomas Yeransian, has disputed the Company's estimation of the value of the CVRs. On September 15, 2016, Mr. Yeransian filed a suit alleging, among other things, that the Company is in default under the CVR agreement. The holder representative seeks: $47.3 million in damages, which represents the unadjusted value of the CVRs; plus interest ($12.7 million through June 30, 2018) and default interest (up to an additional $11.0 million through June 30, 2018, depending on the date any default occurred); and an unspecified amount of punitive damages, costs, and attorneys’ fees.

At the initial hearing held February 21, 2017, the court stayed the proceedings and ordered the parties to discuss resolving the dispute pursuant to the independent CVR valuation procedure under the CVR agreement. The parties met on April 5, 2017, but were unsuccessful in reaching agreement on a process for resolving the dispute. The Company subsequently filed a motion to stay the litigation and compel arbitration, and, on July 31, 2017, the court issued an order granting that motion. Mr. Yeransian has filed a motion requesting that the court reconsider that order, and that motion is pending.

Management believes the holder representative’s suit to be without merit and will vigorously defend against it. Further, management believes that any material loss resulting from the holder representative’s suit to be remote and that the contractual contingent consideration payments related to the CVRs will not have a material impact on the Company's liquidity.

Markel Ventures. The Company has been reviewing events at one of its Markel Ventures products businesses. Since becoming aware of a matter late in the first quarter of 2018 related to the business's manufacture of products, the Company has conducted an investigation, reviewing the business's operations and developing remediation plans. Upon

completion of its review during the second quarter of 2018, the Company recorded an expense of $33.5 million in its results of operations for the period ended June 30, 2018. The amount recognized in the period represents management's best estimate of amounts currently considered probable including: remediation costs associated with the manufacture of products, costs associated with the investigation of this matter, a write down of inventory on hand and settlement costs related to pre-existing litigation. The Company also recorded an impairment charge of $14.9 million which reduced the carrying value of intangible assets at this reporting unit to zero.

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Final resolution of this matter could ultimately result in additional remediation and other costs, the amount of which cannot be estimated at this time, but which could have a material impact on the Company’s income before income taxes. However, management does not expect this matter ultimately will have a material adverse effect on the Company’s results of operations or financial condition. If a determination is made that additional costs associated with this matter are considered probable, these additional costs will be recognized as an expense in the Company's results of operations.

In addition, contingencies arise in the normal course of the Company's operations and are not expected to have a material impact on the Company's financial condition or results of operations.

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

The accompanying consolidated financial statements and related notes have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and include the accounts of Markel Corporation and its consolidated subsidiaries, as well as any variable interest entities that meet the requirements for consolidation (the Company).

Our Business

We are a diverse financial holding company serving a variety of niche markets. Our principal business markets and underwrites specialty insurance products. We believe that our specialty product focus and niche market strategy enable us to develop expertise and specialized market knowledge. We seek to differentiate ourselves from competitors by our expertise, service, continuity and other value-based considerations. We also own interests in various businesses that operate outside of the specialty insurance marketplace. Our financial goals are to earn consistent underwriting and operating profits and superior investment returns to build shareholder value.

Our business is comprised of the following types of operations:

- Underwriting - our underwriting operations are comprised of our risk-bearing insurance operations, which include the run-off of underwriting operations that were discontinued in conjunction with acquisitions
- Investing - our investing activities are primarily related to our underwriting operations
- Markel Ventures - our Markel Ventures operations include our controlling interests in a diverse portfolio of businesses that operate in various industries
- Program Services - our program services business serves as a fronting platform that provides other insurance companies access to the U.S. property and casualty insurance market
- Markel CATCo - our Markel CATCo operations include an investment fund manager that offers insurance-linked securities to investors

In conjunction with the continued growth and diversification of our business, beginning the first quarter of 2018 we changed the way we review our ongoing underwriting operations. Effective January 1, 2018, our chief operating decision maker allocates resources to and assesses the performance of our ongoing underwriting operations on a global basis in the following two segments: Insurance and Reinsurance. In determining how to monitor our underwriting results, we consider many factors, including the nature of the insurance product sold, the type of account written and the type of customer served. The Insurance segment includes all direct business and facultative placements written across the Company. The Reinsurance segment includes all treaty reinsurance written across the Company. Results for lines of business discontinued prior to, or in conjunction with, acquisitions, including development on asbestos and environmental loss reserves and the results attributable to the run-off of life and annuity reinsurance business, are monitored separately and are not included in a reportable segment. All investing activities related to our underwriting operations are included in the Investing segment.

Our Insurance segment includes both hard-to-place risks written outside of the standard market on an excess and surplus lines basis, unique and hard-to-place risks that must be written on an admitted basis due to marketing and regulatory reasons as well as our syndicate at Lloyd's of London (Lloyd's). Risks written in our Insurance segment are written on either a direct basis or a subscription basis, the latter of which means that the loss exposures brought into the market are typically insured by more than one insurance company or Lloyd's syndicate. When we write business in the subscription market, we prefer to participate as lead underwriter in order to control underwriting terms, policy conditions and claims handling. The following products are included in this segment: general liability, professional liability, primary and excess of loss property, including catastrophe-exposed property, personal property, workers' compensation, marine and energy liability coverages, specialty program insurance for well-defined niche markets, and liability and other coverages tailored for unique exposures. Business in this segment is written through our Markel

Assurance, Markel Specialty and Markel International divisions. The Markel Assurance division writes commercial risks, on an excess and surplus lines basis as well as admitted and non-admitted basis, using a network of brokers managed on a regional basis. The Markel Specialty division writes program insurance and other specialty coverages for well-defined niche markets, primarily on an admitted basis. The Markel International division writes business worldwide from our London-based platform, which includes our syndicate at Lloyd's.

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In November 2017, we completed the acquisition of State National Companies, Inc. (State National), a leading specialty provider of property and casualty insurance. The acquisition of State National adds a premier fronting platform to our insurance operations through which insurance products can be offered throughout the United States. State National also offers collateral protection insurance (CPI) to credit unions and regional banks. Results attributable to CPI business are included in the Insurance segment. Results attributable to the fee-based program services (fronting) operations are reported within our other operations, which are not included in a reportable segment.

In April 2017, we completed the acquisition of SureTec Financial Corp. (SureTec), a Texas-based privately held surety company primarily offering contract, commercial and court bonds. Results attributable to SureTec are included in the Insurance segment.

Our Reinsurance segment includes property, casualty and specialty treaty reinsurance products offered to other insurance and reinsurance companies globally through the broker market. Our treaty reinsurance offerings include both quota share and excess of loss reinsurance and are typically written on a participation basis, which means each reinsurer shares proportionally in the business ceded under the reinsurance treaty written. Principal lines of business include: property (including catastrophe-exposed property), professional liability, general casualty, credit, surety, auto, and workers' compensation. Our reinsurance product offerings are underwritten primarily by our Global Reinsurance division.

Through our wholly-owned subsidiary Markel Ventures, Inc. (Markel Ventures), we own interests in various businesses that, effective January 1, 2018, we monitor and report in the Markel Ventures segment. These businesses are viewed by management as separate and distinct from our insurance operations and are comprised of a diverse portfolio of businesses from different industries that offer various types of products and services to businesses and consumers, predominately in the United States. Our products group manufactures, builds or produces consumer and industrial products, such as equipment used in baking systems and food processing, portable dredges, over-the-road car haulers and equipment, laminated oak and composite wood flooring used in the trucking industry, dorm furniture, wall systems, medical casework and marine panels, storage and transportation equipment for specialty gas, ornamental plants and residential homes. The services group offers consumer and business services, such as leasing and management of manufactured housing communities, behavioral healthcare, concierge health programs, retail intelligence and management and technology consulting.

In August 2017, we acquired 81% of Costa Farms, a Florida-based privately held grower of house and garden plants. Results attributable to Costa Farms are included with our Markel Ventures segment.

Our other operations also include our Markel CATCo operations, which are conducted through Markel CATCo Investment Management Ltd. (MCIM). MCIM is an insurance-linked securities investment fund manager and reinsurance manager headquartered in Bermuda focused on building and managing highly diversified, collateralized retrocession and reinsurance portfolios covering global property catastrophe risks.

Critical Accounting Estimates

Critical accounting estimates are those estimates that both are important to the portrayal of our financial condition and results of operations and require us to exercise significant judgment. The preparation of financial statements in accordance with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of material contingent assets and liabilities, including litigation contingencies. These estimates, by necessity, are based on assumptions about numerous factors.

We review the following critical accounting estimates and assumptions quarterly: evaluating the adequacy of reserves for unpaid losses and loss adjustment expenses, life and annuity reinsurance benefit reserves, the reinsurance

allowance for doubtful accounts and income tax liabilities, as well as analyzing the recoverability of deferred tax assets, estimating reinsurance premiums written and earned and evaluating the investment portfolio for other-than-temporary declines in estimated fair value. Critical accounting estimates and assumptions for goodwill and intangible assets are reviewed in conjunction with an acquisition and goodwill and indefinite-lived intangible assets are reassessed at least annually for impairment. Actual results may differ materially from the estimates and assumptions used in preparing the consolidated financial statements.

Readers are urged to review our 2017 Annual Report on Form 10-K for a more complete description of our critical accounting estimates.

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Recent Changes to Significant Accounting Policies

Effective January 1, 2018, as a result of recent significant changes in economic facts and circumstances, management reassessed its functional currency determination as required by Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 830, Foreign Currency Matters. As a result of the reassessment, the U.S. Dollar is the only functional currency for most of our foreign underwriting operations. Consequently, more foreign currency denominated transactions are designated as non-functional, with related remeasurement gains and losses included in net foreign exchange gains (losses) within net income. However, available-for-sale securities denominated in non-functional currencies are recorded at fair value with resulting gains and losses, including the portion attributable to movements in exchange rates, included in the change in net unrealized gains on available-for-sale investments, net of taxes, within other comprehensive income. As a result, while we attempt to naturally hedge our exposure to foreign currency fluctuations by matching assets and liabilities in currency, there is a financial statement mismatch between the gains or losses recorded in net income related to insurance reserves denominated in non-functional currencies and the gains or losses recorded in other comprehensive income related to the available-for-sale securities supporting the reserves. The change in our functional currency determination has been applied on a prospective basis in accordance with ASC 830. Therefore, any translation gains and losses that were previously recorded in accumulated other comprehensive income remain unchanged through December 31, 2017. See note 1 of the notes to consolidated financial statements for further details. The quarter ended June 30, 2018 included a pre-tax foreign exchange gain of $86.2 million ($68.0 million, net of taxes) compared to a pre-tax foreign exchange gain of $0.9 million for the quarter ended June 30, 2017. The six months ended June 30, 2018 included a pre-tax foreign exchange gain of $64.0 million ($50.5 million, net of taxes) compared to a pre-tax foreign exchange gain of $1.0 million for the six months ended June 30, 2017.

Recent Accounting Pronouncements

The FASB issued several accounting standards updates (ASUs) that became effective January 1, 2018.

The adoption of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) and several other ASUs that were issued as amendments to ASU No. 2014-09 did not have a material impact on our consolidated financial position, results of operations or cash flows.

As a result of adopting ASU No. 2016-01, Financial Instruments (Topic 825): Recognition and Measurement of Financial Assets and Financial Liabilities, changes in the fair value of equity securities are now recognized in net income rather than other comprehensive income. On January 1, 2018, cumulative net unrealized gains on equity securities of $2.6 billion, net of deferred income taxes of $684.4 million, were reclassified from accumulated other comprehensive income into retained earnings.

As a result of early adopting ASU No. 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, we elected to reclassify tax effects remaining in accumulated other comprehensive income as a result of the Tax Cuts and Jobs Act (TCJA) to retained earnings. Upon enactment of the TCJA, the U.S. corporate tax rate was reduced from 35% to 21% and our U.S. deferred tax balances were remeasured to the lower enacted U.S. corporate tax rate. U.S. GAAP requires the effects of changes in tax rates and laws on deferred tax balances to be recorded as a component of income tax expense in the period of enactment, even if the assets and liabilities relate to items of accumulated other comprehensive income. As a result of adopting the ASU, on January 1, 2018, previously recognized deferred taxes of $401.5 million were reclassified from accumulated other comprehensive income into retained earnings.

Other ASUs that we expect have the most potential to significantly impact our consolidated financial position, results of operations or cash flows upon adoption and are currently evaluating are as follows:

- ASU No. 2016-02, Leases (Topic 842)
- ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments

See note 2 of the notes to consolidated financial statements for discussion of these ASUs and the expected effects on our consolidated financial position, results of operations and cash flows.

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Key Performance Indicators

An important measure of our financial success is our ability to grow book value per share at a high rate of return over a long period of time. To mitigate the effects of short-term volatility, we measure ourselves over a five-year period. We believe that growth in book value per share is a comprehensive measure of our success because it includes all underwriting, investing and operating results. We measure underwriting results by our underwriting profit or loss and combined ratio. We measure investing results by our net investment income and net investment gains as well as our taxable equivalent total investment return. We measure Markel Ventures' results, by its operating income and net income, as well as earnings before interest, income taxes, depreciation and amortization (EBITDA). These measures are discussed in greater detail under "Results of Operations."

As we have continued to expand and diversify our operations beyond underwriting and investing, we recognize that book value per share does not capture all of the economic value in our business, as a growing portion of our operations are not recorded at fair value or otherwise captured in book value. As a result, effective January 1, 2018, we also measure our financial success through the growth in the market price of a share of our stock, or total shareholder return. For the six months ended June 30, 2018, our share price decreased 5%.

Results of Operations

The following table presents the components of net income to shareholders.

	Quarter Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2018	2017	2018	2017
Insurance segment underwriting profit	$74,274	$74,450	$176,815	$137,363
Reinsurance segment underwriting profit (loss)	23,561	34,178	30,723	(36,386)
Other underwriting profit (loss)	(399)	698	1,411	5,954
Net investment income	105,387	99,299	213,403	199,667
Net investment gains (losses) [(1)]	105,249	17,627	(17,749)	38,492
Other revenues	628,193	330,993	1,067,625	638,909
Other expenses	(595,343)	(298,756)	(997,473)	(581,389)
Amortization of intangible assets	(29,641)	(18,026)	(58,464)	(34,796)
Interest expense	(36,702)	(31,797)	(76,761)	(65,199)
Foreign exchange gain	86,158	879	64,044	974
Income tax expense	(81,150)	(58,118)	(189,581)	(81,122)
Net income attributable to noncontrolling interests	(1,356)	(1,767)	(68)	(2,938)
Net income to shareholders	$278,231	$149,660	$213,925	$219,529

(1) Effective January 1, 2018, the Company adopted ASU No. 2016-01 and equity securities are no longer classified as available-for-sale with unrealized gains and losses recognized in other comprehensive income, rather, changes in the fair value of equity securities are now recognized in net income. Prior periods have not been restated to conform to the current presentation. See note 2 of the notes to consolidated financial statements.

The components of net income (loss) to shareholders are discussed in detail under "Underwriting Results," "Investing Results," "Other Revenues and Other Expenses" and "Interest Expense and Income Taxes."

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Underwriting Results

Underwriting profits are a key component of our strategy to grow book value per share. We believe that the ability to achieve consistent underwriting profits demonstrates knowledge and expertise, commitment to superior customer service and the ability to manage insurance risk. The property and casualty insurance industry commonly defines underwriting profit or loss as earned premiums net of losses and loss adjustment expenses and underwriting, acquisition and insurance expenses. We use underwriting profit or loss as a basis for evaluating our underwriting performance. The combined ratio is a measure of underwriting performance and represents the relationship of incurred losses, loss adjustment expenses and underwriting, acquisition and insurance expenses to earned premiums. The combined ratio is the sum of the loss ratio and the expense ratio. A combined ratio less than 100% indicates an underwriting profit, while a combined ratio greater than 100% reflects an underwriting loss. The loss ratio represents the relationship of incurred losses and loss adjustment expenses to earned premiums. The expense ratio represents the relationship of underwriting, acquisition and insurance expenses to earned premiums.

Consolidated

The following table presents selected data from our underwriting operations.

	Quarter Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2018	2017	2018	2017
Gross premium volume [(1)]	$1,442,643	$1,357,164	$3,028,334	$2,817,915
Net written premiums	1,180,606	1,137,657	2,515,408	2,397,886
Net retention [(1)]	82 %	84 %	83 %	85 %
Earned premiums	1,148,184	1,033,574	2,299,205	2,016,176
Losses and loss adjustment expenses	599,178	522,978	1,214,296	1,134,697
Underwriting, acquisition and insurance expenses	451,570	401,270	875,960	774,548
Underwriting profit	97,436	109,326	208,949	106,931
U.S. GAAP Combined Ratios				
Insurance	92 %	91 %	90 %	91 %
Reinsurance	90 %	85 %	94 %	108 %
Markel Corporation (Consolidated)	92 %	89 %	91 %	95 %

(1) Gross premium volume and net retention for the quarter and six months ended June 30, 2018 exclude $554.8 million and $1.0 billion, respectively, of gross written premium attributable to our program services business, substantially all of which was ceded.

Our combined ratio was 92% and 91% for the quarter and six months ended June 30, 2018 compared to 89% and 95% for the same periods of 2017.

The increase in the consolidated combined ratio for the quarter ended June 30, 2018 was driven by the impact of higher earned premiums in our Insurance segment which reduced the benefit of our prior accident years' loss ratio to the combined ratio. A favorable impact from higher earned premium on the expense ratio was offset by higher expenses within both of our underwriting segments.

The decrease in the consolidated combined ratio for the six months ended June 30, 2018 was driven by more favorable development on prior accident years' loss reserves and a decrease in the current accident year loss ratio across both of our underwriting segments. The consolidated combined ratio for the six months ended June 30, 2017 included $85.0 million, or four points on the consolidated combined ratio, of adverse development on prior years' loss reserves resulting from a decrease in the discount rate, known as the Ogden Rate, used to calculate lump sum awards in United Kingdom (U.K.) bodily injury cases. The effect of the rate change was most impactful to our U.K. auto casualty exposures through reinsurance contracts written in our Reinsurance segment. We ceased writing new U.K. auto

business in late 2014.

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Insurance Segment

The combined ratio for the Insurance segment was 92% and 90% for the quarter and six months ended June 30, 2018, respectively, compared to 91% for the same periods of 2017.

For the quarter ended June 30, 2018, the increase in the combined ratio was driven by the impact of higher earned premiums in 2018 compared to 2017 which reduced the benefit of our prior accident years' loss ratio to the combined ratio.

- The current accident year loss ratio for the quarter ended June 30, 2018 was flat compared to the prior year period. Favorable impacts from our new surety and lender services businesses, which were acquired in 2017 and carry a lower loss ratio than other products in the segment and the impact of large losses on our property product lines in 2017 were offset by higher attritional losses in the second quarter of 2018 compared to 2017 on our marine and energy product lines.
- The Insurance segment's combined ratio for the quarter ended June 30, 2018 included $139.5 million of favorable development on prior accident years' loss reserves compared to $132.5 million for the same period in 2017. Despite more favorable development on prior years' loss reserves in 2018, the benefit to our prior years' loss ratio was reduced given the impact of higher earned premiums. The increase in favorable development was primarily due to more favorable development on our workers' compensation and general liability product lines, partially offset by adverse development on our property product lines in 2018 compared to 2017. For the quarter ended June 30, 2018, favorable development was most significant on our workers' compensation product lines, primarily on the 2015 to 2017 accident years, general liability and marine and energy product lines across several accident years and professional liability product lines, primarily on the 2016 accident year. The favorable development on prior years' loss reserves in the second quarter of 2017 was most significant on our general liability, workers' compensation and professional liability product lines.
- The expense ratio was flat compared to the prior year, primarily due to an unfavorable impact from our new surety business, which carries a higher expense ratio than other products in the segment, and from our new lender services business, as well as higher profit sharing in the second quarter of 2018 compared to 2017. These increases were offset by the favorable impact from higher earned premiums in the second quarter of 2018 compared to 2017. The expense ratio for the quarter ended June 30, 2017 also included non-recurring acquisition-related expenses.

For the six months ended June 30, 2018, the decrease in the combined ratio was driven by a lower current accident year loss ratio.

- The current accident year loss ratio for the six months ended June 30, 2018 decreased compared to the prior year period primarily due to the impact of large losses on our property product lines in 2017 and a favorable impact from our new surety and lender services businesses, which were acquired in 2017 and carry a lower loss ratio than other products in the segment.
- The Insurance segment's combined ratio for the six months ended June 30, 2018 included $258.7 million of favorable development on prior accident years' loss reserves compared to $225.4 million for the same period in 2017. Despite more favorable development on prior years' loss reserves in 2018, the benefit to our prior years' loss ratio was reduced given the impact of higher earned premiums. The increase in favorable development was primarily due to more favorable development on our workers compensation and marine and energy product lines, partially offset by less favorable development on our property product lines in 2018 compared to 2017. For the six months ended June 30, 2018, favorable development was most significant on our general liability, workers compensation and professional liability product lines across several accident years and on our marine and energy product lines, primarily on the 2015 to 2017 accident years. The favorable development on prior years' loss reserves in 2017 was most significant on our general liability, workers compensation, personal lines, professional liability and marine and energy product lines.
- The expense ratio was flat compared to the prior year. The favorable impact from higher earned premiums was offset by an unfavorable impact from our new surety business, which carries a higher expense ratio than other products in the segment, and from our new lender services business.

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Reinsurance Segment

The combined ratio for the Reinsurance segment was 90% and 94% for the quarter and six months ended June 30, 2018, respectively, compared to 85% and 108% for the same period of 2017.

For the quarter ended June 30, 2018 the increase in the combined ratio was driven by less favorable development on prior accident years' loss reserves.

- The Reinsurance segment's combined ratio for the quarter ended June 30, 2018 included $18.5 million of favorable development on prior accident years' loss reserves compared to $28.2 million of favorable development in 2017. The decrease in favorable development was primarily due to less favorable development on our whole account product line in the second quarter of 2018 compared to 2017. In 2018, prior years' loss reserves also included $4.7 million of adverse development, or two points on the Reinsurance segment combined ratio, related to the 2017 catastrophes. These decreases in favorable development were partially offset by more favorable development on our surety and marine and energy product lines. Favorable development in 2018 was most significant on our marine and energy product lines, primarily on the 2013 and 2014 accident years. Favorable development on prior years' loss reserves in 2017 was most significant on our whole account product line.
- The expense ratio increased slightly for the quarter ended June 30, 2018 compared to the same period of 2017. Higher commissions as a result of higher earned premiums on our quota share business, which carries higher commission rates than other business in the Reinsurance segment, in 2018 compared to 2017 were largely offset by lower profit sharing expenses in 2018 compared to 2017.

For the six months ended June 30, 2018 the decrease in the combined ratio was driven by favorable development on prior accident years' loss reserves, a lower expense ratio and lower current accident year loss ratio.

- The decrease in the current accident year loss ratio for the six months ended June 30, 2018, was primarily due to higher earned premiums as a result of net favorable premium adjustments in 2018 compared to net unfavorable premium adjustments in 2017. In 2018, favorable premium adjustments were partially offset by additional ceded reinstatement premiums related to the 2017 catastrophes.
- The Reinsurance segment's combined ratio for the six months ended June 30, 2018 included $5.5 million of favorable development on prior accident years' loss reserves compared to $43.4 million of adverse development in 2017. In 2018, prior years' loss reserves included $17.0 million of adverse development, or four points on the Reinsurance segment combined ratio, related to the 2017 catastrophes. In 2017, prior years' loss reserves included $85.0 million of adverse development, or 19 points on the Reinsurance segment combined ratio, related to the decrease in the Ogden Rate. We also experienced less favorable development on our whole account product lines in 2018 compared to 2017, adverse development on our property product lines in 2018 compared to favorable development on these lines in 2017 and more adverse development on our general liability product lines in 2018. Favorable development in 2018 was most significant on our surety product lines, primarily on the 2013 and 2015 accident years, and on our marine and energy product lines across several accident years. Favorable development on prior years' loss reserves in 2017 was most significant on our whole account product line and on our property product lines.
- The expense ratio decreased for the six months ended June 30, 2018 compared to the same period of 2017. Lower profit sharing expenses in 2018 were partially offset by higher commissions as a result of higher earned premiums on our quota share business in 2018 compared to 2017.

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Premiums and Net Retentions

The following tables summarize gross premium volume, net written premiums and earned premiums by segment.

Gross Premium Volume

	Quarter Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2018	2017	2018	2017
Insurance	$1,233,828	$1,109,278	$2,327,190	$2,022,275
Reinsurance	208,805	247,902	701,138	795,639
Other	10	(16)	6	1
Total Underwriting	1,442,643	1,357,164	3,028,334	2,817,915
Other - Program Services	554,790	—	1,015,983	—
Total	$1,997,433	$1,357,164	$4,044,317	$2,817,915

Gross premium volume in our underwriting operations for the quarter and six months ended June 30, 2018 increased 6% and 7% compared to the same periods of 2017. The increase in gross premium volume for the both the quarter and six months ended June 30, 2018 was attributable to an increase in gross premium volume within our Insurance segment. Also impacting consolidated gross premium volume for the quarter and six months ended June 30, 2018 was $554.8 million and $1.0 billion, respectively, of gross premiums written through our program services business acquired as part of the State National transaction in 2017, which is not included in our underwriting operations. Substantially all gross premiums written in our program services business were ceded to third parties for both the quarter and six months ended June 30, 2018.

Gross premium volume in our Insurance segment increased 11% and 15% for the quarter and six months ended June 30, 2018, respectively. The increase in gross premium volume for the both the quarter and six months ended June 30, 2018 was driven by growth within our general liability, professional liability and personal lines product lines, as well as increased premiums from our new surety and collateral protection businesses which were acquired in 2017.

Gross premium volume in our Reinsurance segment decreased 16% and 12% for the quarter and six months ended June 30, 2018, respectively. The decrease in gross premium volume for the quarter ended June 30, 2018 was driven by lower gross premium volume in our general liability and property product lines, primarily due to an unfavorable impact from the timing of renewals on multi-year contracts and non-renewals, partially offset by higher gross premium volume in our credit and surety product lines. The decrease in gross premium volume for the six months ended June 30, 2018 was driven by a large specialty quota share treaty entered into in the first quarter of 2017 that did not renew in 2018, as well as lower gross premium volume in our property product lines, primarily due to two contracts that did not renew. These decreases were partially offset by higher gross premium volume in our credit and surety, professional liability, workers compensation and general liability product lines. Significant variability in gross premium volume can be expected in our Reinsurance segment due to individually significant contracts and multi-year contracts.

Following the high level of natural catastrophes that occurred in the third and fourth quarters of 2017, beginning in the first quarter of 2018 and continuing through the second quarter of 2018, we saw more favorable rates, particularly on our catastrophe exposed and loss affected business. We are also seeing more stabilized pricing on our other product lines and continue to see improved pricing in most reinsurance lines of business. Despite stabilization of prices on certain product lines during the last several years, we still consider the overall property and casualty insurance market to be soft. When we believe the prevailing market price will not support our underwriting profit targets, the business is not written. As a result of our underwriting discipline, gross premium volume may vary when we alter our product offerings to maintain or improve underwriting profitability.

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Net Written Premiums

	Quarter Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2018	2017	2018	2017
Insurance	$1,001,126	$917,286	$1,914,105	$1,687,803
Reinsurance	178,729	220,466	599,787	710,062
Other	7	(95)	104	21
Total Underwriting	1,179,862	1,137,657	2,513,996	2,397,886
Other - Program Services	744	—	1,412	—
Total	$1,180,606	$1,137,657	$2,515,408	$2,397,886

Net retention of gross premium volume for our underwriting operations for the quarter and six months ended June 30, 2018 was 82% and 83%, respectively, compared to 84% and 85% for the same periods of 2017. The decrease in net retention within the Insurance segment for the quarter and six months ended June 30, 2018 compared to the same periods of 2017 was primarily driven by lower retention on our classic car business and higher ceded premiums on our marine and energy product lines due to ceded reinstatement premiums related to a large loss. The decrease in net retention within the Reinsurance segment for the quarter and six months ended June 30, 2018 compared to the same periods of 2017 was primarily driven by higher cessions on our property product lines. The decrease in net retention within the Reinsurance segment for the six months ended June 30, 2018 compared to the same period of 2017 was also impacted by additional ceded reinstatement premiums on the 2017 catastrophes.

Earned Premiums

	Quarter Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2018	2017	2018	2017
Insurance	$918,194	$804,189	$1,821,045	$1,561,038
Reinsurance	229,613	229,480	477,577	455,117
Other	7	(95)	104	21
Total Underwriting	1,147,814	1,033,574	2,298,726	2,016,176
Other - Program Services	370	—	479	—
Total	$1,148,184	$1,033,574	$2,299,205	$2,016,176

Earned premiums for the quarter and six months ended June 30, 2018 increased 11% and 14%, respectively, compared to the same periods of 2017. The increase in earned premiums for both the quarter and six months ended June 30, 2018 was primarily attributable to an increase in earned premiums within our Insurance segment. The increase in earned premiums in our Insurance segment for both periods was primarily due to the increase in gross premium volume as described above. The increase in earned premiums in our Reinsurance segment for the six months ended June 30, 2018 was primarily due to higher gross written premium in 2017 on several product lines.

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Investing Results

The following table summarizes our investment performance.

	Quarter Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2018	2017	2018	2017
Net investment income	$105,387	$99,299	$213,403	$199,667
Net investment gains (losses) [(1)]	$105,249	$17,627	$(17,749)	$38,492
Change in net unrealized investment gains on available-for-sale securities	$(138,094)	$283,918	$(282,271)	$507,490
Investment yield [(2)]	0.7 %	0.6 %	1.3 %	1.3 %
Taxable equivalent total investment return, before foreign currency effect			0.0 %	4.3 %
Taxable equivalent total investment return			(0.1)%	4.8 %

(1) Effective January 1, 2018, the Company adopted ASU No. 2016-01 and equity securities are no longer classified as available-for-sale with unrealized gains and losses recognized in other comprehensive income, rather, changes in the fair value of equity securities are now recognized in net income. Prior periods have not been restated to conform to the current presentation. See note 2 of the notes to consolidated financial statements.

(2) Investment yield reflects net investment income as a percentage of monthly average invested assets at cost.

The increase in net investment income for the quarter and six months ended June 30, 2018 was driven by an increase in short-term investment income, primarily due to higher short-term interest rates, and higher dividend income due to increased equity holdings and dividend rates. See note 4(d) of the notes to consolidated financial statements for details regarding the components of net investment income.

As a result of adopting ASU No. 2016-01, net investment gains for the quarter included an increase in the fair value of equity securities of $112.9 million. Net investment losses for the six months ended June 30, 2018 included a decrease in the fair value of equity securities of $9.2 million.

For the quarter and six months ended June 30, 2017, the increase in the fair value of equity securities, which totaled $204.4 million and $423.4 million, respectively, was included in the change in net unrealized investment gains in other comprehensive income. See note 4(e) of the notes to consolidated financial statements for details regarding the components of net investment gains and the change in net unrealized gains on investments.

There were no write downs for other-than-temporary declines in the estimated fair value of investments for the quarter and six months ended June 30, 2018. Net realized investment gains for the quarter and six months ended June 30, 2017 included write downs for other-than-temporary declines in the estimated fair value of investments of $0.6 million and $3.8 million, respectively, all of which were attributable to equity securities. We complete a detailed analysis each quarter to assess whether the decline in the fair value of any investment below its cost basis is deemed other-than-temporary. At June 30, 2018, we held fixed maturities with gross unrealized losses of $149.3 million, or less than 1% of invested assets. All available-for-sale securities with unrealized losses were reviewed, and we believe that there were no securities with indications of declines in estimated fair value that were other-than-temporary at June 30, 2018. However, given the volatility in the debt market, we caution readers that further declines in fair value could be significant and may result in additional other-than-temporary impairment charges in future periods. Variability in the timing of realized and unrealized gains and losses is to be expected.

We also evaluate our investment performance by analyzing taxable equivalent total investment return, which is a non-GAAP financial measure. Taxable equivalent total investment return includes items that impact net income, such as coupon interest on fixed maturities, dividends on equity securities and realized investment gains or losses, as well

as changes in unrealized gains or losses on available-for-sale securities, which do not impact net income. Certain items that are included in net investment income have been excluded from the calculation of taxable equivalent total investment return, such as amortization and accretion of premiums and discounts on our fixed maturity portfolio, to provide a comparable basis for measuring our investment return against industry investment returns. The calculation of taxable equivalent total investment return also includes the current tax benefit associated with income on certain investments that is either taxed at a lower rate than the statutory income tax rate or is not fully included in federal taxable income. We believe the taxable equivalent total investment return is a better reflection of the economics of our decision to invest in certain asset classes. We focus on our long-term investment return, understanding that the level of realized and unrealized investment gains or losses may vary from one period to the next.

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The following table reconciles investment yield to taxable equivalent total investment return.

	Six Months Ended June 30,	
	2018	2017
Investment yield [1]	1.3 %	1.3 %
Adjustment of investment yield from amortized cost to fair value	(0.3)%	(0.2)%
Net amortization of net premium on fixed maturities	0.2 %	0.2 %
Net investment gains (losses) and change in net unrealized investment gains on available-for-sale securities	(1.3)%	2.9 %
Taxable equivalent effect for interest and dividends [2]	0.1 %	0.2 %
Other [3]	(0.1)%	0.4 %
Taxable equivalent total investment return	(0.1)%	4.8 %

(1) Investment yield reflects net investment income as a percentage of monthly average invested assets at amortized cost.

(2) Adjustment to tax-exempt interest and dividend income to reflect a taxable equivalent basis.

(3) Adjustment to reflect the impact of changes in foreign currency exchange rates and time-weighting the inputs to the calculation of taxable equivalent total investment return.

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Other Revenues and Other Expenses

Markel Ventures Segment

Operating revenues and expenses associated with our Markel Ventures segment are included in other revenues and other expenses in the consolidated statements of income and comprehensive income. We consolidate our Markel Ventures operations on a one-month lag, with the exception of any significant transactions or events that occur in the intervening period.

The following table summarizes the operating revenues, operating income, EBITDA and net income to shareholders from our Markel Ventures segment.

	Quarter Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2018	2017	2018	2017
Operating revenues	$578,948	$313,657	$971,127	$600,635
Operating income	$13,019	$35,656	$36,796	$64,418
EBITDA	$35,865	$52,248	$82,462	$97,292
Net income to shareholders	$565	$20,548	$14,176	$34,547

Revenues from our Markel Ventures segment increased $265.3 million and $370.5 million for the quarter and six months ended June 30, 2018, respectively, compared to the same periods of 2017. In both periods, the increase in revenues was primarily due to the acquisition of Costa Farms in the third quarter of 2017. The increase in both periods was also attributable to higher sales volumes from both our products and services businesses.

Operating income and EBITDA from our Markel Ventures operations decreased for the quarter and six months ended June 30, 2018 compared to the same periods of 2017 primarily due to $33.5 million in expense related to an investigation and remediation associated with the manufacture of products at one of our businesses. We also recorded an impairment charge of $14.9 million related to intangible assets at this reporting unit. These decreases were partially offset by the contribution of operating income and EBITDA attributable to Costa Farms in 2018.

Markel Ventures EBITDA is a non-GAAP financial measure. We use Markel Ventures EBITDA as an operating performance measure in conjunction with U.S. GAAP measures, including revenues and net income, to monitor and evaluate the performance of our Markel Ventures segment. Because EBITDA excludes interest, income taxes, depreciation and amortization, it provides an indicator of economic performance that is useful to both management and investors in evaluating our Markel Ventures businesses as it is not affected by levels of debt, interest rates, effective tax rates or levels of depreciation and amortization resulting from purchase accounting. The following table reconciles Markel Ventures operating income to Markel Ventures EBITDA.

	Quarter Ended June 30,		Six Months Ended June 30,	
(dollars in thousands)	2018	2017	2018	2017
Markel Ventures operating income	$13,019	$35,656	$36,796	$64,418
Depreciation expense	12,750	9,636	25,473	19,014
Amortization of intangible assets	10,096	6,956	20,193	13,860
Markel Ventures EBITDA - Total	$35,865	$52,248	$82,462	$97,292
Markel Ventures EBITDA - Products	$14,881	$34,474	$47,337	$61,972
Markel Ventures EBITDA - Services	20,984	17,774	35,125	35,320
Markel Ventures EBITDA - Total	$35,865	$52,248	$82,462	$97,292

Net income to shareholders from our Markel Ventures operations decreased for the quarter and six months ended June 30, 2018 compared to the same periods of 2017. Lower operating income and higher interest expense were partially offset by a favorable impact from the decrease in U.S. tax rate from 35% to 21% attributable to the TCJA.

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Interest Expense and Income Taxes

Interest Expense

Interest expense was $36.7 million and $76.8 million for the quarter and six months ended June 30, 2018, respectively, compared to $31.8 million and $65.2 million for the same periods of 2017. The increase in interest expense for both periods was primarily due to interest associated with our 4.30% unsecured senior notes and our 3.50% unsecured senior notes issued in the fourth quarter of 2017. In both periods, these increases were partially offset by the repayment of our 7.20% unsecured notes in the second quarter of 2017.

Income Taxes

The effective tax rate was 47% and 27% for the six months ended June 30, 2018 and 2017, respectively. The effective tax rate for the six months ended June 30, 2018 reflects the impact of a change in tax status related to certain of our U.K. based operations. During the first quarter of 2018, after further evaluating opportunities provided by the TCJA, we decided to make the election to have two of our most significant U.K. subsidiaries treated as domestic corporations for U.S. tax purposes, which will enable us to manage our global capital in a more tax efficient manner. As a result, we no longer consider earnings and profits from those subsidiaries to be indefinitely reinvested and for the six months ended June 30, 2018 we recorded a $102.0 million provision for deferred U.S. income taxes on the book and tax basis differences attributable to those subsidiaries. We continue to be indefinitely reinvested in our other foreign subsidiaries, with the exception of certain Bermuda-based subsidiaries.

We use the estimated annual effective tax rate method for calculating our tax provision in interim periods. This method applies our best estimate of the effective tax rate expected for the full year to year-to-date earnings before income taxes. Certain items, including those deemed to be unusual, infrequent or that cannot be reliably estimated (discrete items), are excluded from the estimated annual effective tax rate, and the related tax expense or benefit is reported in the same period as the related item. Therefore, we also analyzed our estimated annual effective tax rate, which excludes the impact of these items. The following table summarizes our effective tax rate and estimated annual effective tax rate for the six months ended June 30, 2018 and 2017.

	Six Months Ended June 30,	
	2018	2017
Effective tax rate	47 %	27 %
Impact of election to tax U.K. subsidiaries as U.S. taxpayers on effective tax rate	(25)	—
Impact of other discrete items on effective tax rate	(2)	—
Estimated annual effective tax rate	20 %	27 %

For the six months ended June 30, 2018, the estimated annual effective tax rate was 20%. This differs from the U.S. statutory tax rate of 21% primarily as a result of tax-exempt investment income. For the six months ended June 30, 2017, the estimated annual effective tax rate of 27% differs from the U.S. statutory tax rate of 35% primarily as a result of tax-exempt investment income. The decrease in the estimated annual effective tax rate for the six months ended June 30, 2018 compared to the same period of 2017 was primarily attributable to the decrease in the U.S. corporate tax rate from 35% to 21% resulting from the TCJA, partially offset by anticipating a smaller tax benefit from tax-exempt investment income.

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Comprehensive Income (Loss) to Shareholders

The Company had comprehensive income to shareholders of $164.3 million for the quarter ended June 30, 2018 and a comprehensive loss to shareholders of $10.5 million for the six months ended June 30, 2018. Comprehensive income to shareholders was $342.4 million and $565.6 million for the quarter and six months ended June 30, 2017, respectively.

Comprehensive income to shareholders for the quarter ended June 30, 2018 included net income to shareholders of $278.2 million and a decrease in net unrealized gains on available-for-sale investments, net of taxes, of $104.0 million. Comprehensive income to shareholders for the quarter ended June 30, 2017 included an increase in net unrealized gains on investments, net of taxes, of $189.8 million and net income to shareholders of $149.7 million.

Comprehensive loss to shareholders for the six months ended June 30, 2018 included a decrease in net unrealized gains on available-for-sale investments, net of taxes, of $220.1 million and net income to shareholders of $213.9 million. Comprehensive income to shareholders for the six months ended June 30, 2017 included an increase in net unrealized gains on investments, net of taxes, of $341.0 million and net income to shareholders of $219.5 million.

Effective January 1, 2018, the Company adopted ASU No. 2016-01 and equity securities are no longer classified as available-for-sale with unrealized gains and losses recognized in other comprehensive income. Rather, all changes in fair value of equity securities are now recognized in net income. For the quarter and six months ended June 30, 2018, the change in fair value of equity securities included in net income was a gain of $112.9 million and a loss of $9.2 million, respectively, compared to gains of $204.4 million and $423.4 million for the quarter and six months ended June 30, 2017, respectively, included in other comprehensive income. This change in presentation has no impact on comprehensive income to shareholders.

Financial Condition

Investments, cash and cash equivalents and restricted cash and cash equivalents (invested assets) were $20.4 billion at June 30, 2018 compared to $20.6 billion at December 31, 2017. Net unrealized gains on investments were $3.4 billion at June 30, 2018 compared to $3.7 billion at December 31, 2017. Equity securities were $6.1 billion, or 30% of invested assets, at June 30, 2018, compared to $6.0 billion, or 29% of invested assets, at December 31, 2017.

Net cash provided by operating activities was $307.5 million for the six months ended June 30, 2018 compared to $237.9 million for the same period of 2017. Net cash flows from operating activities for the six months ended June 30, 2018 reflected higher premium collections in both of our underwriting segments, higher cash flows from our Markel Ventures operations and lower payments for employee profit sharing compared to the same period of 2017. Also reflected in net cash provided by operating activities for 2018 was higher claims settlement activity in both of our underwriting segments, primarily due to the 2017 catastrophes. As of June 30, 2018 we had paid 61% of our total estimated net losses on the 2017 catastrophes. Net cash provided by operating activities for the six months ended June 30, 2017 was net of a $45.8 million cash payment made in connection with a commutation that was completed during the period.

Net cash used by investing activities was $445.6 million for the six months ended June 30, 2018 compared to net cash provided by investing activities of $436.8 million for the same period of 2017. Net cash provided by investing activities during the six months ended June 30, 2017 was net of $202.0 million of cash, net of cash acquired, used to complete acquisitions. Cash flows from investing activities are affected by various factors such as anticipated payment of claims, financing activity, acquisition opportunities, the timing of maturities of fixed maturities and individual buy and sell decisions made in the normal course of our investment portfolio management.

Net cash used by financing activities was $111.5 million for the six months ended June 30, 2018 compared to $198.6 million for the same period of 2017. In January 2018, we repaid $37.5 million of the outstanding note payable that was delivered as part of the consideration provided for the investment held by the Markel Diversified Fund, as discussed in note 11 of the notes to consolidated financial statements. During the first six months of 2018 we also repaid $44.5 million of debt assumed in connection with the acquisition of State National. During the first six months of 2017, we used cash of $90.6 million to repay the remaining outstanding balance of our 7.20% unsecured senior notes. Cash of $24.3 million and $59.2 million was used to repurchase shares of our common stock during the first six months of 2018 and 2017, respectively.

We seek to maintain prudent levels of liquidity and financial leverage for the protection of our policyholders, creditors and shareholders. Our debt to capital ratio was 24% at June 30, 2018 and 25% at December 31, 2017.

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We have access to various capital sources, including dividends from certain of our insurance and Markel Ventures subsidiaries, holding company invested assets, undrawn capacity under our revolving credit facility and access to the debt and equity capital markets. We believe that we have sufficient liquidity to meet our capital needs.

Our holding company had $2.4 billion and $2.7 billion of invested assets at June 30, 2018 and December 31, 2017, respectively. The decrease in invested assets is primarily due to an increase in loans and capital contributions to our subsidiaries and interest payments associated with our unsecured senior notes.

Shareholders' equity was $9.5 billion at both June 30, 2018 and December 31, 2017. Book value per share decreased to $682.76 at June 30, 2018 from $683.55 at December 31, 2017, primarily due to $10.5 million of comprehensive loss to shareholders for the six months ended June 30, 2018.

Brexit Developments

On June 23, 2016, the U.K. voted to exit the European Union (E.U.) (Brexit), and on March 29, 2017, the U.K. government delivered formal notice to the other E.U. member countries that it is leaving the E.U. A two-year period then commenced during which the U.K. and the E.U. are negotiating the future terms of the U.K.'s relationship with the E.U., including the terms of trade between the U.K. and the E.U. Unless this period is extended, the U.K. will automatically exit the E.U., with or without an agreement in place, after two years on March 29, 2019. During this period the U.K. remains a part of the E.U. If Brexit terms are agreed and ratified, Brexit could be implemented in stages over a multi-year transitional period. No member country has left the E.U., and the rules for exit (contained in Article 50 of the Treaty on European Union) are brief. The U.K. and the E.U. have agreed to certain Brexit terms, including the financial settlement to be paid by the U.K. upon leaving the E.U. and a transitional period that would last until December 31, 2020 and provide the U.K. and the E.U. additional time to prepare for the post-Brexit period. However, the U.K. and the E.U. still must agree on the terms of the future relationship between the U.K. and the E.U., including matters such as trade, travel and security, and all Brexit terms must be ratified by the U.K. Parliament and the legislative bodies of the 27 E.U. member states.

Accordingly, there are significant uncertainties related to the political, monetary and economic impacts of Brexit, including related tax, accounting and financial reporting implications. Brexit could also lead to legal uncertainty and potentially a large number of new and divergent national laws and regulations, including new tax rules, as the U.K. determines which E.U. laws to replace or replicate.

The effects of Brexit will depend in part on agreements, if any, the U.K. makes to retain access to E.U. markets either during a transitional period or more permanently. Brexit could impair or end the ability of both Markel International Insurance Company Limited (MIICL) and our Lloyd's syndicate to transact business in E.U. countries from our U.K. offices and MIICL's ability to maintain its current branches in E.U. member countries and in Switzerland. We have obtained regulatory approval to establish an insurance company in Munich, Germany in order to continue transacting E.U. business if U.K. access to E.U. markets ceases or is materially impaired. The Society of Lloyd's has obtained regulatory approval for a new European insurance company in Brussels, Belgium in order to maintain access to E.U. business for Lloyd's syndicates. Access to E.U. markets through a solution devised by the Society of Lloyd's may supplement, or serve as an alternative to, a new E.U.-based insurance carrier for business we transact in the E.U.

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Disclosure of Certain Activities Relating to Iran

Under the Iran Threat Reduction and Syria Human Rights Act of 2012, non-U.S. entities owned or controlled by U.S. persons have been prohibited from engaging in activities, transactions or dealings with Iran to the same extent as U.S. persons. Effective January 16, 2016, the Office of Foreign Assets Control of the U.S. Department of the Treasury (OFAC) issued General License H, which authorized non-U.S. entities that are owned or controlled by a U.S. person to engage in most activities with Iran permitted for other non-U.S. entities so long as they met certain requirements.

On May 8, 2018, President Trump announced that the United States would no longer participate in the Joint Comprehensive Plan of Action, which was intended to ensure that Iran's nuclear program remains peaceful. As a result, all previously suspended sanctions will "snap back" into effect. On June 27, 2018, OFAC revoked General License H and, at the same time, issued a license authorizing, through November 4, 2018, foreign entities owned or controlled by a U.S. person to engage in "all transactions and activities that are ordinarily incident and necessary to the wind-down" of transactions previously authorized under General License H (the Wind-Down License).

Section 13(r) of the Securities Exchange Act of 1934 requires reporting of certain Iran-related activities, including underwriting, insuring and reinsuring certain activities previously permitted under General License H related to the importation of refined petroleum products by Iran and vessels involved in the transportation of crude oil from Iran.

Certain of our non-U.S. insurance operations underwrite global marine hull policies and global marine hull war policies that provide coverage for vessels or fleets navigating into and out of ports worldwide, potentially including Iran under policies entered into before May 8, 2018. Under a global marine hull war policy, the insured is required to give notice before entering designated areas, including Iran. During the quarter ended June 30, 2018, we received notice that one or more vessels covered by a global marine hull war policy were entering Iranian waters. However, no additional premium is required under global marine hull policies or global marine hull war policies for calling into Iran. During the quarter ended June 30, 2018, we were not asked to cover a specific voyage into or out of Iran that would result in a separate, allocable premium for that voyage.

Certain of our non-U.S. reinsurance operations underwrite marine, energy, aviation and trade credit liability treaties on a worldwide basis and, as a result, it is possible that the underlying insurance portfolios may have exposure to the Iranian petroleum industry and its related products and service providers under reinsurance treaties entered into before May 8, 2018.

Prior to May 8, 2018, we entered into two energy construction reinsurance contracts in Iran, two Iran-related marine liability contracts, two Iran-related marine cargo contracts and one Iran-related hull war contract. These contracts were underwritten through our syndicate at Lloyd's and one of our non-U.S. insurance companies. Our portion of the annual premium for these contracts was approximately $1 million in the aggregate. Except for these contracts, we are not aware of any premium apportionment with respect to underwriting, insurance or reinsurance activities of our non-U.S. insurance subsidiaries reportable under Section 13(r). Should any such risks have entered into the stream of commerce covered by the insurance portfolios underlying our reinsurance treaties, we believe that the premiums associated with such business were immaterial.

Since May 8, 2018, our non-U.S. subsidiaries, including our non-U.S. insurance subsidiaries, have not entered into any new transactions that had previously been permitted under General License H. With respect to activities, transactions or dealings with Iran, our non-U.S. subsidiaries are now engaging only in "transactions and activities that are ordinarily incident and necessary to the wind-down" of transactions previously authorized under General License H in the manner permitted under, and in accordance with, the Wind-Down License or other applicable economic or trade sanctions requirements or licenses.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk Disclosures

Market risk is the risk of economic losses due to adverse changes in the estimated fair value of a financial instrument as the result of changes in equity prices, interest rates, foreign currency exchange rates and commodity prices. Our consolidated balance sheets include assets and liabilities with estimated fair values that are subject to market risk. Our primary market risks have been equity price risk associated with investments in equity securities, interest rate risk associated with investments in fixed maturities and foreign currency exchange rate risk associated with our international operations. Various companies within our Markel Ventures operations are subject to commodity price risk; however, this risk is not material to the Company.

We have foreign currency exchange rate risk associated with certain of our assets and liabilities. We manage this risk primarily by matching assets and liabilities in each foreign currency, other than certain non-monetary assets and liabilities, such as goodwill and intangible assets, as closely as possible. As of June 30, 2018 and December 31, 2017, the carrying value of goodwill and intangible assets of certain foreign operations, which is not matched or hedged, was $134.8 million and $225.9 million, respectively. The decrease is due to the reassessment of our functional currency determination as of January 1, 2018, resulting in the U.S. Dollar being the only functional currency for most of our foreign underwriting operations. Consequently, goodwill and intangible assets of certain foreign operations denominated in a currency other than the U.S. Dollar are now remeasured into the U.S. Dollar at historic exchange rates and are no longer impacted by changes in foreign currency exchange rates.

During the six months ended June 30, 2018, there were no other material changes to the market risk components described in our Annual Report on Form 10-K for the year ended December 31, 2017.

The estimated fair value of our investment portfolio at June 30, 2018 was $20.4 billion, 70% of which was invested in fixed maturities, short-term investments, cash and cash equivalents and restricted cash and cash equivalents and 30% of which was invested in equity securities. At December 31, 2017, the estimated fair value of our investment portfolio was $20.6 billion, 71% of which was invested in fixed maturities, short-term investments, cash and cash equivalents and restricted cash and cash equivalents and 29% of which was invested in equity securities.

Credit risk is the potential loss resulting from adverse changes in an issuer's ability to repay its debt obligations. We monitor our investment portfolio to ensure that credit risk does not exceed prudent levels. We have consistently invested in high credit quality, investment grade securities. Our fixed maturity portfolio has an average rating of "AA," with 98% rated "A" or better by at least one nationally recognized rating organization. Our policy is to invest in investment grade securities and to minimize investments in fixed maturities that are unrated or rated below investment grade. At June 30, 2018, 1% of our fixed maturity portfolio was unrated or rated below investment grade. Our fixed maturity portfolio includes securities issued with financial guaranty insurance. We purchase fixed maturities based on our assessment of the credit quality of the underlying assets without regard to insurance.

Our fixed maturity portfolio includes securities issued by foreign governments and non-sovereign foreign institutions. General concern exists about the financial difficulties facing certain foreign countries in light of the adverse economic conditions experienced over the past several years. We monitor developments in foreign countries, currencies and issuers that could pose risks to our fixed maturity portfolio, including ratings downgrades, political and financial changes and the widening of credit spreads. We believe that our fixed maturity portfolio is highly diversified and is comprised of high quality securities. During the six months ended June 30, 2018, there were no material changes in our foreign government fixed maturity holdings.

General concern also exists about municipalities that experience financial difficulties during periods of adverse economic conditions. We manage the exposure to credit risk in our municipal bond portfolio by investing in high quality securities and by diversifying our holdings, which are typically either general obligation or revenue bonds related to essential products and services.

Our fixed maturities, equity securities and short-term investments are recorded at fair value, which is measured based upon quoted prices in active markets, if available. We determine fair value for these investments after considering various sources of information, including information provided by a third-party pricing service. The pricing service provides prices for substantially all of our fixed maturities and equity securities. In determining fair value, we generally do not adjust the prices obtained from the pricing service. We obtain an understanding of the pricing service's valuation methodologies and related inputs, which include, but are not limited to, reported trades, benchmark yields, issuer spreads, bids, offers, duration, credit ratings, estimated cash flows and prepayment speeds. We validate prices provided by the pricing service by reviewing prices from other pricing sources and analyzing pricing data in certain instances.

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Item 4. Controls and Procedures

As of the end of the period covered by this quarterly report, we carried out an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Securities Exchange Act Rule 13a-15 (Disclosure Controls). This evaluation was conducted under the supervision and with the participation of our management, including the Co-Principal Executive Officers (Co-PEOs) and the Principal Financial Officer (PFO).

Our management, including the Co-PEOs and PFO, does not expect that our Disclosure Controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of simple error or mistake. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based upon our controls evaluation, the Co-PEOs and PFO concluded that effective Disclosure Controls were in place to ensure that the information required to be disclosed in reports we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

During the second quarter of 2018, we implemented a new enterprise resource planning (ERP) system to replace our legacy system. The ERP system included, among other things, a new general ledger and chart of accounts, as well as new consolidation and reporting tools. Throughout the implementation, we appropriately evaluated the impact of the ERP system on our internal control over financial reporting and made changes to controls where necessary to support new workflows and in consideration of new system functionality. The ERP system eliminates certain manual processes, automates and streamlines the consolidation process, and enhances reporting capabilities.

During the second quarter of 2018, we completed the transition of certain additional underwriting systems to our existing data warehouse and actuarial data mart, which serves as a basis for the determination and recording of our incurred but not reported (IBNR) reserves within our Insurance segment. The transition allows us to more efficiently review claims development patterns for the impacted underwriting systems, streamlines actuarial processes and enhances the control environment related to the impacted IBNR reserves.

There were no other changes in our internal control over financial reporting during the second quarter of 2018 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Safe Harbor and Cautionary Statement

This report contains statements concerning or incorporating our expectations, assumptions, plans, objectives, future financial or operating performance and other statements that are not historical facts. These statements are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements may use words such as "anticipate," "believe," "estimate," "expect," "intend," "predict," "project" and similar expressions as they relate to us or our management.

There are risks and uncertainties that may cause actual results to differ materially from predicted results in forward-looking statements. Factors that may cause actual results to differ are often presented with the forward-looking statements themselves. Additional factors that could cause actual results to differ from those predicted are set forth under "Risk Factors" and "Safe Harbor and Cautionary Statement" in our 2017 Annual Report on Form 10-K or are included in the items listed below:

- our expectations about future results of our underwriting, investing and other operations are based on current knowledge and assume no significant man-made or natural catastrophes, no significant changes in products or personnel and no adverse changes in market conditions;
- the effect of cyclical trends on our underwriting, investing and other operations, including demand and pricing in the insurance, reinsurance and other markets in which we operate;
- actions by competitors, including the application of new or "disruptive" technologies or business models and consolidation, and the effect of competition on market trends and pricing;
- we offer insurance and reinsurance coverage against terrorist acts in connection with some of our programs, and in other instances we are legally required to offer terrorism insurance; in both circumstances, we actively manage our exposure, but if there is a covered terrorist attack, we could sustain material losses;
- the frequency and severity of man-made and natural catastrophes (including earthquakes, fires and weather-related catastrophes) may exceed expectations, are unpredictable and, in the case of fires and weather-related catastrophes, may be exacerbated if, as many forecast, conditions in the oceans and atmosphere result in increased hurricane, flood, drought or other adverse weather-related activity;
- emerging claim and coverage issues, changing legal and social trends, and inherent uncertainties in the loss estimation process can adversely impact the adequacy of our loss reserves and our allowance for reinsurance recoverables;
- reinsurance reserves are subject to greater uncertainty than insurance reserves, primarily because of reliance upon the original underwriting decisions made by ceding companies and the longer lapse of time from the occurrence of loss events to their reporting to the reinsurer for ultimate resolution;
- changes in the assumptions and estimates used in establishing reserves for our life and annuity reinsurance book (which is in runoff), for example, changes in assumptions and estimates of mortality, longevity, morbidity and interest rates, could result in material increases in our estimated loss reserves for such business;
- adverse developments in insurance coverage litigation or other legal or administrative proceedings could result in material increases in our estimates of loss reserves;
- the failure or inadequacy of any loss limitation methods we employ;
- changes in the availability, costs and quality of reinsurance coverage, which may impact our ability to write or continue to write certain lines of business;
- the ability or willingness of reinsurers to pay balances due may be adversely affected by industry and economic conditions, deterioration in reinsurer credit quality and coverage disputes, and collateral we hold may not be sufficient to cover a reinsurer's obligation to us;
- after the commutation of ceded reinsurance contracts, any subsequent adverse development in the re-assumed loss reserves will result in a charge to earnings;
- regulatory actions can impede our ability to charge adequate rates and efficiently allocate capital;
- general economic and market conditions and industry specific conditions, including extended economic recessions or expansions; prolonged periods of slow economic growth; inflation or deflation; fluctuations in foreign currency exchange rates, commodity and energy prices and interest rates; volatility in the credit and capital markets; and other

factors;

- economic conditions, actual or potential defaults in municipal bonds or sovereign debt obligations, volatility in interest and foreign currency exchange rates and changes in market value of concentrated investments can have a significant impact on the fair value of our fixed maturity and equity securities, as well as the carrying value of our other assets and liabilities, and this impact may be heightened by market volatility;
- economic conditions may adversely affect our access to capital and credit markets;
- the effects of government intervention, including material changes in the monetary policies of central banks, to address financial downturns and economic and currency concerns;
- the impacts that political and civil unrest and regional conflicts may have on our businesses and the markets they serve or that any disruptions in regional or worldwide economic conditions generally arising from these situations may have on our businesses, industries or investments;
- the impacts that health epidemics and pandemics may have on our business operations and claims activity;
- the impact on our businesses of the repeal, in part or in whole, or modification of U.S. health care reform legislation and regulations;
- changes in U.S. tax laws or in the tax laws of other jurisdictions in which we operate and adjustments we may make in our operations in response to those changes;
- a failure of our enterprise systems, or those of third parties upon which we may rely, or a failure to comply with data protection or privacy regulations;
- our acquisitions may increase our operational and control risks for a period of time;
- we may not realize the contemplated benefits, including cost savings and synergies, of our acquisitions;
- any determination requiring the write-off of a significant portion of our goodwill and intangible assets;
- the loss of services of any executive officer or other key personnel could adversely impact one or more of our operations;
- our substantial international operations and investments expose us to increased political, operational and economic risks, including foreign currency exchange rate and credit risk;
- the vote by the United Kingdom to leave the European Union, which could have adverse consequences for our businesses, particularly our London-based international insurance operations;
- our ability to raise third party capital for existing or new investment vehicles and risks related to our management of third party capital;
- the effectiveness of our procedures for compliance with existing and ever increasing guidelines, policies and legal and regulatory standards, rules, laws and regulations;
- the impact of economic and trade sanctions and embargo programs on our businesses, including instances in which the requirements and limitations applicable to the global operations of U.S. companies and their affiliates are more restrictive than those applicable to non-U.S. companies and their affiliates;
- regulatory changes, or challenges by regulators, regarding the use of certain issuing carrier or fronting arrangements;
- our dependence on a limited number of brokers for a large portion of our revenues;
- adverse changes in our assigned financial strength or debt ratings could adversely impact us, including our ability to attract and retain business, the amount of capital our insurance subsidiaries must hold and the availability and cost of capital;
- the political, legal, regulatory, financial, tax and general economic impacts, and others we cannot anticipate, of Brexit; and
- a number of additional factors may adversely affect our Markel Ventures operations, and the markets they serve, and negatively impact their revenues and profitability, including, among others: adverse weather conditions, plant disease and other contaminants; changes in government support for education, healthcare and infrastructure projects; changes in capital spending levels; changes in the housing market; liability for environmental matters; volatility in the market prices for their products; and volatility in commodity prices and interest and foreign currency exchange rates.

Our premium volume, underwriting and investment results and results from our other operations have been and will continue to be potentially materially affected by these factors. By making forward-looking statements, we do not intend to become obligated to publicly update or revise any such statements whether as a result of new information, future events or other changes. Readers are cautioned not to place undue reliance on any forward-looking statements,

which speak only as at their dates.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Thomas Yeransian v. Markel Corporation (U.S. District Court for the District of Delaware)
In October 2010, we completed our acquisition of Aspen Holdings, Inc. (Aspen). As part of the consideration for that acquisition, Aspen shareholders received contingent value rights (CVRs), which we currently expect will result in the payment of additional cash consideration to CVR holders. Absent the litigation described below, the final amount to be paid to CVR holders would be determined after December 31, 2017, the CVR maturity date, based on, among other things, adjustments for the development of pre-acquisition loss reserves and loss sensitive profit commissions.
The CVR holder representative, Thomas Yeransian, has disputed our estimation of the value of the CVRs. On September 15, 2016, Mr. Yeransian filed a suit alleging, among other things, that we are in default under the CVR agreement. The holder representative seeks: $47.3 million in damages, which represents the unadjusted value of the CVRs; plus interest ($12.7 million through June 30, 2018) and default interest (up to an additional $11.0 million through June 30, 2018, depending on the date any default occurred); and an unspecified amount of punitive damages, costs, and attorneys' fees.
At the initial hearing held February 21, 2017, the court stayed the proceedings and ordered the parties to discuss resolving the dispute pursuant to the independent CVR valuation procedure under the CVR agreement. The parties met on April 5, 2017, but were unsuccessful in reaching agreement on a process for resolving the dispute. We subsequently filed a motion to stay the litigation and compel arbitration, and, on July 31, 2017, the court issued an order granting that motion. Mr. Yeransian has filed a motion requesting that the court reconsider that order, and that motion is pending.
We believe the holder representative's suit to be without merit and will vigorously defend against it. We further believe that any material loss resulting from the holder representative's suit to be remote. We do not believe the contractual contingent consideration payments related to the CVRs will have a material impact on our liquidity.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table summarizes our common stock repurchases for the quarter ended June 30, 2018.

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[1]	(d) Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in thousands)
April 1, 2018 through April 30, 2018	3,629	$1,156.05	3,629	$ 126,429
May 1, 2018 through May 31, 2018	2,970	$1,263.90	2,970	$ 298,311
June 1, 2018 through June 30, 2018	3,465	$1,104.97	3,465	$ 294,483
Total	10,064	$1,170.29	10,064	$ 294,483

(1) The Board of Directors approved the repurchase of up to $300 million of our common stock pursuant to a share repurchase program publicly announced on May 14, 2018 (the 2018 Program). The 2018 Program terminated and

replaced a similar program authorized in November 2013 (the 2013 Program). Under the 2018 Program, as under the 2013 Program, we may repurchase outstanding shares of our common stock from time to time in privately negotiated or open market transactions, including under plans complying with Rule 10b5-1 under the Securities Exchange Act of 1934. The 2018 Program has no expiration date but may be terminated by the Board of Directors at any time. As of May 14, 2018, no further share repurchases may be made under the 2013 Program; future share repurchases will be made pursuant to the 2018 Program.

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Item 6. Exhibits

Exhibit No.	Document Description
3(i)	Amended and Restated Articles of Incorporation (incorporated by reference from Exhibit 3.1 in the Registrant's report on Form 8-K filed with the Commission May 13, 2011)
3(ii)	Bylaws, as amended and restated May 14, 2018**
4.1	Indenture dated as of June 5, 2001, between Markel Corporation and The Chase Manhattan Bank, as Trustee (incorporated by reference from Exhibit 4.1 in the Registrant's report on Form 8-K filed with the Commission June 5, 2001)
4.2	Form of Third Supplemental Indenture dated as of August 13, 2004 between Markel Corporation and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as Trustee, including form of the securities as Exhibit A (incorporated by reference from Exhibit 4.2 in the Registrant's report on Form 8-K filed with the Commission August 11, 2004)
4.3	Form of Fifth Supplemental Indenture dated as of September 22, 2009 between Markel Corporation and The Bank of New York Mellon (as successor to The Chase Manhattan Bank), as Trustee, including form of the securities as Exhibit A (incorporated by reference from Exhibit 4.2 in the Registrant's report on Form 8-K filed with the Commission September 21, 2009)
4.4	Form of Sixth Supplemental Indenture dated as of June 1, 2011 between Markel Corporation and The Bank of New York Mellon (as successor to The Chase Manhattan Bank), as Trustee, including form of the securities as Exhibit A (incorporated by reference from Exhibit 4.2 in the Registrant's report on Form 8-K filed with the Commission May 31, 2011)
4.5	Form of Seventh Supplemental Indenture dated as of July 2, 2012 between Markel Corporation and The Bank of New York Mellon (as successor to The Chase Manhattan Bank), as Trustee, including form of the securities as Exhibit A (incorporated by reference from Exhibit 4.2 in the Registrant's report on Form 8-K filed with the Commission June 29, 2012)
4.6	Form of Eighth Supplemental Indenture dated as of March 8, 2013 between Markel Corporation and The Bank of New York Mellon (as successor to The Chase Manhattan Bank), as Trustee, including form of the securities as Exhibit A (incorporated by reference from Exhibit 4.2 in the Registrant's report on Form 8-K filed with the Commission March 7, 2013)
4.7	Form of Ninth Supplemental Indenture dated as of March 8, 2013 between Markel Corporation and The Bank of New York Mellon (as successor to The Chase Manhattan Bank), as Trustee, including form of the securities as Exhibit A (incorporated by reference from Exhibit 4.3 in the Registrant's report on Form 8-K filed with the Commission March 7, 2013)
4.8	Form of Tenth Supplemental Indenture dated as of April 5, 2016 between Markel Corporation and The Bank of New York Mellon (as successor to The Chase Manhattan Bank), as Trustee, including form of the securities as Exhibit A (incorporated by reference from Exhibit 4.2 in the Registrant's report on Form 8-K filed with the Commission March 31, 2016)
4.9	

	Form of Eleventh Supplemental Indenture dated as of November 2, 2017 between Markel Corporation and The Bank of New York Mellon (as successor to The Chase Manhattan Bank), as Trustee, including form of the securities as Exhibit A (incorporated by reference from Exhibit 4.2 in the Registrant's report on Form 8-K filed with the Commission November 2, 2017)
4.10	Form of Twelfth Supplemental Indenture dated as of November 2, 2017 between Markel Corporation and The Bank of New York Mellon (as successor to The Chase Manhattan Bank), as Trustee, including form of the securities as Exhibit A (incorporated by reference from Exhibit 4.3 in the Registrant's report on Form 8-K filed with the Commission November 2, 2017)
4.11	Indenture dated as of September 1, 2010, among Alterra Finance LLC, Alterra Capital Holdings Limited and The Bank of New York Mellon, as Trustee (incorporated by reference from Exhibit 4.14 in the Registrant's report on Form 10-Q filed with the Commission for the quarter ended June 30, 2013)
4.12	First Supplemental Indenture, dated as of September 27, 2010 between Alterra Finance LLC, Alterra Capital Holdings Limited and The Bank of New York Mellon, as Trustee, including the form of the securities as Exhibit A (incorporated by reference from Exhibit 4.15 in the Registrant's report on Form 10-Q filed with the Commission for the quarter ended June 30, 2013)
4.13	Form of Second Supplemental Indenture dated as of June 30, 2014 among Alterra Finance LLC, Alterra Capital Holdings Limited and the Bank of New York Mellon, as Trustee (incorporated by reference from Exhibit 4.16 in the Registrant's report on Form 10-Q filed with the Commission for the quarter ended June 30, 2014)

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4.14	Form of Guaranty Agreement by Markel Corporation dated as of June 30, 2014 in connection with the Alterra Finance LLC 6.25% Senior Notes due 2020 (incorporated by reference from Exhibit 4.17 in the Registrant's report on Form 10-Q filed with the Commission for the quarter ended June 30, 2014)
10.1	Markel Corporation Executive Bonus Plan, as amended and restated May 14, 2018* **
10.2	Employment Agreement, dated June 28, 2018, between Markel Corporation and Robert C. Cox (incorporated by reference from Exhibit 10.1 in the Registrant's report on Form 8-K filed with the Commission July 12, 2018)*

The registrant hereby agrees to furnish to the Securities and Exchange Commission, upon request, a copy of all other instruments defining the rights of holders of long-term debt of the registrant and its subsidiaries.

31.1	Certification of Co-Principal Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a)**
31.2	Certification of Co-Principal Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a)**
31.3	Certification of Principal Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a)**
32.1	Certification of Co-Principal Executive Officer furnished Pursuant to 18 U.S.C. Section 1350**
32.2	Certification of Co-Principal Executive Officer furnished Pursuant to 18 U.S.C. Section 1350**
32.3	Certification of Principal Financial Officer furnished Pursuant to 18 U.S.C. Section 1350**
101	The following consolidated financial statements from Markel Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, filed on July 31, 2018, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income and Comprehensive Income (Loss), (iii) Consolidated Statements of Changes in Equity, (iv) Condensed Consolidated Statements of Cash Flows and (v) Notes to Consolidated Financial Statements.**

* Indicates management contract or compensatory plan or arrangement
** Filed with this report.

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Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, this 31st day of July 2018.

Markel Corporation

By: /s/ Thomas S. Gayner
Thomas S. Gayner
Co-Chief Executive Officer
(Co-Principal Executive Officer)

By: /s/ Richard R. Whitt, III
Richard R. Whitt, III
Co-Chief Executive Officer
(Co-Principal Executive Officer)

By: /s/ Anne G. Waleski
Anne G. Waleski
Executive Vice President and Chief Financial Officer
(Principal Financial Officer)