

COMPANHIA DE SANEAMENTO BASICO DO ESTADO DE SAO PAULO-SABESP

Form 6-K

May 18, 2005

---

**SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549**

---

**FORM 6-K**

**REPORT OF FOREIGN ISSUER  
PURSUANT TO RULE 13a-16 OR 15d-16 OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**For May 18, 2005**

**(Commission File No. 1-31317)**

---

**Companhia de Saneamento Básico do Estado de São Paulo - SABESP**  
*(Exact name of registrant as specified in its charter)*

**Basic Sanitation Company of the State of Sao Paulo - SABESP**  
*(Translation of Registrant's name into English)*

---

**Rua Costa Carvalho, 300  
São Paulo, S.P., 05429-900  
Federative Republic of Brazil**  
*(Address of Registrant's principal executive offices)*

---

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  Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K  
in paper as permitted by Regulation S-T Rule 101(b)(1) .

Indicate by check mark if the registrant is submitting the Form 6-K  
in paper as permitted by Regulation S-T Rule 101(b)(7) .

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

If "Yes" is marked, indicated below the file number assigned to the  
registrant in connection with Rule 12g3-2(b):



**CIA. DE SANEAMENTO BÁSICO DO ESTADO DE SÃO PAULO - SABESP**

Rui de Britto Álvares Affonso  
Economic - Financial Officer and Investor Relations Officer  
Mario Azevedo de Arruda Sampaio  
Head of Capital Market and Investor Relations  
Phone: (5511) 3388-8664 / Fax: (5511) 3388-8669  
e-mail: maasampaio@sabesp.com.br

SBSP3: R\$136.00/thousand shares  
SBS: US\$13.65 (ADR=250 shares)  
Total shares:28,480 million  
Market value: R\$3,873.3 million  
Closing price: 05/16/2005

**SABESP announces first quarter 2005 results**

São Paulo , May 16, 2005 - SABESP Cia. de Saneamento Básico do Estado de São Paulo (NYSE: SBS; Bovespa: SBSP3), the largest water and sewage utility company in the Americas and the third largest in the world, according to its number of customers, announces today its results for the first quarter 2005 (1Q05). The Company's operating and financial information, except when indicated otherwise, is shown in *Brazilian Reais* , in accordance with the Brazilian corporate law. All comparisons in this release, unless otherwise stated, refer to the first quarter 2004 .

**Highlights**

- EBITDA margin recovery, reaching 48.3% in 1Q05.
- Recovery of billed volumes for water and sewage in the retail market, recording a 4.1% increase, in comparison to 1Q04.
- Net revenue in the quarter posted a 6.6% growth.

**First Quarter 2005 Financial Results**

May 16, 2005

**1. SABESP posted a 6.6% net revenue growth and a 6.5% EBITDA growth***(R\$ million)*

| <b>Highlights</b>     | <b>1Q04</b> | <b>1Q05</b> | <b>Change %</b> |
|-----------------------|-------------|-------------|-----------------|
| Net operating revenue | 1,087.4     | 1,158.7     | 6.6             |
| EBIT (*)              | 381.8       | 413.8       | 8.4             |
| EBITDA (**)           | 525.3       | 559.3       | 6.5             |
| EBITDA margin (%)     | 48.3        | 48.3        | -               |
| Net income            | 115.5       | 151.4       | 31.1            |

(\*) Earnings before interest and taxes

(\*\*) Earnings before interest, taxes, depreciation and amortization

SABESP recorded net revenue of R\$1.2 billion and EBITDA of R\$559.3 million in 1Q05. The final result in the period, a R\$151.4 million net income, is mainly due to the 9.9% increase in gross operating revenue.

**2. Net operating revenue 6.6% growth**

Edgar Filing: COMPANHIA DE SANEAMENTO BASICO DO ESTADO DE SAO PAULO-SABESP - Form 6-K

Net operating revenue recorded a R\$71.3 million or 6.6% increase. Such upside is a result of the 6.8% tariff readjustments as of August 29, 2004. However, this increase was minimized by changes occurred in the COFINS/PASEP legislation.

Volume of water and sewage billed to the retail market grew by 4.1%, which had also contributed to operating revenue increase, as the migration of customers for a higher tariff consumption level took place.

The following tables show the water and sewage billed to the retail and to the wholesale markets by customer category and region, in the first quarter of 2004 and 2005:

| <b>VOLUME OF WATER AND SEWAGE BILLED*** BY CUSTOMER CATEGORY - million m<sup>3</sup></b> |              |              |            |              |              |            |                |              |            |
|--|--------------|--------------|------------|--------------|--------------|------------|----------------|--------------|------------|
|  | Water        |              | Chg.       | Sewage       |              | Chg.       | Water + Sewage |              | Chg.       |
|  | 1Q04**       | 1Q05         | %          | 1Q04**       | 1Q05         | %          | 1Q04**         | 1Q05         | %          |
| Residential  | 305.8        | 318.1        | 4.0        | 234.4        | 247.2        | 5.5        | 540.2          | 565.3        | 4.6        |
| Commercial   | 35.4         | 35.5         | 0.3        | 31.1         | 32.0         | 2.9        | 66.5           | 67.5         | 1.5        |
| Industrial   | 7.5          | 8.0          | 6.7        | 7.6          | 7.7          | 1.3        | 15.1           | 15.7         | 4.0        |
| Public   | 10.8         | 10.6         | (1.9)      | 8.5          | 8.3          | (2.4)      | 19.3           | 18.9         | (2.1)      |
| <b>Total Retail</b>  | <b>359.5</b> | <b>372.2</b> | <b>3.5</b> | <b>281.6</b> | <b>295.2</b> | <b>4.8</b> | <b>641.1</b>   | <b>667.4</b> | <b>4.1</b> |
| Wholesale  | 63.1         | 63.6         | 0.8        |              |              |            | 63.1           | 63.6         | 0.8        |
| <b>Total</b>   | <b>422.6</b> | <b>435.8</b> | <b>3.1</b> | <b>281.6</b> | <b>295.2</b> | <b>4.8</b> | <b>704.2</b>   | <b>731.0</b> | <b>3.8</b> |

| <b>VOLUME OF WATER AND SEWAGE BILLED*** BY REGION million m3</b> |              |              |            |              |              |            |                |              |            |
|--|--------------|--------------|------------|--------------|--------------|------------|----------------|--------------|------------|
|  | Water        |              | Chg        | Sewage       |              | Chg        | Water + Sewage |              | Chg        |
|  | 1Q04**       | 1Q05         | %          | 1Q04**       | 1Q05         | %          | 1Q04**         | 1Q05         | %          |
| Metropolitan   | 235.6        | 243.6        | 3.4        | 188.4        | 197.2        | 4.7        | 424,0          | 440,8        | 4,0        |
| Regional Systems *   | 123.9        | 128.6        | 3.8        | 93.2         | 98.0         | 5.2        | 217,1          | 226,6        | 4,4        |
| <b>Total Retail</b>  | <b>359.5</b> | <b>372.2</b> | <b>3.5</b> | <b>281.6</b> | <b>295.2</b> | <b>4.8</b> | <b>641,1</b>   | <b>667,4</b> | <b>4,1</b> |
| Wholesale  | 63.1         | 63.6         | 0.8        |              |              |            | 63,1           | 63,6         | 0,8        |
| <b>Total</b>   | <b>422.6</b> | <b>435.8</b> | <b>3.1</b> | <b>281.6</b> | <b>295.2</b> | <b>4.8</b> | <b>704,2</b>   | <b>731,0</b> | <b>3,8</b> |

(\*) Composed of the Costal and Interior

(\*\*) 1Q04 amounts differ from those expressed in previous releases due to adjustments made by customer category

(\*\*\*) Non audited information

### 3. Costs, administrative and selling expenses

Costs, administrative and selling expenses went up by R\$39.3 million or 5.6% .

Bellow we present the main variations:

|  | <i>(R\$ million)</i> |       |           |        |
|--|----------------------|-------|-----------|--------|
|  | 1Q04                 | 1Q05  | Variation | Chg. % |
| Salaries and payroll                       | 253.3                | 254.1 | 0.8       | 0.3    |
| General supplies                           | 20.2                 | 24.2  | 4.0       | 19.8   |
| Treatment supplies                         | 27.4                 | 31.0  | 3.6       | 13.1   |
| Third party services                       | 88.9                 | 101.6 | 12.7      | 14.3   |
| Electric power                             | 96.8                 | 98.0  | 1.2       | 1.2    |
| General expenses                           | 29.2                 | 38.2  | 9.0       | 30.8   |
| Depreciation and amortization              | 143.5                | 145.5 | 2.0       | 1.4    |
| Credit write-offs                          | 39.5                 | 45.9  | 6.4       | 16.2   |
| Tax expenses                               | 6.8                  | 6.4   | (0.4)     | (5.9)  |
| Costs, administrative and selling expenses | 705.6                | 744.9 | 39.3      | 5.6    |

### 3.1. Salaries and payroll

Salaries and payroll presented a R\$0.8 million or 0.3% increase. Such increase was mainly due to the 4.2% increase in wages, benefits and charges from the labor agreement as from May 2004, partially offset by the Programa de Demissão Incentivada - PDI (Encouraged Dismissal Program).

### 3.2. General supplies

This line recorded a R\$4.0 million or 19.8% growth, mainly directed towards materials utilized in the maintenance of residential connections, which amounted to R\$1.2 million, system maintenance on the amount of R\$1.0 million and gas and lubricant for the company's vehicles on the amount of R\$0.5 million.

### 3.3. Treatment supplies

Recorded a R\$3.6 million or 13.1% increase, as a result of the following material's variation: active carbon in the amount of R\$1.0 million, chlorine in the amount of R\$0.9 million, cooper sulfate in the amount of R\$0.6 million and liquid aluminum sulfate in the amount of R\$1.3 million. Such increases are related to water quality worsening, and to price increases in chlorine's case.

### 3.4. Third party services

Went up by R\$12.7 million or 14.3%, mainly motivated by technical professional services in the amount of R\$10.1 million and hydrometer reading and bills delivering in the amount of R\$1.9 million. The maintenance program for the water distribution in the metropolitan region (Global Sourcing) had contributed with R\$8.0 million with paving, sidewalk replacement and residential connections maintenance.

Such increase was partially offset by the drop in advertising and media campaigns expenses in the amount of R\$8.2 million (R\$2.4 million in 2005 and R\$10.7 million in 2004), due to the change in the Company's communication strategy for media campaigns of the rational use of water.

### 3.5. Electric power

Electric power presented an increase of R\$1.2 million or 1.2%, resulting from the average increase of 17.5% in electric power tariffs. Regarding electric power consumption, there was a 0.6% drop in the first quarter of 2005 (510,615 MWh) in comparison to the same period of 2004 (513,970 MWh).

Some factors had influenced in the proportion of the financial percentage of 1.2% over the average increase of 17.5% in tariffs: (i) entrance of SABESP as a free electric power consumer, resulting on significant savings (30.0% in some installations), (ii) the result of the electric power saving due to the Programa de Eficiência Energética (electric efficiency program) and (iii) intensification of high voltage electric power

contracts management.

### 3.6. General expenses

Presented a R\$ 9.0 million or 30.8% raise, mainly due to provision for civil contingencies, in the amount of R\$6.7 million (increase in the number of lawsuits) and loss provision in the amount of R\$3.9 million.

### 3.7. Depreciation and amortization

Presented an R\$2.0 million or 1.4% increase, due to recognition of sites under construction as permanent assets, during the 2004 fiscal year, on the amount of R\$828.8 million.

### 3.8. Credit write-offs

An increase of R\$6.4 million, or 16.2%, relating to approximately R\$15.2 million in credit write-offs and R\$8.8 million in recoveries.

## 4. Financial expenses and passive monetary variations

### 4.1. Financial expenses

Financial expenses posted a R\$0.2 million increase, due to:

- Interest on domestic loans and financing, up by R\$4.8 million, due to higher Certificate of Interbank Deposits (CDI), as to the entrance of the 7<sup>th</sup> debenture issuance;
- Interest on external loans and financing, with a R\$8.2 million drop, explained by the outstanding balance due to the US dollar variation versus the real in the analyzed quarters;
- Other financing expenses, corresponding to a R\$1.7 million increase, due to expenses regarding the 5<sup>th</sup> debenture issuance repricing;
- Income tax over external remittance, a R\$3.2 million drop, due to the payment of Eurobonus interest during the first quarter of 2004;
- Provision for financial contingencies, with a R\$3.9 million increase, due to new lawsuits estimates, regarding interest and fine.

### 4.2. Passive monetary variation

Passive monetary variation presented a drop of R\$20.9 million, due to the following:

- Exchange rate variation over loans and financing, from an expense of R\$17.6 million in 2004, to a revenue of R\$11.3 million in 2005. Despite of the US dollar appreciation versus the real in 2004 was of 0.7% and in 2005 of 0.4%, IDB's currency basket recorded an exchange loss in 2004;
- Monetary variation over loans and financing, with a R\$8.9 million increase, due to Referential Rate - TR and General Market Price Index - IGP-M updates over domestic loans and financing, combined with the entrance of the 7<sup>th</sup> debentures issuance.

## 5. Operating indicators

The table bellow shows the continued improvement on the company's services.

| Operational Indicators                 | 1Q04  | 1Q05  | Chg. % |
|--|-------|-------|--------|
| Water connections (1)                  | 6,231 | 6,394 | 2.6    |
| Sewage connections (1)                 | 4,621 | 4,780 | 3.5    |
| Population directly served - water (2) | 22.0  | 22.4  | 1.8    |

Edgar Filing: COMPANHIA DE SANEAMENTO BASICO DO ESTADO DE SAO PAULO-SABESP - Form 6-K

|  |        |        |       |
|--|--------|--------|-------|
| Population directly served sewage collection (2) | 17.9   | 18.2   | 1.7   |
| Bulk water sales billed (3)                      | 63.1   | 63.6   | 0.8   |
| Retail water sales billed (3)                    | 359.5  | 372.2  | 3.5   |
| Sewage services sales billed (3)                 | 281.6  | 295.2  | 4.8   |
| Number of employees                              | 18,091 | 17,669 | (2.3) |
| Operating productivity (4)                       | 600    | 632    | 5.3   |

Notes:

- (1) In 1,000 units at the end of the period  
(2) Million of inhabitants at the end of the period (does not include bulk services)  
(3) In million m<sup>3</sup>  
(4) Number of water and sewage connection per employee

## 6. Loan settlements and financing

From the total loan and financing amount maturing by the end of 2005, we highlight Eurobonus in the amount of R\$733.2 million due on July, R\$75.0 million from the 4<sup>th</sup> debenture issuance, to be paid in 3 installments of R\$25.0 million in the following quarters and the amortization of one third of the 5<sup>th</sup> debentures issuance par value in the amount of approximately R\$150.0 million on April 1<sup>st</sup>, 2005. Part of this resources were funded by the 7<sup>th</sup> debenture issuance, in the amount of R\$300.0 million, settled on March 14, 2005. On April 1, 2005 took place the repricing of two thirds of the 5<sup>th</sup> debenture issuance, in the amount of approximately R\$298.1 million.

(R\$ million)

| INSTITUTION                | Apr-Dec<br>2005 | 2006         | 2007         | 2008         | 2009         | 2010         | 2011 and<br>onwards | TOTAL          |
|----------------------------|-----------------|--------------|--------------|--------------|--------------|--------------|---------------------|----------------|
| <b>DOMESTIC</b>            |                 |              |              |              |              |              |                     |                |
| Banco do Brasil            | 132.2           | 189.8        | 206.6        | 224.8        | 244.7        | 266.4        | 1,039.5             | 2,304.0        |
| Caixa Econômica Federal    | 29.0            | 41.4         | 44.8         | 48.3         | 51.2         | 55.0         | 221.7               | 491.4          |
| Debentures                 | 224.0           | 249.0        | 380.9        | -            | 396.2        | 288.3        | -                   | 1,538.4        |
| BNDES                      | 5.4             | 24.0         | 25.7         | 25.7         | 25.7         | 25.7         | 47.2                | 179.4          |
| Other                      | 1.6             | 4.0          | 4.5          | 4.6          | 4.4          | 4.2          | 3.8                 | 27.1           |
| Interest and charges       | 86.4            | -            | -            | -            | -            | -            | -                   | 86.4           |
| <b>Domestic Total</b>      | <b>478.6</b>    | <b>508.2</b> | <b>662.5</b> | <b>303.4</b> | <b>722.2</b> | <b>639.6</b> | <b>1,312.2</b>      | <b>4,626.7</b> |
| <b>INTERNATIONAL</b>       |                 |              |              |              |              |              |                     |                |
| World Bank                 | 12.1            | 12.1         | 6.1          | -            | -            | -            | -                   | 30.3           |
| Société Générale           | 3.2             | 3.5          | -            | -            | -            | -            | -                   | 6.7            |
| IDB                        | 84.4            | 116.5        | 116.5        | 80.6         | 80.6         | 80.6         | 670.1               | 1,229.4        |
| Eurobonus                  | 733.2           | -            | -            | 599.9        | -            | -            | -                   | 1,333.1        |
| Deutsche Bank Luxembourg   | 53.3            | -            | -            | -            | -            | -            | -                   | 53.3           |
| Interest and charges       | 54.0            | -            | -            | -            | -            | -            | -                   | 54.0           |
| <b>International Total</b> | <b>940.2</b>    | <b>132.2</b> | <b>122.6</b> | <b>680.5</b> | <b>80.6</b>  | <b>80.6</b>  | <b>670.1</b>        | <b>2,706.8</b> |
| <b>Total</b>               | <b>1,418.8</b>  | <b>640.4</b> | <b>785.1</b> | <b>983.9</b> | <b>802.8</b> | <b>720.2</b> | <b>1,982.3</b>      | <b>7,333.5</b> |

## 7. Conference calls and webcast details

**Portuguese:** Tuesday, May 31, 2005  
10 am US EST  
Phone: (55 11) 2101-1490  
Conference ID code: SABESP

**English:** Tuesday, May 31, 2005  
12 pm US EST  
Phone: +1 (973) 935-2401  
Conference ID code: 6075364 or SABESP

**For additional information please contact the Investor Relations Department:**

*Mario Sampaio*  
(11) 3388-8664  
[maasampaio@sabesp.com.br](mailto:maasampaio@sabesp.com.br)

*Marisa Guimarães*  
(11) 3388-9135  
[marisag@sabesp.com.br](mailto:marisag@sabesp.com.br)

[www.sabesp.com.br](http://www.sabesp.com.br)

*Statements contained in this press release may contain information that is forward-looking and reflects management's current view and estimates of future economic circumstances, industry conditions, SABESP performance, and financial results. Any statements, expectations, capabilities, plans and assumptions contained in this press release that do not describe historical facts, such as statements regarding the declaration or payment of dividends, the direction of future operations, the implementation of principal operating and financing strategies and capital expenditure plans, the factors or trends affecting financial condition, liquidity or results of operations are forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 and involve a number of risks and uncertainties. There is no guarantee that these results will actually occur. The statements are based on many assumptions and factors, including general economic and market conditions, industry conditions, and operating factors. Any changes in such assumptions or factors could cause actual results to differ materially from current expectations.*

---



## Income Statement

Brazilian Corporate Law

R\$ thousand

|   | 1Q05              | 1Q04              | %           |
|---|-------------------|-------------------|-------------|
| <b>Sales/Services Gross Revenues</b>                  | <b>1,252,008</b>  | <b>1,138,816</b>  | <b>9.9</b>  |
| Water Supply - Retail                                 | 652,077           | 588,826           | 10.7        |
| Water Supply - Wholesale                              | 57,730            | 53,377            | 8.2         |
| Sewage Collection and Treatment                       | 521,632           | 475,138           | 9.8         |
| Other Services  | 20,569            | 21,475            | (4.2)       |
| Gross Revenue Deductions (Cofins/Pasep)               | (93,339)          | (51,425)          | 81.5        |
| <b>Net Sales/Services</b>                             | <b>1,158,669</b>  | <b>1,087,391</b>  | <b>6.6</b>  |
| Cost of Goods and/or Services Sold                    | (557,305)         | (536,408)         | 3.9         |
| <b>Gross Profit</b>                                   | <b>601,364</b>    | <b>550,983</b>    | <b>9.1</b>  |
| Selling Expenses                                      | (113,011)         | (99,006)          | 14.1        |
| General & Administrative Expenses                     | (74,564)          | (70,187)          | 6.2         |
| Net Interest Income (Expense)                         | (182,979)         | (202,816)         | (9.8)       |
| <b>Operating Result</b>                               | <b>230,810</b>    | <b>178,974</b>    | <b>29.0</b> |
| Non Operating Expenses (Income)                       | (518)             | (483)             | 7.2         |
| <b>Income Before Taxes</b>                            | <b>230,292</b>    | <b>178,491</b>    | <b>29.0</b> |
| Provision for Income Tax/Social Contribution          | (78,589)          | (55,953)          | 40.5        |
| Provision for Deferred Income Tax/Social Contribution | 8,447             | 1,729             | 388.5       |
| Extraordinary Item Net of IT and SC                   | (8,780)           | (8,781) -         |             |
| <b>Net Income</b>                                     | <b>151,370</b>    | <b>115,486</b>    | <b>31.1</b> |
| Shares Outstanding (1000 shares)                      | <b>28,479,577</b> | <b>28,479,577</b> |             |
| <b>EPS (R\$/1000 shares)</b>                          | <b>5.32</b>       | <b>4.06</b>       |             |
| <b>Depreciation and Amortization</b>                  | <b>145,460</b>    | <b>143,503</b>    |             |
| <b>EBITDA</b>   | <b>559,249</b>    | <b>525,293</b>    |             |
| % of net sales  | 48.3%             | 48.3%             |             |

## Balance Sheet

| <b>Brazilian Corporate Law</b>        | <b>R\$thousand</b> |                   |
|---------------------------------------|--------------------|-------------------|
| <b>ASSETS</b>                         | <b>03/31/05</b>    | <b>03/31/04</b>   |
| Cash and Cash Equivalents             | 452,222            | 231,507           |
| Accounts Receivable, net              | 1,041,174          | 874,393           |
| Accounts Receivable from Shareholders | 115,722            | 42,074            |
| Inventory                             | 24,540             | 21,152            |
| Taxes and contributions               | 30,321             | 29,714            |
| Other Receivables                     | 47,163             | 29,452            |
| <b>Total Current Assets</b>           | <b>1,711,142</b>   | <b>1,228,292</b>  |
| Accounts Receivable, net              | 287,717            | 195,796           |
| Accounts Receivable from Shareholders | 754,403            | 683,485           |
| Indemnities Receivable                | 148,794            | 148,794           |
| Judicial Deposits                     | 16,168             | 17,501            |
| Taxes and contributions               | 267,512            | 231,282           |
| Other Receivables                     | 28,870             | 31,384            |
| <b>Total Long-Term Assets</b>         | <b>1,503,464</b>   | <b>1,308,242</b>  |
| Investments                           | 5,100              | 740               |
| Permanent Assets                      | 14,008,471         | 14,049,832        |
| Deferred Assets                       | 37,164             | 46,837            |
| <b>Total Permanent Assets</b>         | <b>14,050,735</b>  | <b>14,097,409</b> |
| <b>Total Assets</b>                   | <b>17,265,341</b>  | <b>16,633,943</b> |
| <b>LIABILITIES</b>                    | <b>03/31/05</b>    | <b>03/31/04</b>   |
| Suppliers and Constructors            | 35,899             | 26,436            |
| Loans and Financing                   | 1,532,353          | 973,931           |
| Salaries and Payroll Charges          | 132,158            | 141,384           |
| Provision for Judicial Pendencies     | 30,684             | 19,353            |
| Interest on Own Capital Payable       | 179,751            | 262,274           |
| Taxes and contributions payable       | 111,961            | 64,140            |
| Taxes and contributions               | 70,745             | 58,622            |
| Other Payables                        | 82,948             | 122,161           |
| <b>Total Current Liabilities</b>      | <b>2,176,499</b>   | <b>1,668,301</b>  |
| Loans and Financing                   | 5,801,212          | 6,254,980         |
| Taxes and contributions payable       | 268,861            | 117,099           |

|   |                   |                   |
|---|-------------------|-------------------|
| Taxes and Contributions                           | 130,971           | 280,450           |
| Provision for Contingencies                       | 491,256           | 409,850           |
| Pension Fund Obligations                          | 235,963           | 164,649           |
| Other Payables                                    | 93,815            | 85,171            |
|   | <hr/>             | <hr/>             |
| <b>Total Long-Term Liabilities</b>                | <b>7,022,078</b>  | <b>7,312,199</b>  |
| Capital Stock                                     | 3,403,688         | 3,403,688         |
| Capital Reserves                                  | 67,297            | 51,055            |
| Revaluation Reserves                              | 2,596,914         | 2,700,714         |
| Profit Reserves                                   | 1,863,389         | 1,398,796         |
| Retained Earnings                                 | 135,476           | 99,190            |
|   | <hr/>             | <hr/>             |
| <b>Shareholder's Equity</b>                       | <b>8,066,764</b>  | <b>7,653,443</b>  |
|   | <hr/>             | <hr/>             |
| <b>Total Liabilities and Shareholder's Equity</b> | <b>17,265,341</b> | <b>16,633,943</b> |
|   | <hr/>             | <hr/>             |

## Statements of Cash Flow

Brazilian  
Corporate Law

R\$ thousand

| Description  | Jan-Mar/05     | Jan-Mar/04     |
|--|----------------|----------------|
| <b>Cash flow from operating activities</b>                           |                |                |
| Net income for the period  | 151,370        | 115,486        |
| <b>Adjustments for reconciliation of net income:</b>                 |                |                |
| Deferred income tax and social contribution                          | (10,588)       | 594            |
| Provisions for contingencies   | 31,336         | 25,366         |
| Liabilities related to pension plans                                 | 17,125         | 22,400         |
| Property, plant and equipment received as donations (Private Sector) | -              | (301)          |
| Loss in the write-off of property, plant and equipment               | 884            | 2,966          |
| Depreciation   | 138,614        | 135,202        |
| Amortization   | 6,846          | 8,301          |
| Interest calculated on loans and financing payable                   | 167,152        | 173,955        |
| Foreign exchange loss on loans and financing                         | 11,100         | 31,100         |
| Monetary exchange loss on interest on own capital                    | 715            | 1,104          |
| Passive monetary exchange variation and interest                     | 6,503          | 7,460          |
| Active monetary exchange variation and interest                      | (6,397)        | -              |
| Provisions for bad debt  | 45,862         | 39,530         |
|  | <b>560,522</b> | <b>563,163</b> |
| <b>(Increase) decrease in assets:</b>                                |                |                |
| Clients  | (113,041)      | (46,396)       |
| Accounts receivable from shareholders                                | 12,813         | (61,342)       |
| Inventories  | 5,064          | 1,156          |

|                      |                  |                  |
|----------------------|------------------|------------------|
| Other accounts       |                  |                  |
| receivable           | (13,874)         | (16,436)         |
| Clients long term    | (33,857)         | (10,706)         |
| Accounts receivable  |                  |                  |
| - State of São Paulo |                  |                  |
| Government           | (55,314)         | (28,322)         |
| Judicial deposits    | 21               | 75               |
| Other long term      |                  |                  |
| receivables          | (895)            | (801)            |
|                      | <b>(199,083)</b> | <b>(162,772)</b> |

**Increase (decrease)  
in liabilities:**

|                      |                |                 |
|----------------------|----------------|-----------------|
| Accounts payable to  |                |                 |
| suppliers            | (15,679)       | (25,498)        |
| Salaries and payroll |                |                 |
| charges              | 24,930         | 6,090           |
| Taxes and            |                |                 |
| contributions        | (13,138)       | (29,573)        |
| Other accounts       |                |                 |
| payable              | (852)          | 14,929          |
| Pension plan         | (3,338)        | (3,291)         |
| Other accounts       |                |                 |
| payable - long term  | 1,127          | 4,708           |
|                      | <b>(6,950)</b> | <b>(32,635)</b> |

**Net cash from  
operating  
activities**

354,489

367,756

**Cash flow from  
investing  
activities:**

|                      |           |           |
|----------------------|-----------|-----------|
| Acquisition of       |           |           |
| property, plant and  |           |           |
| equipment            | (101,131) | (169,386) |
| Sale of property,    |           |           |
| plant and            |           |           |
| equipment            | -         | 176       |
| Increase in Deferred |           |           |
| Assets               | (25)      | (68)      |

**Net cash used in  
investing activities**

(101,156)

(169,278)

**Cash flow from  
financing  
activities:**

**Loans and  
Financing - long  
term:**

|          |           |           |
|----------|-----------|-----------|
| Funding  | 347,571   | 51,893    |
| Payments | (251,712) | (298,488) |

**Interest on own  
Capital:**

|                                 |         |         |
|---------------------------------|---------|---------|
| Interest on own capital payment | (2,527) | (1,389) |
|---------------------------------|---------|---------|

**Net cash used in  
financing activities**

|               |                  |
|---------------|------------------|
| <b>93,332</b> | <b>(247,984)</b> |
|---------------|------------------|

**Net increase  
(decrease) in cash  
equivalents**

|                |                 |
|----------------|-----------------|
| <b>346,665</b> | <b>(49,506)</b> |
|----------------|-----------------|

Cash and cash  
equivalents at the  
beginning of the  
period

|         |         |
|---------|---------|
| 105,557 | 281,013 |
|---------|---------|

Cash and cash  
equivalents at the  
end of the period

452,222

231,507 :48px;font-size:10pt;">We believe the volatility over the past several years was

due to significant increases in global steel production and rapid changes in consumption (especially in rapidly growing economies, such as China and India). The speed with

which steel suppliers impose price increases on us may prevent us from fully recovering these price increases particularly in our lighting and traffic and utility businesses. In the

same respect, rapid decreases in the price of steel can also result in reduced operating margins in our utility businesses due to the long production lead times.

Demand for our infrastructure products and coating services is highly dependent upon the overall level of infrastructure spending.

We manufacture and distribute engineered infrastructure products for lighting and traffic, utility and other specialty applications. Our Coatings segments serve many construction related industries. Because these products are used primarily in infrastructure construction, sales in these businesses are highly correlated with the level of construction activity, which historically has been cyclical. Construction activity by our private and government customers is affected by and can decline because of, a number of factors, including (but not limited to):

- weakness in the general economy, which may negatively affect tax revenues, resulting in reduced funds available for construction;
- interest rate increases, which increase the cost of construction financing; and
- adverse weather conditions which slow construction activity.

The current economic uncertainty in the United States and Europe will have some negative effect on our business. In our North American lighting product line, some of our lighting structure sales are for new residential and commercial areas. When residential and commercial construction is weak, we have experienced some negative impact on our light pole sales to these markets. In a broader sense, in the event of an overall downturn in the economies in Europe, Australia or China, we may experience decreased demand if our customers in these countries have difficulty securing credit for their purchases from us.

In addition, sales in our Engineered Support Structures segment, particularly our lighting,

traffic and highway safety products, are highly dependent upon federal, state, local and foreign government spending on infrastructure development projects, such as the U.S. federal highway funding. The level of spending on such projects may decline for a number of reasons beyond our control, including, among other things, budgetary constraints affecting government spending generally or

transportation agencies in particular, decreases in tax revenues and changes in the political climate, including legislative delays, with respect to infrastructure appropriations.

Design patent litigation related to guardrails could reduce demand for such products and raise litigation risk.

Certain of the Company's foreign subsidiaries in India, New Zealand, and Australia manufacture highway safety products, primarily for sale in non-U.S. markets, and license certain design patents related to guardrails to third parties. There are currently domestic U.S. product liability lawsuits against some companies that manufacture and install certain guardrail products. Such lawsuits, some of which have at times involved a foreign subsidiary based on its design patent, could lead to a decline in demand for such products or approval for use of such products by government purchasers both domestically and internationally, and potentially raise litigation risk for foreign subsidiaries and negatively impact their sales and license fees.

We may lose some of our foreign investment or our foreign sales and profits may decline because of risks of doing business in foreign markets.

We are an international manufacturing company with operations around the world. At December 29, 2018, we operated over 80 manufacturing plants, located on six continents, and sold our products in more than 100 countries. In 2018, approximately 34% of our net sales were either sold in markets or produced by our manufacturing plants outside of North America. We have operations in geographic markets that have recently experienced political instability, such as the Middle East, and economic uncertainty, such as Western Europe. Our geographic diversity also requires that we hire, train and retain competent management for the various local markets. We also have a significant manufacturing presence in Australia, Europe and China. We expect that international sales will continue to account for a significant percentage of our net sales in the future. Accordingly, our foreign business operations and our foreign sales and profits are subject to the following potential risks:

- political and economic instability, resulting in the reduction of the value of, or the loss of, our investment;

- recessions in economies of countries in which we have business operations, decreasing our international sales;

- difficulties and costs of staffing and managing our foreign operations, increasing our foreign operating costs and decreasing profits;

- potential violation of local laws or unsanctioned management actions that could affect our profitability or ability to compete in certain markets;

- difficulties in enforcing our rights outside the United States for patents on our manufacturing machinery, poles and irrigation designs;

- increases in tariffs, export controls, taxes and other trade barriers reducing our international sales and our profit on these sales; and

- acts of war or terrorism.

As a result, we may lose some of our foreign investment or our foreign sales and profits may be materially reduced because of risks of doing business in foreign markets.



Failure to comply with any applicable anti-corruption legislation could result in fines, criminal penalties and an adverse effect on our business.

We must comply with all applicable laws, which include the U.S. Foreign Corrupt Practices Act (FCPA), the UK Bribery Act or other anti-corruption laws. These anti-corruption laws generally prohibit companies and their intermediaries from making improper payments or providing anything of value to improperly influence government officials or private individuals for the purpose of obtaining or retaining a business advantage regardless of whether those practices are legal or culturally expected in a particular jurisdiction. Recently, there has been a substantial increase in the global enforcement of anti-corruption laws. Although we have a compliance program in place designed to reduce the likelihood of potential violations of such laws, violations of these laws could result in criminal or civil sanctions and an adverse effect on the company's reputation, business and results of operations and financial condition.

We are subject to currency fluctuations from our international sales, which can negatively impact our reported earnings.

We sell our products in many countries around the world. Approximately 36% of our fiscal 2018 sales were in markets outside the United States and are often made in foreign currencies, mainly the Australian dollar, euro, Brazilian real, Canadian dollar, Chinese renminbi and South African rand. Because our financial statements are denominated in U.S. dollars, fluctuations in currency exchange rates between the U.S. dollar and other currencies have had and will continue to have an impact on our reported earnings. For example, the U.S. dollar appreciated significantly against most currencies in fiscal 2015. The most significant impact involved our Australian sales measured in U.S. dollar terms that decreased by approximately \$68 million due to exchange rate translation effects in fiscal 2015. If the U.S. dollar weakens or strengthens versus the foreign currencies mentioned above, the result will be an increase or decrease in our reported sales and earnings, respectively. Currency fluctuations have affected our financial performance in the past and may affect our financial performance in any given period. In cases where local currencies are strong, the relative cost of goods imported from outside our country of operation becomes lower and affects our ability to compete profitably in our home markets.

We also face risks arising from the imposition of foreign exchange controls and currency devaluations. Exchange controls may limit our ability to convert foreign currencies into U.S. dollars or to remit dividends and other payments by our foreign subsidiaries or businesses located in or conducted within a country imposing controls. Currency devaluations result in a diminished value of funds denominated in the currency of the country instituting the devaluation. Actions of this nature could have a material adverse effect on our results of operations and financial condition in any given period.

Our businesses require skilled labor and management talent and we may be unable to attract and retain qualified employees.

Our businesses require skilled factory workers and management in order to meet our customer's needs, grow our sales and maintain competitive advantages. Skills such as welding, equipment maintenance and operating complex manufacturing machinery may be in short supply in certain geographic areas, leading to shortages of skilled labor and/or increased labor costs. Management talent is critical as well, to help grow our businesses and effectively plan for succession of key employees upon retirement. In some geographic areas, skilled management talent for certain positions may be difficult to find.

To the extent we have difficulty in finding and retaining these skills in the workforce, there may be an adverse effect on our ability to grow profitably in the future.

We may incur significant warranty or contract management costs.

In our Utility Support Structures segment, we manufacture large structures for electrical transmission. These products may be highly engineered for very large, complex contracts and subject to terms and conditions that penalize us for late delivery and result in consequential and compensatory damages. From time to time, we may have a product quality issue on a large utility structures order and the costs of curing that issue may be significant. For example, we recorded a \$17.0 million reserve in the fourth quarter of 2015 for a commercial settlement with a large customer that requires ongoing quality monitoring. Our products in the Engineered Support Structures segment include structures for a wide range of outdoor lighting, traffic, and wireless communication applications.

Our Irrigation products carry warranty provisions, some of which may span several years. In the event we have wide-spread product reliability issues with certain components, we may be required to incur significant costs to remedy the situation.

We face strong competition in our markets.

We face competitive pressures from a variety of companies in each of the markets we serve. Our competitors include companies who provide the technologies that we provide as well as companies who provide competing technologies, such as drip irrigation. Our competitors include international, national, and local manufacturers, some of whom may have greater financial, manufacturing, marketing and technical resources than we do, or greater penetration in or familiarity with a particular geographic market than we have. In addition, certain of our competitors, particularly with respect to our utility and wireless communication product lines, have sought bankruptcy protection in recent years, and may emerge with reduced debt service obligations, which could allow them to operate at pricing levels that put pressures on our margins. Some of our customers have moved manufacturing operations or product sourcing overseas, which can negatively impact our sales of galvanizing and anodizing services.

To remain competitive, we will need to invest continuously in manufacturing, product development and customer service, and we may need to reduce our prices, particularly with respect to customers in industries that are experiencing downturns. We cannot provide assurance that we will be able to maintain our competitive position in each of the markets that we serve.

We could incur substantial costs as the result of violations of, or liabilities under, environmental laws. Our facilities and operations are subject to U.S. and foreign laws and regulations relating to the protection of the environment, including those governing the discharge of pollutants into the air and water, the management and disposal of hazardous substances and wastes, and the cleanup of contamination. Failure to comply with these laws and regulations, or with the permits required for our operations, could result in fines or civil or criminal sanctions, third party claims for property damage or personal injury, and investigation and cleanup costs. Potentially significant expenditures could be required in order to comply with environmental laws that regulators may adopt or impose in the future.

Certain of our facilities have been in operation for many years and, over time, we and other predecessor operators of these facilities have generated, used, handled and disposed of hazardous and other regulated wastes. We detected contaminants at some of our present and former sites, principally in connection with historical operations. In addition, from time to time we have been named as a potentially responsible party under Superfund or similar state laws. While we are not aware of any contaminated sites that are not provided for in our financial statements, including third party sites, at which we may have material obligations, the discovery of additional contaminants or the imposition of additional cleanup obligations at these sites could result in significant liability beyond amounts provided for in our financial statements.

We may not realize the improved operating results that we anticipate from acquisitions we may make in the future, and we may experience difficulties in integrating the acquired businesses or may inherit significant liabilities related to such businesses.

We explore opportunities to acquire businesses that we believe are related to our core competencies from time to time, some of which may be material to us. We expect such acquisitions will produce operating results better than those historically experienced or presently expected to be experienced in the future by us in the absence of the acquisition. We cannot provide assurance that this assumption will prove correct with respect to any acquisition.

Any future acquisitions may present significant challenges for our management due to the time and resources required to properly integrate management, employees,

information systems, accounting controls, personnel and administrative functions of the acquired business with those of Valmont and to manage the combined company on a going forward basis. We may not be able to completely integrate and streamline overlapping functions or, if such activities are successfully accomplished, such integration may be more costly to accomplish than presently contemplated. We may also have difficulty in successfully integrating the product offerings of Valmont and acquired businesses to improve our collective product offering. Our efforts to integrate acquired businesses could be affected by a number of factors beyond our control, including general economic conditions. In addition, the process of integrating acquired businesses could cause the interruption of, or loss of momentum in, the activities of our existing business. The diversion of management's attention and any delays or difficulties encountered in connection with the integration of acquired businesses could adversely impact our business, results of operations and liquidity, and the benefits we anticipate may never materialize. These factors are relevant to any acquisition we undertake.

In addition, although we conduct reviews of businesses we acquire, we may be subject to unexpected claims or liabilities, including environmental cleanup costs, as a result of these acquisitions. Such claims or liabilities could be costly to defend or resolve and be material in amount, and thus could materially and adversely affect our business and results of operations and liquidity.

We have, from time to time, maintained a substantial amount of outstanding indebtedness, which could impair our ability to operate our business and react to changes in our business, remain in compliance with debt covenants and make payments on our debt.

As of December 29, 2018, we had \$753.3 million of total indebtedness outstanding. We had \$579.7 million of capacity to borrow under our revolving credit facility at December 29, 2018. We normally borrow money to make business acquisitions and major capital expenditures. From time to time, our borrowings have been significant. Our

level of indebtedness could have important consequences, including: our ability to satisfy our obligations under our debt agreements could be affected and any failure to comply with the requirements, including significant financial and other restrictive covenants, of any of our debt agreements and could result in an event of default under the agreements governing our indebtedness;

a substantial portion of our cash flow from operations will be required to make interest and principal payments and will not be available for operations, working capital, capital expenditures, expansion, or general corporate and other purposes, including possible future acquisitions that we believe would be beneficial to our business;

- our ability to obtain additional financing in the future may be impaired; we may be more highly leveraged than our competitors, which may place us at a competitive disadvantage;

- our flexibility in planning for, or reacting to, changes in our business and industry may be limited; and

- our degree of leverage may make us more vulnerable in the event of a downturn in our business, our industry or the economy in general.

We had \$313.2 million of cash at December 29, 2018, which mitigates a portion of the risk associated with our debt. However, approximately 65% of our consolidated cash balances are outside the United States and most of our interest bearing debt is borrowed by U.S. entities. In the event that we would have to repatriate cash from international operations to meet cash needs in the U.S., we may be subject to legal, contractual or other restrictions. In addition, as we use cash for acquisitions and other purposes, any of these factors could have a material adverse effect on our business, financial condition, results of operations, cash flows and business prospects.

The restrictions and covenants in our debt agreements could limit our ability to obtain future financings, make needed capital expenditures, withstand a future downturn in our business, or the economy in general, or otherwise conduct necessary corporate activities.

These covenants may prevent us from taking advantage of business opportunities that arise.

A breach of any of these covenants would result in a default under the applicable debt agreement. A default, if not waived, could result in acceleration of the debt outstanding under the agreement and in a default with respect to, and acceleration of, the debt outstanding under our other debt agreements. The accelerated debt would become immediately due and payable. If that should occur, we may not be able to pay all such debt or to borrow sufficient funds to refinance it. Even if new financing were then available, it may not be on terms that are favorable to us.

We assumed an underfunded pension liability as part of the 2010 Delta acquisition and the combined company may be required to increase funding of the plan and/or be subject to restrictions on the use of excess cash.

Delta is the sponsor of a United Kingdom defined benefit pension plan that, as of December 29, 2018, covered approximately 6,500 inactive or retired former Delta employees. The plan has no active employees as members. At December 29, 2018, this plan was, for accounting purposes, underfunded by approximately £113.4 million (\$143.9 million). The current agreement with the trustees of the pension plan for annual funding is approximately £10.0 million (\$12.7 million) in respect of the funding shortfall and approximately £1.1 million (\$1.4 million) in respect of administrative expenses.

Although this funding obligation was considered in the acquisition price for the Delta shares, the underfunded position may adversely affect the combined company as follows:

Laws and regulations in the United Kingdom normally require the plan trustees and us to agree on a new funding plan every three years. The next funding plan will be developed in 2019. Changes in actuarial assumptions, including future discount, inflation and interest rates, investment returns and mortality rates, may increase the underfunded position of the pension plan and cause the combined company to increase its funding levels in the pension plan to cover underfunded liabilities.

The United Kingdom regulates the pension plan and the trustees represent the interests of covered workers. Laws and regulations, under certain circumstances, could create an immediate funding obligation to the pension plan which could be significantly greater than the £113.4 million (\$143.9 million) assumed for accounting purposes as of December 29, 2018. Such immediate funding is calculated by reference to the cost of buying out liabilities on the insurance market, and could affect our ability to fund the Company's future growth of the business or finance other obligations.

Our ability to operate could be adversely affected if our information technology systems are compromised or otherwise subjected to cyber crimes. Cyber crime continually increases in sophistication and may pose a significant risk to the security of our information technology systems and networks, which if breached could materially adversely affect the confidentiality, availability and integrity of our data. We protect our sensitive information and confidential and personal data, our facilities and information technology systems, but we may be vulnerable to security breaches. This could lead to negative publicity, theft, modification or destruction of proprietary information or key information, manufacture of defective products, production downtimes and operational disruptions, which could adversely affect our reputation, competitiveness and results of operations.

#### ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

#### ITEM 2. PROPERTIES.

Our corporate headquarters are located in a leased facility in Omaha, Nebraska, under a lease expiring in 2021. The headquarters of the Company's reportable segments are located in Valley, Nebraska. We also maintain a management headquarters in Sydney, Australia. Most of our significant manufacturing locations are owned or are subject to long-term renewable leases. Our principal manufacturing locations are in Valley, Nebraska, McCook, Nebraska, Tulsa, Oklahoma, Brenham, Texas, Charmeil, France and Shanghai, China. All of these facilities are owned by us. We believe that our manufacturing capabilities and capacities are adequate for us to effectively serve our customers. Our capital spending programs consist of investment for replacement, achieving operational efficiencies and expanding capacities where needed. Our principal operating locations by reportable segment are listed below.

Engineered Support Structures segment North America manufacturing locations are in Nebraska, Texas, Alabama, Indiana, Minnesota, Oregon, South Carolina, Washington and Canada. The largest of these operations are in Valley, Nebraska and Brenham, Texas, both of which are owned facilities. We have communication components distribution locations in New York, California, Florida, Georgia, and Texas. International locations are in France, the Netherlands, Finland, Estonia, England, Germany, Poland, Morocco, Australia, Indonesia, the Philippines, Thailand, Malaysia, India and China. The largest of these operations are in Charmeil, France and Shanghai, China, both of which are owned facilities.

Utility Support Structures segment North America manufacturing locations are in Alabama, Georgia, Florida, California, Texas, Oklahoma, Tennessee, Kansas, Nebraska and Mexico. The largest of these operations are in Tulsa, Oklahoma and Monterrey,

Mexico. The Tulsa and Monterrey facilities are owned. The largest principal international manufacturing location is Denmark and there are also manufacturing locations in China, France, Italy and India.

Coatings segment North America operations include U.S. operations located in Nebraska, California, Minnesota, Iowa, Indiana, Illinois, Kansas, New Jersey, Oregon, Utah, Oklahoma, Texas, Virginia, Alabama, Florida and South Carolina and two locations near Toronto, Canada. International operations are located in Australia, Malaysia, the Philippines and India.

Irrigation segment North America manufacturing operations are located in Valley, Nebraska, McCook, Nebraska and Indiana. Our principal manufacturing operations serving international markets are located in Uberaba, Brazil, Nigel, South Africa, Jebel Ali, United Arab Emirates, and Shandong, China. All facilities are owned except for China, which is leased.



Our operations in the "other" category are located in Australia.

ITEM 3. LEGAL PROCEEDINGS.

We are not a party to, nor are any of our properties subject to, any material legal proceedings. We are, from time to time, engaged in routine litigation incidental to our businesses.

ITEM 4. MINE SAFETY DISCLOSURES.

Not Applicable.

Executive Officers of the Company

Our executive officers during fiscal 2018, their ages, positions held, and the business experience of each during the past five years are, as follows:

Mogens C. Bay, age 70, Executive Chairman of the Board of Directors since December 31, 2017, previously Chief Executive Officer since August 1993. Mr. Bay became the non-executive Chairman on January 1, 2019.

Stephen G. Kaniewski, age 47, President and Chief Executive Officer since December 31, 2017, previously President and Chief Operating Officer since October 2016. Joined Valmont in August 2010 as Vice President-Information Technology, moved into the Vice President-Global Operations role for the Irrigation segment in 2014. In January 2015, he transferred to the Utility Support Structures segment as Senior Vice President and Managing Director and in August 2015 became Group President of Utility Support Structures segment.

Mark C. Jaksich, age 61, Executive Vice President and Chief Financial Officer since February 2014. Vice President and Controller, February 2000 to February 2014.

Vanessa K. Brown, age 66, Senior Vice President-Human Resources since July 2011.

Mrs. Brown retired at the end of fiscal 2018.

Timothy P. Francis, age 42, Senior Vice President and Controller since June 2014. Chief Financial Officer of Burlington Capital Group LLC ("BCG") and America First Multifamily Investors, L.P. ("ATAX"), a NASDAQ listed Limited Partnership in which BCG serves as the General Partner, from January 2012 to May 2014.

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES.

Our common stock is traded on the New York Stock Exchange under the symbol "VMI".

We had approximately 21,569 shareholders of common stock at December 29, 2018.

| Period  | Issuer Purchases of Equity Securities            |  |   |  |
|---|--|--|---|--|
|   | (a)<br>Total<br>Number of<br>Shares<br>Purchased | (b)<br>Average<br>Price<br>paid per<br>share | (c)<br>Total<br>Number of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans or<br>Programs | (d)<br>Approximate<br>Dollar Value<br>of Maximum<br>Number of<br>Shares that<br>May Yet<br>Be Purchased<br>Under<br>the Plans or<br>Programs |
| September<br>30,<br>2018 to                       | 96,022   | \$ 125.70                                    | 96,022  | \$283,182,000  |
| October 27,<br>2018<br>to                         | 58,616   | 125.06                                       | 58,616  | 275,852,000  |
| October 28,<br>2018 to<br>December<br>1, 2018     | 74,186   | 114.38                                       | 74,186  | 267,366,000  |
| December<br>2, 2018<br>to<br>December 29,<br>2018 |  |  |   |  |
| Total   | 228,824  | \$ 121.87                                    | 228,824   | \$267,366,000  |

On May 13, 2014, we announced a capital allocation philosophy which covered both the quarterly dividend rate as well as a share repurchase program. The Board of Directors at that time authorized the purchase of up to \$500 million of the Company's outstanding common stock from time to time over twelve months at prevailing market prices, through open market or privately-negotiated transactions. On February 24, 2015 and again on October 31, 2018, the Board of Directors authorized additional purchases of up to \$250 million of the Company's outstanding common stock with no stated expiration date. As of December 29, 2018, we have acquired 5,431,409 shares for approximately \$732.6 million under this share repurchase program.

ITEM 6. SELECTED FINANCIAL DATA.  
SELECTED FIVE-YEAR FINANCIAL DATA

| 2015   | 2014        | 2013        | 2012        | 2011        |
|--|-------------|-------------|-------------|-------------|
| (4)  |             |             |             |             |
| Operating Data                                     |             |             |             |             |
| Net sales  | \$2,757,144 | \$2,745,967 | \$2,521,676 | \$2,618,924 |
| Operating income                                   | 267,080     | 245,374     | 131,695     | 357,716     |
| Net earnings attributable Valmont Industries, Inc. | 116,240     | 173,232     | 40,117      | 183,976     |
| Depreciation and amortization                      | 84,957      | 82,417      | 91,144      | 89,328      |
| Capital expenditures                               | 55,266      | 57,920      | 45,468      | 73,023      |
| Per Share Data                                     |             |             |             |             |
| Earnings:  |             |             |             |             |
| Basic  | \$5.16      | \$7.68      | \$1.72      | \$7.15      |
| Diluted  | 5.11        | 7.63        | 1.71        | 7.09        |
| Cash dividends declared                            | 1.500       | 1.500       | 1.500       | 1.375       |
| Working capital                                    | \$1,069,567 | \$903,368   | \$860,298   | \$995,727   |
| Property, plant and equipment, net                 | 518,928     | 518,335     | 532,489     | 606,453     |
| Total assets                                       | 2,602,250   | 2,391,731   | 2,392,382   | 2,721,955   |
| Long-term debt, including current installments     | 754,854     | 755,646     | 757,995     | 760,122     |
|  | 1,059,762   | 1,112,836   | 943,482     | 918,441     |
|  |             |             |             | 1,201,833   |

|  |             |             |             |             |             |
|--|-------------|-------------|-------------|-------------|-------------|
| Total Valmont Industries, Inc. shareholders' equity. |             |             |             |             |             |
| Cash flow data:                                      |             |             |             |             |             |
| Net cash flows from operating activities             | \$153,008   | \$133,148   | \$232,820   | \$272,267   | \$174,096   |
| Net cash flows from investing activities             | (155,445)   | (49,615)    | (53,049)    | (48,171)    | (256,863)   |
| Net cash flows from financing activities             | (162,110)   | (32,010)    | (95,158)    | (220,005)   | (139,756)   |
| Financial Measures                                   |             |             |             |             |             |
| Invested capital(a)                                  | \$1,932,291 | \$1,941,716 | \$1,774,781 | \$1,759,851 | \$2,096,276 |
| Return on invested capital(a)                        | 7.6%        | 10.3%       | 9.6%        | 4.6%        | 11.3%       |
| Adjusted EBITDA(b)                                   | \$336,236   | \$351,987   | \$326,629   | \$285,115   | \$413,684   |
| Return on beginning shareholders' equity(c)          | 8.5%        | 12.3%       | 18.9%       | 3.3%        | 12.1%       |
| Leverage ratio(d)                                    | 2.14        | 2.15        | 2.32        | 2.66        | 1.87        |
| Year End Data  |             |             |             |             |             |
| Shares outstanding                                   | 21,942      | 22,694      | 22,521      | 22,857      | 24,229      |
| (000)  | 21,569      | 24,801      | 26,057      | 27,010      | 28,225      |

|   |        |        |        |        |  |
|---|--------|--------|--------|--------|--|
| Approximate<br>number<br>of<br>shareholders |        |        |        |        |  |
| Number                                      |        |        |        |        |  |
| 10,328                                      | 10,690 | 10,552 | 10,697 | 11,321 |  |
| employees                                   |        |        |        |        |  |

(1) Fiscal 2018 operating income included impairments of goodwill and intangible assets of \$15,780 and restructuring expenses of \$34,031. Fiscal 2015 operating income included impairments of goodwill and intangible assets of \$41,970 and restructuring expenses of \$39,852.

(2) Fiscal 2018 included impairments of goodwill and intangible assets of \$14,736 after-tax (\$0.66 per share), restructuring expenses and non-recurring asset impairments from exiting certain local markets of \$37,779 after-tax (\$1.68 per share), refinancing of long-term debt expenses of \$11,115 after-tax (\$0.50 per share), and a loss from the divestiture of the grinding media business of \$5,350 after-tax (\$0.24 per share). Fiscal 2017 included \$41,935 of tax expense (\$1.85 per share) associated with recording the impact of the 2017 Tax Act. Fiscal 2016 included deferred income tax benefit of \$30,590 (\$1.35 per share) resulting primarily from the re-measurement of the deferred tax asset for the Company's U.K. defined benefit pension plan. In addition, fiscal 2016 included \$9,888 (\$0.44 per share) recorded as a valuation allowance against a tax credit asset. Fiscal 2016 also included the reversal of a contingent liability that was recognized as part of the Delta purchase accounting of \$16,591 (\$0.73 per share) which is not taxable. Fiscal 2015 included impairments of goodwill and intangible assets of \$40,140 after-tax (\$1.72 per share), restructuring expenses of \$28,167 after-tax (\$1.20 per share), and deferred income tax expense of \$7,120 (\$0.31 per share) for a change in U.K. tax rates. Fiscal 2014 included costs associated with refinancing of our long-term debt of \$24,171 after tax (\$0.93 per share).

(3) The Company adopted Accounting Standards Codification ("ASC") Topic 606, Revenue From Contracts with Customers, on a modified retrospective basis as of the first day of fiscal 2018. Revenue recognition for the prior four years presented in this table was under a different basis which was ASC Topic 605. Please see footnote 1 to the financial statements for further information.

(4) Fiscal 2016 was a 53 week fiscal year.

Return on Invested Capital is calculated as Operating Income (after-tax) divided by the average of beginning and ending Invested Capital. Invested Capital represents total assets minus total liabilities (excluding interest-bearing debt). Return on Invested Capital is one of our key operating ratios, as it allows investors to analyze our operating performance in light of the amount of investment required to generate our operating profit. Return on Invested Capital is also a measurement used to determine a) management incentives. Return on Invested Capital is a non-GAAP measure.

Accordingly, Invested Capital and Return on Invested Capital should not be considered in isolation or as a substitute for net earnings, cash flows from operations or other income or cash flow data prepared in accordance with GAAP or as a measure of our operating performance or liquidity. The table below shows how Invested Capital and Return on Invested Capital are calculated from our income statement and balance sheet.

|   | 2018       | 2017       | 2016       | 2015       | 2014       |   |
|---|------------|------------|------------|------------|------------|---|
| Operating income                        | \$202,280  | \$267,080  | \$245,374  | \$131,695  | \$357,716  |   |
| Adjusted effective tax rate (1)         | 27.1       | % 28.1     | % 30.8     | % 32.0     | % 33.4     | % |
| Tax effect on operating income          | (54,818 )  | (75,049 )  | (75,575 )  | (42,142 )  | (119,477 ) |   |
| After-tax operating income              | 147,462    | 192,031    | 169,799    | 89,553     | 238,239    |   |
| Average invested capital                | 1,937,004  | 1,858,249  | 1,767,316  | 1,928,064  | 2,103,366  |   |
| Return on invested capital              | 7.6        | % 10.3     | % 9.6      | % 4.6      | % 11.3     | % |
| Total assets                            | 2,530,274  | 2,602,250  | 2,391,731  | 2,392,382  | 2,721,955  |   |
| Less: Accounts payable                  | (218,115 ) | (227,906 ) | (177,488 ) | (179,983 ) | (196,565 ) |   |
| Less: Accrued expenses                  | (171,233 ) | (165,455 ) | (162,318 ) | (175,947 ) | (176,430 ) |   |
| Less: Defined benefit pension liability | (143,904 ) | (189,552 ) | (209,470 ) | (179,323 ) | (150,124 ) |   |
| Less: Deferred compensation             | (46,107 )  | (48,526 )  | (44,319 )  | (48,417 )  | (47,932 )  |   |
| Less: Other noncurrent liabilities      | (10,394 )  | (20,585 )  | (14,910 )  | (40,290 )  | (45,542 )  |   |
| Less: Dividends payable                 | (8,230 )   | (8,510 )   | (8,445 )   | (8,571 )   | (9,086 )   |   |

|                                    |             |             |             |             |             |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Total Invested capital             | \$1,932,291 | \$1,941,716 | \$1,774,781 | \$1,759,851 | \$2,096,276 |
| Beginning of year invested capital | \$1,941,716 | \$1,774,781 | \$1,759,851 | \$2,096,276 | \$2,110,455 |
| Average invested capital           | \$1,937,004 | \$1,858,249 | \$1,767,316 | \$1,928,064 | \$2,103,366 |

(1) The adjusted effective tax rate for 2018 excludes the effects of the \$14,355 goodwill impairment which is not deductible for income tax purposes. The effective tax rate in 2018 including this item is 30.1%. The adjusted effective tax rate for 2017 excludes the \$41,935 of tax expense associated with recording the impact of the 2017 Tax Act. The effective tax rate in 2017 including these items is 46.5%. The adjusted effective tax rate for 2016 excludes deferred income tax benefit of \$30,590 resulting primarily from the re-measurement of the deferred tax asset for the Company's U.K. defined benefit pension plan. In addition, fiscal 2016 excludes \$9,888 recorded as a valuation allowance against a tax credit asset. Fiscal 2016 also excludes the reversal of a contingent liability that was recognized as part of the Delta purchase accounting of \$16,591, which is not taxable. The effective tax rate in 2016 including these items is 19.1%. The adjusted effective tax rate in 2015 excludes the effects of the goodwill impairments which are not deductible for income tax purposes and the \$7,120 million deferred income tax expense recognized as a result of the U.K. corporate tax rate decreasing from 20% to 18%. The effective tax rate in 2015 including these items is 51.0%.

Return on invested capital, as presented, may not be comparable to similarly titled measures of other companies.

Earnings before Interest, Taxes, Depreciation and Amortization (Adjusted EBITDA) is one of our key financial ratios in that it is the basis for determining our maximum borrowing capacity at any one time. Our bank credit agreements contain a financial covenant that our total interest bearing debt not exceed 3.50x Adjusted EBITDA (or 3.75x Adjusted EBITDA after certain material acquisitions) for the most recent four quarters. These bank credit agreements allow us to add estimated EBITDA from acquired businesses for periods we did not own the acquired businesses. The bank (b) credit agreements also provide for an adjustment to EBITDA, subject to certain specified limitations, for non-cash charges or gains that are non-recurring in nature. If this financial covenant is violated, we may incur additional financing costs or be required to pay the debt before its maturity date. Adjusted EBITDA is non-GAAP measure and, accordingly, should not be considered in isolation or as a substitute for net earnings, cash flows from operations or other income or cash flow data prepared in accordance with GAAP or as a measure of our operating performance or liquidity. The calculation of Adjusted EBITDA is as follows:

|  | 2018       | 2017       | 2016       | 2015       | 2014       |
|--|------------|------------|------------|------------|------------|
| Net cash flows from operations                         | \$ 153,008 | \$ 133,148 | \$ 232,820 | \$ 272,267 | \$ 174,096 |
| Interest expense                                       | 44,237     | 44,645     | 44,409     | 44,621     | 36,790     |
| Income tax expense                                     | 43,135     | 106,145    | 42,063     | 47,427     | 94,894     |
| Loss on investment                                     | 62         | (237 )     | (586 )     | (4,555 )   | (3,795 )   |
| Non-cash debt refinancing costs                        | —          | —          | —          | —          | 2,478      |
| Change in fair value of contingent consideration       | —          | —          | 3,242      | —          | 4,300      |
| Loss on divestiture of grinding media business         | (6,084 )   | —          | —          | —          | —          |
| Impairment of goodwill and intangible assets           | (15,780 )  | —          | —          | (41,970 )  | —          |
| Impairment of property, plant and equipment            | (5,000 )   | —          | (1,099 )   | (19,836 )  | —          |
| Deferred income tax (expense) benefit                  | 1,659      | (39,755 )  | 23,685     | (4,858 )   | (5,251 )   |
| Noncontrolling interest                                | (5,955 )   | (6,079 )   | (5,159 )   | (5,216 )   | (5,342 )   |
| Equity in earnings of nonconsolidated subsidiaries     | —          | —          | —          | (247 )     | 29         |
| Stock-based compensation                               | (10,392 )  | (10,706 )  | (9,931 )   | (7,244 )   | (6,730 )   |
| Pension plan expense                                   | 2,251      | (648 )     | (1,870 )   | 610        | (2,638 )   |
| Contribution to pension plan                           | 1,537      | 40,245     | 1,488      | 16,500     | 18,173     |
| Changes in assets and liabilities, net of acquisitions | 61,647     | 81,305     | 13,690     | (71,863 )  | 98,376     |
| Other  | 225        | 3,924      | (631 )     | (2,327 )   | (392 )     |
| EBITDA   | 264,550    | 351,987    | 342,121    | 223,309    | 404,988    |
| Reversal of contingent liability                       | —          | —          | (16,591 )  | —          | —          |
| Impairment of goodwill and intangible assets           | 15,780     | —          | —          | 41,970     | —          |
| Cash restructuring expenses                            | 29,031     | —          | —          | —          | —          |
| Impairment of assets - restructuring activities        | 12,944     | —          | 1,099      | 19,836     | —          |
| Loss on divestiture of grinding media business         | 6,084      | —          | —          | —          | —          |
| EBITDA from acquisitions (months not owned by Company) | 7,847      | —          | —          | —          | 8,696      |
| Adjusted EBITDA  | \$ 336,236 | \$ 351,987 | \$ 326,629 | \$ 285,115 | \$ 413,684 |
|  | 2018       | 2017       | 2016       | 2015       | 2014       |
| Net earnings attributable to Valmont Industries, Inc.  | \$ 94,351  | \$ 116,240 | \$ 173,232 | \$ 40,117  | \$ 183,976 |
| Interest expense                                       | 44,237     | 44,645     | 44,409     | 44,621     | 36,790     |
| Income tax expense                                     | 43,135     | 106,145    | 42,063     | 47,427     | 94,894     |
| Depreciation and amortization expense                  | 82,827     | 84,957     | 82,417     | 91,144     | 89,328     |
| EBITDA   | 264,550    | 351,987    | 342,121    | 223,309    | 404,988    |
| Reversal of contingent liability                       | —          | —          | (16,591 )  | —          | —          |
| Impairment of goodwill and intangible assets           | 15,780     | —          | —          | 41,970     | —          |



|  |           |           |           |           |           |
|--|-----------|-----------|-----------|-----------|-----------|
| Cash restructuring expenses                            | 29,031    | —         | —         | —         | —         |
| Impairment of assets - restructuring activities        | 12,944    | —         | 1,099     | 19,836    | —         |
| Loss on divestiture of grinding media business         | 6,084     | —         | —         | —         | —         |
| EBITDA from acquisitions (months not owned by Company) | 7,847     | —         | —         | —         | 8,696     |
| Adjusted EBITDA  | \$336,236 | \$351,987 | \$326,629 | \$285,115 | \$413,684 |

Adjusted EBITDA, as presented, may not be comparable to similarly titled measures of other companies. During 2018 and 2014, we incurred \$14,820 and \$38,705 of costs associated with refinancing of debt. This category of expense is not in the definition of EBITDA for debt covenant calculation purposes per our debt agreements. As such, it was not added back in the Adjusted EBITDA reconciliation to cash flows from operations or net earnings for the years ended December 29, 2018 or December 27, 2014. In October 2017, our revolving credit facility was amended to allow the Company to add-back non-recurring cash restructuring costs in 2018.

Return on beginning shareholders' equity is calculated by dividing Net earnings (c) attributable to Valmont Industries, Inc. by the prior year's ending Total Valmont Industries, Inc. shareholders' equity.

Leverage ratio is calculated as the sum of current portion of long-term debt, notes payable to bank, and long-term debt divided by Adjusted EBITDA. The leverage ratio is one of the key financial ratios in the covenants under our major debt agreements and the ratio cannot exceed 3.5 (or 3.75x after certain material acquisitions) for any reporting period (four quarters). If those covenants are violated, we may incur additional financing costs or be required to pay the debt before its maturity date. Leverage ratio is a non-GAAP measure and, accordingly, should not be considered in isolation or as a substitute for net earnings, cash flows from operations or other income or cash flow data prepared in accordance with GAAP or as a measure of our operating performance or liquidity. The calculation of this ratio is as follows:

|                                   | 2018    | 2017    | 2016    | 2015     | 2014     |
|-----------------------------------|---------|---------|---------|----------|----------|
| Current portion of long-term debt | \$ 779  | \$ 966  | \$ 851  | \$ 1,077 | \$ 1,181 |
| Notes payable to bank             | 10,678  | 161     | 746     | 976      | 13,952   |
| Long-term debt                    | 741,822 | 753,888 | 754,795 | 756,918  | 758,941  |
| Total interest bearing debt       | 753,279 | 755,015 | 756,392 | 758,971  | 774,074  |
| Adjusted EBITDA                   | 336,236 | 351,987 | 326,629 | 285,115  | 413,684  |
| Leverage Ratio                    | 2.24    | 2.15    | 2.32    | 2.66     | 1.87     |

Leverage ratio, as presented, may not be comparable to similarly titled measures of other companies.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION.

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### Forward Looking Statements

Management's discussion and analysis, and other sections of this annual report, contain forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward looking statements are based on assumptions that management has made in light of experience in the industries in which the Company operates, as well as management's perceptions of historical trends, current conditions, expected future developments and other factors believed to be appropriate under the circumstances. These statements are not guarantees of performance or results. They involve risks, uncertainties (some of which are beyond the Company's control) and assumptions. Management believes that these forward looking statements are based on reasonable assumptions. Many factors could affect the Company's actual financial results and cause them to differ materially from those anticipated in the forward looking statements. These factors include, among other things, risk factors described from time to time in the Company's reports to the Securities and Exchange Commission, as well as future economic and market circumstances, industry conditions, company performance and financial results, operating efficiencies, availability and price of raw materials, availability and market acceptance of new products, product pricing, domestic and international competitive environments, and actions and policy changes of domestic and foreign governments.

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of our consolidated results of operations and financial position. This discussion should be read in conjunction with the Consolidated Financial Statements and related Notes.



|   | 2018      | 2017      | Change<br>2018 -<br>2017 |    | 2016      | General<br>Change<br>2017 -<br>2016 |    |
|---|-----------|-----------|--------------------------|----|-----------|-------------------------------------|----|
| Dollars in millions, except per share amounts           |           |           |                          |    |           |                                     |    |
| Consolidated  |           |           |                          |    |           |                                     |    |
| Net sales   | \$2,757.1 | \$2,746.0 | 0.4                      | %  | \$2,521.7 | 8.9                                 | %  |
| Gross profit  | 658.3     | 681.8     | (3.4)                    | )% | 656.2     | 3.9                                 | %  |
| as a percent of sales                                   | 23.9      | % 24.8    | %                        |    | 26.0      | %                                   |    |
| SG&A expense  | 456.0     | 414.7     | 10.0                     | %  | 410.8     | 0.9                                 | %  |
| as a percent of sales                                   | 16.5      | % 15.1    | %                        |    | 16.3      | %                                   |    |
| Operating income  | 202.3     | 267.1     | (24.3)                   | )% | 245.4     | 8.8                                 | %  |
| as a percent of sales                                   | 7.3       | % 9.7     | %                        |    | 9.7       | %                                   |    |
| Net interest expense                                    | 39.6      | 39.9      | (0.8)                    | )% | 41.3      | (3.4)                               | )% |
| Effective tax rate                                      | 30.1      | % 46.5    | %                        |    | 19.1      | %                                   |    |
| Net earnings attributable to<br>Valmont Industries, Inc | 94.4      | 116.2     | (18.8)                   | )% | 173.2     | (32.9)                              | )% |
| Diluted earnings per share                              | \$4.20    | \$5.11    | (17.8)                   | )% | \$7.63    | (33.0)                              | )% |
| Engineered Support Structures<br>Segment                |           |           |                          |    |           |                                     |    |
| Net sales   | \$967.3   | \$912.2   | 6.0                      | %  | \$891.1   | 2.4                                 | %  |
| Gross profit  | 213.1     | 225.9     | (5.7)                    | )% | 240.0     | (5.9)                               | )% |
| SG&A expense  | 178.3     | 162.9     | 9.5                      | %  | 167.7     | (2.9)                               | )% |
| Operating income  | 34.8      | 63.0      | (44.8)                   | )% | 72.3      | (12.9)                              | )% |
| Utility Support Structures<br>Segment                   |           |           |                          |    |           |                                     |    |
| Net sales   | \$855.2   | \$856.3   | (0.1)                    | )% | \$735.6   | 16.4                                | %  |
| Gross profit  | 170.5     | 178.4     | (4.4)                    | )% | 147.3     | 21.1                                | %  |
| SG&A expense  | 105.7     | 80.6      | 31.1                     | %  | 76.1      | 5.9                                 | %  |
| Operating income  | 64.8      | 97.8      | (33.7)                   | )% | 71.2      | 37.4                                | %  |
| Coatings Segment  |           |           |                          |    |           |                                     |    |
| Net sales   | \$286.7   | \$256.8   | 11.6                     | %  | \$243.9   | 5.3                                 | %  |
| Gross profit  | 91.0      | 78.4      | 16.1                     | %  | 77.8      | 0.8                                 | %  |
| SG&A expense  | 35.7      | 28.2      | 26.6                     | %  | 31.2      | (9.6)                               | )% |
| Operating income  | 55.3      | 50.2      | 10.2                     | %  | 46.6      | 7.7                                 | %  |
| Irrigation Segment                                      |           |           |                          |    |           |                                     |    |
| Net sales   | \$624.8   | \$644.4   | (3.0)                    | )% | \$568.0   | 13.5                                | %  |
| Gross profit  | 192.8     | 197.3     | (2.3)                    | )% | 178.9     | 10.3                                | %  |
| SG&A expense  | 95.1      | 95.8      | (0.7)                    | )% | 88.0      | 8.9                                 | %  |
| Operating income  | 97.7      | 101.5     | (3.7)                    | )% | 90.9      | 11.7                                | %  |
| Other   |           |           |                          |    |           |                                     |    |
| Net sales   | \$23.1    | \$76.3    | (69.7)                   | )% | \$83.1    | (8.2)                               | )% |
| Gross profit  | 0.8       | 7.4       | (89.2)                   | )% | 14.1      | (47.5)                              | )% |
| SG&A expense  | 1.7       | 5.3       | (67.9)                   | )% | 5.4       | (1.9)                               | )% |
| Operating income  | (0.9)     | ) 2.1     | (142.9)                  | )% | 8.7       | (75.9)                              | )% |
| Adjustment to LIFO inventory<br>valuation method        |           |           |                          |    |           |                                     |    |
| Gross profit  | \$(9.9)   | ) \$(5.7) | ) (73.7)                 | )% | \$(3.0)   | ) (90.0)                            | )% |
| Operating income  | (9.9)     | ) (5.7)   | ) (73.7)                 | )% | (3.0)     | ) (90.0)                            | )% |
| Net corporate expense                                   |           |           |                          |    |           |                                     |    |

|                |         |         |          |         |         |
|----------------|---------|---------|----------|---------|---------|
| Gross profit   | \$—     | \$0.1   | (100.0)% | \$1.1   | (90.9)% |
| SG&A expense   | 39.5    | 41.9    | (5.7 )%  | 42.4    | (1.2 )% |
| Operating loss | (39.5 ) | (41.8 ) | (5.5 )%  | (41.3 ) | 1.2 %   |

RESULTS OF OPERATIONS  
FISCAL 2018 COMPARED WITH FISCAL 2017

Overview

The increase in net sales in 2018, as compared with 2017, was due to higher sales in the ESS and Coatings segments that were offset by lower sales in the Irrigation, Utility, and Other segments. The changes in net sales in 2018, as compared with 2017, were as follows:

|                           | Total     | ESS     | Utility | Coatings | Irrigation | Other  |
|---------------------------|-----------|---------|---------|----------|------------|--------|
| Sales - 2017              | \$2,746.0 | \$912.2 | \$856.3 | \$256.8  | \$644.4    | \$76.3 |
| Volume                    | (100.6)   | 8.3     | (74.8)  | 10.8     | (40.6)     | (4.3)  |
| Pricing/mix               | 114.8     | 28.1    | 50.3    | 16.9     | 17.1       | 2.4    |
| Acquisition/(divestiture) | 1.5       | 17.2    | 18.9    | 3.1      | 14.3       | (52.0) |
| Currency translation      | (4.6)     | 1.5     | 4.5     | (0.9)    | (10.4)     | 0.7    |
| Sales - 2018              | \$2,757.1 | \$967.3 | \$855.2 | \$286.7  | \$624.8    | \$23.1 |

Volume effects are estimated based on a physical production or sales measure. Since products we sell are not uniform in nature, pricing and mix relate to a combination of changes in sales prices and the attributes of the product sold. Accordingly, pricing and mix changes do not necessarily directly result in operating income changes. On the first day of fiscal 2018, the Company adopted the new revenue recognition accounting standard ("ASC 606"). Within the Utility Support Structures segment, the steel and concrete product lines now recognize revenue over time whereas in 2017 and years prior, their revenue was recognized at a point in time, which was typically upon product delivery to the customer. The impact of the adoption of ASC 606 in 2018 was an increase in sales of \$36.4 million and an increase in operating income of \$6.2 million primarily in the Utility segment. It is not practicable to estimate the sales volumes attributable to the adoption of ASC 606 and thus is not a separate line item in the table above. Information on the adoption of the revenue standard can be found under Critical Accounting Policies within Management's Discussion and Analysis.

Average steel index prices for both hot rolled coil and plate were higher in North America and China in 2018, as compared to 2017, resulting in higher average cost of material. In general, the average selling prices increased during the year to mitigate decrease in gross profit realized from the higher cost of steel for the Company.

The Company acquired the following companies during 2018:

- Torrent Engineering and Equipment ("Torrent") in the first quarter of 2018 that is included in our Irrigation segment.
- Derit Infrastructure Pvt. Ltd. ("Derit"), a manufacturing facility located in India that is included in both the Utility and Coatings segments.
- A majority ownership stake in Convert Italia SpA ("Convert"), a provider of engineered solar tracker solutions, also acquired during the third quarter of 2018 and included in the Utility segment.
- Walpar, a manufacturer of overhead sign structures, in the third quarter of 2018 that is included in the ESS segment.
- CSP Coating Systems ("CSP Coatings"), a coatings provider in New Zealand, acquired in the fourth quarter of 2018 that is included in the Coatings segment.

The Company divested of its grinding media business in the second quarter of 2018, which resulted in a pre-tax loss of approximately \$6.1 million. The grinding media business is reported in Other and the loss was recorded in other income (expenses) on the

Consolidated Statements of Earnings.

Restructuring Plan

In February 2018, the Company announced a restructuring plan related to certain operations in 2018, primarily in the ESS segment, through consolidation and other cost-reduction activities (the "2018 Plan"). The Company incurred pre-tax expenses from the 2018 Plan of \$34.0 million. The decrease in 2018 gross profit and operating income due to restructuring expense by segment is as follows:

|                  | Total  | ESS    | Utility | Irrigation | Corporate |
|------------------|--------|--------|---------|------------|-----------|
| Gross Profit     | \$18.4 | \$14.3 | \$ 4.1  | \$ —       | \$ —      |
| Operating Income | \$34.0 | \$28.5 | \$ 5.2  | \$ 0.2     | \$ 0.1    |

## Currency Translation

In 2018, we realized a reduction in operating profit, as compared with fiscal 2017, due to currency translation effects. The breakdown of this effect by segment was as follows:

|           | Total   | ESS     | Utility | Coatings | Irrigation | Other | Corporate |
|-----------|---------|---------|---------|----------|------------|-------|-----------|
| Full year | \$(1.8) | \$(0.5) | \$ 0.3  | \$ —     | —          | —     | —         |
|           |         |         |         | —        | —          | —     | —         |

## Gross Profit, SG&amp;A, and Operating Income

At a consolidated level, the reduction in gross margin (gross profit as a percent of sales) in 2018, as compared with 2017, was primarily due to restructuring costs incurred in the ESS and Utility segments. The Irrigation and Coatings segments realized an increase in gross margin in 2018, while Utility, ESS, and Other realized a decrease in gross margin.

The Company saw an increase in selling, general, and administrative (SG&A) expense in 2018, as compared to 2017, due to impairment of the goodwill and trade name of the Offshore and other complex structures ("Offshore") business totaling \$15.8 million, restructuring costs incurred of \$15.6 million, SG&A from recently acquired businesses of \$9.0 million, and acquisition diligence expenses of \$4.4 million. The increase was partially offset by lower deferred compensation expenses of \$5.0 million (offset recognized in other expense as described below) and \$3.6 million of SG&A in 2017 from the grinding media business divested in 2018.

Operating income was lower for all reportable segments with the exception of Coatings in 2018, as compared to 2017. The decrease is attributed to the impairment of the goodwill and trade name of the Offshore business, restructuring costs incurred in the ESS and Utility segments, and the disposal of the grinding media business included in Other.

## Net Interest Expense and Debt

Net interest expense for 2018 was consistent with 2017. The Company issued \$200.0 million and \$55.0 million of senior secured notes in June 2018 at 5.0% and 5.25%, respectively. Proceeds from the debt issuance were subsequently used to pay off the 2020 bonds in July 2018.

The approximate \$14.8 million in pre-tax costs (\$11.1 million after-tax) associated with refinancing of debt is due to the Company's repurchase through tender of \$250.2 million in aggregate principal amount of the senior unsecured notes due 2020. This expense was comprised of the following:

- Cash prepayment expenses of approximately \$15.8 million; plus
- Recognition of \$1.0 million of expense comprised of the write-offs of unamortized loss on the cash flow hedge and deferred financing costs; less
-



Recognition of \$2.0 million of the unamortized premium originally recorded upon the issuance of the 2020 notes.

Other Income/Expense

The change in other income/expense in 2018, as compared with 2017, was primarily due to the divestiture of our grinding media business that resulted in a loss of approximately \$6.1 million. Excluding the divestiture, higher other income was driven by a periodic pension benefit in 2018 that resulted a beneficial change of \$2.8 million. In addition, the change in market value of the Company's shares held of Delta EMD was an improvement of \$0.8 million. The remaining change was due to more favorable foreign currency transaction gains/losses in 2018 as compared to 2017. The increase in other income was partially offset by a change in valuation of deferred compensation assets in 2018 which resulted in additional expense of \$5.0 million. This amount is offset by a reduction of the same amount in SG&A expense.

## Income Tax Expense

Our effective income tax rate in 2018 and 2017 was 30.1% and 46.5%, respectively. The 2018 tax rate was impacted by the reduction in the U.S. corporate income tax rate from 35% to 21% offset by 2018 restructuring costs and impairment charges for which no tax benefits have been recorded. The 2017 tax rate was impacted by The Tax Cuts and Jobs Act of 2017 (the "2017 Tax Act" or "Act") which resulted in a one-time fourth quarter of 2017 charge of approximately \$42 million related to the transition effects of the Act.

Excluding this charge, our effective tax rate would have been 28.1% for 2017.

The \$42 million charge was comprised of (a) approximately \$9.9 million of expense related to the taxation of unremitted foreign earnings ("transition tax"), the federal portion of which is payable over eight (8) years beginning in 2018, (b) approximately \$20.4 million of expense related to the remeasurement of U.S. deferred tax balances to reflect the new U.S. corporate income tax rate, using a federal and state tax rate of 25.0%, and (c) approximately \$11.7 million of deferred expenses related to foreign withholding taxes and U.S. state income taxes. During 2018, the Company finalized the transition tax which resulted in a credit to tax expense of \$0.5 million.

Earnings attributable to noncontrolling interests was consistent in 2018 and 2017.

## Cash Flows from Operations

Our cash flows provided by operations was \$153.0 million in 2018, as compared with \$133.1 million provided by operations in 2017. The increase in operating cash flows was due to lower contributions to the Delta pension plan partially offset by lower net earnings.

### Engineered Support Structures (ESS) segment

The increase in sales in 2018, as compared with 2017, was due to higher sales pricing to cover the higher costs of steel and sales volume increases from acquisitions in 2018. Global lighting and traffic, and highway safety product sales in 2018 were \$73.4 million higher as compared to 2017, due to higher sales pricing and increased sales volumes.

Sales volumes and pricing in North America were higher across commercial and transportation markets and also increased due to the acquisition of Walpar in the third quarter of 2018. Improved sales volumes in Europe contributed to higher sales in 2018, as compared to 2017, along with favorable currency translation effects as the value of the euro appreciated against the U.S. dollar. Sales volumes in Asia-Pacific were higher in India due to improved demand, offset by lower demand in China for lighting and traffic products. Highway safety product sales increased in 2018, as compared to 2017, due to higher demand in Australia and the acquisition of Aircon in the third quarter of 2017.

Communication product line sales were lower by \$21.9 million in 2018, as compared with 2017. In North America, communication structure and component sales increased in 2018 due to strong demand from the network expansion by providers. In Asia-Pacific, sales volumes decreased due to much lower demand in China for new wireless communication structures.

Access Systems product line net sales decreased in 2018 by \$2.7 million, as compared to 2017. The decrease can be attributed to lower sales volumes in Asia due to less large project work that was partially offset by improved demand in Australia, in part due to efforts to expand our sales reach into architectural and construction markets.

Gross profit, as a percentage of sales, and operating income for the segment were lower in 2018, as compared to 2017, due to restructuring costs incurred in 2018. In 2018, the segment incurred \$14.3 million of restructuring costs within product cost of sales and \$14.2 million within SG&A expense. In addition, approximately \$8.0 million of asset impairment costs were incurred related to exiting certain local markets in 2018. SG&A spending was higher in 2018, as compared to 2017, due to restructuring costs and SG&A expenses of Walpar that was acquired in the third quarter of 2018. Operating income decreased primarily from the the \$28.5 million of incurred restructuring costs.

Utility Support Structures (Utility) segment

In the Utility segment, sales decreased in 2018, as compared with 2017, due to lower sales volumes in North America that are offset by sales price increases to cover higher steel costs and the acquisition of Convert and Derit in the

third quarter of 2018. A number of our sales contracts in North America contain provisions that tie the sales price to published steel index pricing at the time our customer issues their purchase order. Measured in tonnages, sales volumes for steel utility structures in North America were lower whereas concrete utility structure sales volumes were higher in 2018, as compared to 2017. The Company adopted new revenue recognition guidance effective the first day of fiscal 2018; steel and concrete reported sales in 2017 were recognized upon delivery to customers (point in time) whereas reported revenue for 2018 is based on progress of production on customer orders (over time).

Offshore and other complex structures sales decreased in 2018, as compared to 2017, due to lower sales volumes that were partially offset by positive effects from currency translation.

Gross profit as a percentage of sales decreased in 2018, as compared to 2017, due to restructuring costs incurred of \$4.1 million and lower offshore and complex steel structures sales volumes. SG&A expense was higher in 2018, as compared with 2017, due to the goodwill and trade name impairment recorded for Offshore business of \$15.8 million, restructuring expenses, and increased expenses related to the acquisition of Derit and Convert. Excluding restructuring expenses, expenses associated with the acquisitions, and the intangible asset impairment, operating income in 2018 was consistent with 2017.

Coatings segment sales increased in 2018, as compared to 2017, due to increased sales prices to recover higher zinc costs globally and higher sales volumes. The Company acquired Derit in the third quarter of 2018 and CSP Coatings in the fourth quarter of 2018 that also contributed to higher sales. Sales pricing and volume demand increased in North America in 2018, as compared to 2017. In the Asia-Pacific region, continued improvements in the Australia market along with overall higher sales pricing provided an increase in net sales.

SG&A expense was higher in 2018, as compared to 2017, due to higher compensation costs related to improved business operations and currency translation effects. Non-recurring items were recognized in 2018 and 2017 which reduced SG&A. 2018 included the reversal of an environmental remediation liability related to one of our North America galvanizing locations of \$1.9 million; in 2017 the business recorded a reversal of an environmental remediation liability of \$2.6 million due to the sale of a former galvanizing operation in Australia. Operating income was higher in 2018 compared to 2017, due to improved sales volumes and the associated operating leverage of fixed costs and improved sales pricing.

Irrigation segment net sales in 2018, as compared to 2017, is primarily due to sales volume decreases, particularly in the international markets. The decrease in international sales can be attributed to project delays and lower overall large project work across most regions. In addition, the weakening of the Brazilian real and Argentina peso in 2018 resulted in lower sales due to currency translation. North America sales increased in 2018, as compared to 2017, due to higher sales pricing and recent acquisitions. Sales volumes in North America for the year were lower due to continued weak farm income levels. Recent proposed tariffs also caused uncertainly leading farmers to delay irrigation purchases.

SG&A was lower in 2018, as compared to 2017. The decrease can be attributed to lower incentives from reduced business operations and currency translation effects which were partially offset by expenses associated with the 2018 acquisitions. Operating income for

the segment decreased in 2018 compared to 2017, due to lower sales volumes and the associated operating leverage of fixed costs and currency translation effects.

Other

In April 2018, the Company completed the sale of Donhad, a mining consumable business with operations in Australia. The Company realized an approximate \$6.1 million loss on the sale that is recorded in other income/expense, subject to certain post-closing adjustments.

LIFO expense

Steel index prices for both hot rolled coil and plate, and zinc in the U.S. increased at a higher rate in 2018, as compared to 2017, resulting in higher LIFO expense.

Net corporate expense

Corporate SG&A expense was lower in 2018 as compared to 2017. The decrease can be attributed to lower deferred compensation expenses of \$5.0 million, which is offset by the same amount in other expense, and lower incentive expense. The decrease was partially offset by higher compensation expenses.

## FISCAL 2017 COMPARED WITH FISCAL 2016

## Overview

In the fourth quarter of 2017, our management and reporting structure changed to reflect management's expectations of future growth of certain product lines and to take into consideration the expected divestiture of the grinding media business, which historically was reported in the Energy and Mining segment. The access systems applications product line is now part of the Engineered Support Structures ("ESS") segment and the offshore and other complex structures product line is now part of the Utility segment. Grinding media will be reported in "Other" pending the completion of its divestiture. In the first quarter of 2017, we also changed our reportable segment operating income to separate out the LIFO expense (benefit). Certain inventories are accounted for using the LIFO method in the consolidated financial statements. Our segment discussions and segment financial information have been accordingly reclassified in this report to reflect this change, for all periods presented.

On a consolidated basis, the increase in net sales in 2017, as compared with 2016, reflected higher sales in all reportable segments. The changes in net sales in 2017, as compared with 2016, were as follows:

|                      | Total     | ESS     | Utility | Coatings | Irrigation | Other  |
|----------------------|-----------|---------|---------|----------|------------|--------|
| Sales - 2016         | \$2,521.7 | \$891.1 | \$735.6 | \$243.9  | \$568.0    | \$83.1 |
| Volume               | 97.4      | 10.4    | 49.5    | (9.6)    | 61.5       | (14.4) |
| Pricing/mix          | 102.4     | 1.6     | 68.2    | 21.2     | 6.3        | 5.1    |
| Acquisitions         | 4.8       | 4.8     | —       | —        | —          | —      |
| Currency translation | 19.7      | 4.3     | 3.0     | 1.3      | 8.6        | 2.5    |
| Sales - 2017         | \$2,746.0 | \$912.2 | \$856.3 | \$256.8  | \$644.4    | \$76.3 |

Volume effects are estimated based on a physical production or sales measure. Since products we sell are not uniform in nature, pricing and mix relate to a combination of changes in sales prices and the attributes of the product sold. Accordingly, pricing and mix changes do not necessarily directly result in operating income changes.

Average steel index prices for both hot rolled coil and plate were higher in North America and China in 2017, as compared to 2016, resulting in higher average cost of material. We expect that average selling prices will increase over time to offset the decrease in gross profit realized from the higher cost of steel for the Company. The Company acquired a highway business in India ("Aircon") in the third quarter of 2017 that is included in the ESS segment.

## Restructuring Plan

In 2016, we executed a restructuring plan in Australia/New Zealand focused primarily on closing and consolidating locations within the ESS and Coatings segments (the "2016 Plan"). We incurred \$7.8 million of restructuring expense consisting of \$5.0 million in cost of goods sold and \$2.8 million in selling, general, and administrative (SG&A) expense in 2016. The Plan was substantially completed in fiscal 2016.

In 2015, we executed a broad restructuring plan (the "2015 Plan") to respond to the market environment in certain of our businesses. During 2016, we incurred approximately \$4.6 million of restructuring expense to complete the 2015 Plan consisting of \$4.1 million in SG&A expense with the remainder recorded in cost of goods sold.

## Currency Translation

In 2017, we realized a benefit to operating profit, as compared with fiscal 2016, due to currency translation effects. The U.S. dollar primarily weakened against the Brazilian real and South African rand, resulting in more operating profit in U.S. dollar terms. The breakdown of this effect by segment was as follows:

|           | Total  | ESS    | Utility | Coatings   | Irrigation | Other  | Corporate |
|-----------|--------|--------|---------|------------|------------|--------|-----------|
| Full year | \$ 1.5 | \$ 0.1 | \$      | -\$ (0.1 ) | \$ 1.2     | \$ 0.4 | \$ (0.1 ) |

28

---

### Gross Profit, SG&A, and Operating Income

At a consolidated level, the reduction in gross margin (gross profit as a percent of sales) in 2017, as compared with 2016, was primarily due to higher cost of raw materials across most of our businesses. The Utility segment realized an increase in gross margin in 2017, while ESS, Irrigation, and Coatings realized a decrease in gross profit primarily due to sales pricing that did not fully recover higher raw material costs and unfavorable sales mix. Lower volumes for Coatings and Other also contributed to the reduction in gross margin through deleverage of fixed costs.

The Company saw an increase within SG&A expense in 2017, as compared to 2016, due to the following:

- higher employee incentives of \$5.0 million due to improved business operations;
- reversal of \$3.2 million of a contingent consideration liability in 2016 to the former owners of an acquired business;
- increased project and promotional expenses of \$3.2 million, primarily in the irrigation segment;
- higher deferred compensation expenses of \$2.7 million, which was offset by a decrease of the same amount of other expense; and
- currency translation effects of \$1.9 million (higher SG&A) due to the strengthening of the Australian dollar, Brazilian real, and South African rand against the U.S. dollar.

The above increases were partially offset by the following decreases in SG&A expense in 2017 as compared to 2016:

- restructuring expenses incurred in 2016 totaling \$6.8 million; and
- reversal of an environmental remediation liability of \$2.6 million related to land of a former galvanizing operation in Australia that was sold in 2017.

In 2017, as compared to 2016, operating income for all operating segments were higher except for the ESS segment and Other. The increase in operating income in 2017, as compared to 2016, is primarily attributable to increased sales volumes in the Utility and Irrigation segments, along with restructuring expenses incurred in 2016 and the associated benefits of the restructuring activities.

### Net Interest Expense and Debt

Net interest expense in 2017, as compared to 2016, was lower as interest income increased due to more cash on hand to invest. Long-term and short-term borrowings were consistent year-over-year.

### Other Income/Expense

The decrease in other income in 2017, as compared to 2016, is primarily due to the reversal of a contingent liability provision of approximately \$16.6 million in 2016, out of "Other noncurrent liabilities."

### Income Tax Expense



Our effective income tax rate in 2017 and 2016 was 46.5% and 19.1%, respectively. The Tax Cuts and Jobs Act of 2017 (the "2017 Tax Act" or "Act") includes a number of changes to the U.S. Internal Revenue Code that impact corporations beginning in 2018; including a reduction in the statutory federal corporate income tax rate from 35% to 21%, limiting or eliminating certain tax deductions, and changing the taxation of unremitted foreign earnings. Accordingly, the Company recorded a one-time charge of approximately \$42 million for the fourth quarter of 2017 related to the transition effects of the Act. Excluding this charge, our effective tax rate would have been 28.1% for 2017. The \$42 million charge is comprised of (a) approximately \$9.9 million of expense related to the taxation of unremitted foreign earnings, the federal portion of which is payable over eight (8) years beginning in 2018, (b) approximately \$20.4 million of expense related to the remeasurement of U.S. deferred tax balances to reflect the new U.S. corporate income tax rate, using a federal and state tax rate of 25.0%, and (c) approximately \$11.7 million of deferred expenses related to foreign withholding taxes and U.S. state income taxes. These amounts are provisional and our estimates and overall impact of the Act may change for various reasons including, but not limited to, changes in our interpretation and assumptions, additional guidance that may be issued by governing authorities, and tax planning actions we may undertake. We continue to gather additional information to fully account for the Act. Any updates and changes in the estimates will be communicated in future quarterly financial statements.

Tax expense in 2016 included \$30.6 million of deferred income tax benefit attributable to the remeasurement of the deferred tax asset related to the Company's U.K. defined benefit pension plan. In addition, we recorded a \$9.9 million valuation allowance against a tax credit for which we believe we are not likely to receive the benefit in 2016. Excluding these items as well as the impact of the reversal of the contingent liability of \$16.6 million that is not taxable, our adjusted effective tax rate was 30.8% for 2016 versus the GAAP reported effective tax rate of 19.1%.

Earnings attributable to noncontrolling interests was higher in 2017, as compared to 2016, due to improved earnings for our majority-owned irrigation businesses.

#### Cash Flows from Operations

Our cash flows provided by operations was \$133.1 million in 2017, as compared with \$232.8 million provided by operations in 2016. The decrease in operating cash flow was due to less favorable working capital changes driven by higher receivables and inventory and higher contributions to the Delta Pension Plan in 2017.

#### Engineered Support Structures (ESS) segment

The increase in sales in 2017, as compared with 2016, was due to improved roadway product sales volumes and communication product line sales volumes. Global lighting and traffic, and roadway product sales in 2017 were higher compared to the same periods in fiscal 2016, primarily due to increased sales volumes in roadway product sales, which is a product line outside of North America. In 2017, as compared to 2016, sales volumes in the U.S. were lower across commercial and transportation markets. The 2015 long-term U.S. highway bill has not yet provided a meaningful uplift for our North America structures business. Sales in Europe were lower in 2017 as the domestic markets in general remain subdued. The increase in sales for global lighting and traffic, and roadway product is also attributed to currency translation effects and the acquisition of Aircon in the third quarter of 2017.

Communication product line sales were higher in 2017, as compared with 2016. In North America and Asia-Pacific, communication structure and component sales increased due to higher demand from the continued network expansion by providers.

Access systems product line net sales in 2017 were higher than in 2016, due to higher average sales prices and favorable currency translation effects.

Gross profit, as a percentage of sales, and operating income for the segment were lower in 2017, as compared with 2016, due to margin contraction from higher raw material costs that the business was not able to fully recover through higher sales pricing. SG&A spending was lower in 2017, as compared to 2016, due primarily to lower commissions owed on communication product line sales, reduced incentives due to decreased operating performance, and restructuring costs and activities undertaken in 2016 to reduce the cost structure primarily in the access systems business in Australia.

#### Utility Support Structures (Utility) segment

In the Utility segment, sales increased in 2017, as compared with 2016, due to improved volumes and higher sales prices due to steel cost increases and a favorable sales mix. A number of our sales contracts contain provisions that tie the sales price to published steel index pricing at the time our customer issues their purchase order. Improved sales demand in North America resulted in increased sales volumes in tons for both steel and concrete utility structures that also contributed to the increase in sales. International utility structures sales decreased in 2017 due to lower volumes.

Offshore and other complex structures sales decreased in 2017, as compared to 2016, due to lower volumes that were partially offset by favorable currency translation effects.

Gross profit as a percentage of sales increased in 2017, as compared to 2016, due to improved pricing and sales mix and higher sales volumes in North America and improved factory performance for the offshore and other complex structures business.

SG&A expense was higher in 2017, as compared with 2016, due to higher incentive expense due to improved operations and commission expense attributed to the increased sales volumes. Operating income increased in 2017, as compared with 2016, due to the increased sales volumes and improved pricing and sales mix in North America.

#### Coatings segment

Coatings segment sales increased in 2017, as compared to 2016, due primarily to increased sales prices to recover higher zinc costs globally. External sales volumes decreased while intercompany volumes increased in North America during 2017. In the Asia-Pacific region, improved demand/volume in Australia along with currency transaction effects led to an increase in sales in 2017 as compared to 2016. SG&A expense was lower in 2017, as compared to 2016, due to lower compensation costs and no restructuring expense in 2017. Both 2017 and 2016 had non-recurring transactions recognized as reductions in SG&A. A former galvanizing operation in Australia was sold in 2017 allowing for a reversal of an environmental remediation liability of \$2.6 million. In 2016, a contingent consideration liability to the former owners of an acquired business was reduced \$3.2 million due to changes in estimated earnings over the earn-out period. Operating income was higher in 2017, as compared with 2016, due to lower SG&A expenses.

#### Irrigation segment

The increase in Irrigation segment net sales in 2017, as compared to 2016, was primarily due to sales volume increases for both domestic and international irrigation and currency translation effects. In North America, when comparing 2017 to 2016, sales volumes increased driven by markets outside the traditional corn-belt. In addition, higher equipment running times due to weather conditions resulted in higher service parts sales.

International sales increased in 2017, as compared to 2016, due primarily to volume increases in the Middle East and South America and favorable foreign currency translation effects for Brazil and South Africa.

SG&A was higher in 2017, as compared with 2016. The increase can be attributed to higher incentive and commission costs due to improved business results, increased product development and promotional expenses, and currency translation effects related to the international irrigation business. Gross profit and operating income for the segment increased in 2017 over 2016, primarily due to North America and international irrigation sales volume increases and favorable foreign currency translation effects.

#### Other

Grinding media sales decreased from lower volumes. A decrease in sales volumes was partially offset by higher sales pricing and favorable currency translation effects. Gross profit and operating income were lower in 2017, as compared to 2016, due to lower volumes.

#### LIFO expense

Steel index prices for both hot rolled coil, plate, and zinc in the U.S. increased at a higher rate in 2017, as compared to 2016, which drove higher LIFO expense.

#### Net corporate expense

Net corporate expense is similar when comparing 2017 to 2016. Approximately \$4 million of increased incentive expense was offset by lower pension expense and better performance of the Company's U.S. medical plan as compared to 2016.

### LIQUIDITY AND CAPITAL RESOURCES

#### Cash Flows

Working Capital and Operating Cash Flows-Net working capital was \$931.6 million at December 29, 2018, as compared with \$1,069.6 million at December 30, 2017. The decrease in net working capital in 2018 mainly resulted from lower cash balances mostly attributed to the investing outflow for acquisitions and financing outflow for stock repurchases, and an increase in accrued expense for the Convert contingent consideration liability. Operating cash flow was \$153.0 million in 2018, as compared with \$133.1 million in 2017 and \$232.8 million in 2016. The increase in operating cash flow in 2018,

as compared to 2017, was due to lower contributions to the Delta Pension Plan in 2018 partially offset by lower net earnings.

Investing Cash Flows-Capital spending in fiscal 2018 was \$72.0 million, as compared with \$55.3 million in fiscal 2017 and \$57.9 million in fiscal 2016. Capital spending projects in 2018 included investments in machinery and equipment across all businesses. The increase in investing cash outflows in 2018, as compared to 2017, was primarily due to business

acquisitions totaling \$143.0 million (\$5.4 million in 2017) that was partially offset by proceeds from the sale of the grinding media business of \$62.5 million. We expect our capital spending for the 2019 fiscal year to be approximately \$90.0 million.

Financing Cash Flows-Our total interest bearing debt decreased to \$753.3 million at December 29, 2018, from \$755.0 million at December 30, 2017. During 2018 and 2016, we acquired approximately 0.8 million shares and 0.4 million shares for \$114.8 million and \$53.8 million, respectively, under the share repurchase program. No shares were repurchased in 2017.

#### Capital Allocation Philosophy

We have historically funded our growth, capital spending and acquisitions through a combination of operating cash flows and debt financing. In May 2014, our Board of Directors approved and publicly announced a capital allocation philosophy with the following priorities for cash generated:

- working capital and capital expenditure investments necessary for future sales growth;
- dividends on common stock in the range of 15% of the prior year's fully diluted net earnings;
- acquisitions; and
- return of capital to shareholders through share repurchases.

We also announced our intention to manage our capital structure to maintain our investment grade debt rating. Our most recent ratings were Baa3 by Moody's Investors Services, Inc. and BBB+ by Standard and Poor's Rating Services. We would be willing to allow our debt rating to fall to BBB- to finance a special acquisition or other opportunity.

We expect to maintain a ratio of debt to invested capital which will support our current investment grade debt rating.

The Board of Directors in May 2014 authorized the purchase of up to \$500 million of the Company's outstanding common stock from time to time over twelve months at prevailing market prices, through open market or privately-negotiated transactions. The Board of Directors authorized an additional \$250 million of share purchases, without an expiration date in both February 2015 and again in October 2018. The purchases will be funded from available working capital and short-term borrowings and will be made subject to market and economic conditions. We are not obligated to make any repurchases and may discontinue the program at any time. As of December 29, 2018, we have acquired approximately 5.4 million shares for approximately \$732.6 million under these share repurchase programs.

#### Sources of Financing

Our debt financing at December 29, 2018 consisted primarily of long term debt. During 2018, the Company issued an additional \$200 million aggregate principal amount of its 5.00% senior notes due 2044 and \$55 million aggregate principal amount of its 5.25% senior notes due 2054 and redeemed \$250.2 million in remaining aggregate principal amount of the 2020 senior notes. Our long term debt as of December 29, 2018, principally consists of:

•\$450 million face value (\$436.1 million carrying value) of senior unsecured notes that bear interest at 5.00% per annum and are due in October 2044.

•\$305 million face value (\$297.4 million carrying value) of senior unsecured notes that bear interest at 5.25% per annum and are due in October 2054.

- We are allowed to repurchase the notes subject to the payment of a make-whole premium. Both tranches of these notes are guaranteed by certain of our subsidiaries.

On October 18, 2017, we amended and restated our revolving credit facility with JP Morgan Chase Bank, N.A., as Administrative Agent, and the other lenders party thereto.

The credit facility provides for \$600 million of committed unsecured revolving credit loans. We may increase the credit facility by up to an additional \$200 million at any time, subject to lenders increasing the amount of their commitments. The Company and our wholly-owned subsidiaries Valmont Industries Holland B.V. and Valmont Group Pty. Ltd., are authorized borrowers under the credit facility. The obligations arising under

the credit facility are guaranteed by the Company and its wholly-owned subsidiaries PiRod, Inc., Valmont Coatings, Inc., Valmont Newmark, Inc. and Valmont Queensland Pty. Ltd.

The material amendments to the credit facility, which are set forth in the amended and restated credit agreement, include: an extension of the maturity date of the credit facility from October 17, 2019 to October 18, 2022; an increase in the available borrowings in foreign currencies from \$200 million to \$400 million; a modification of the definition of "EBITDA" to add-back non-recurring cash and non-cash restructuring costs in an amount that does not exceed \$75 million in any trailing twelve month period;

- a modification of the leverage ratio permitting it to increase from 3.5X to 3.75X for the four consecutive fiscal quarters after certain material acquisitions; and

• updating the credit facility with certain market provisions.

The interest rate on our borrowings will be, at our option, either:

LIBOR (based on a 1, 2, 3 or 6 month interest period, as selected by us) plus 100 to (a) 162.5 basis points, depending on the credit rating of our senior debt published by Standard & Poor's Rating Services and Moody's Investors Service, Inc.; or

(b) the higher of

• the prime lending rate,

• the Federal Funds rate plus 50 basis points, and

LIBOR (based on a 1 month interest period) plus 100 basis points (inclusive of facility fees),

plus, in each case, 0 to 62.5 basis points, depending on the credit rating of our senior debt published by Standard & Poor's Rating Services and Moody's Investors Service, Inc. A commitment fee is also required under the revolving credit facility which accrues at 10 to 25 basis points, depending on the credit rating of our senior debt published by Standard and Poor's Rating Services and Moody's Investor Services, Inc., on the average daily unused portion of the commitment under the revolving credit facility.

At December 29, 2018, we had \$5.7 million of outstanding borrowings under the revolving credit facility. The revolving credit facility has a maturity date of October 18, 2022 and contains certain financial covenants that may limit our additional borrowing capability under the agreement. At December 29, 2018, we had the ability to borrow \$579.7 million under this facility, after consideration of standby letters of credit of \$14.6 million associated with certain insurance obligations. We also maintain certain short term bank lines of credit totaling \$137.7 million; \$127.0 million of which was unused at December 29, 2018.

Our senior unsecured notes and revolving credit agreement each contain cross-default provisions which permit the acceleration of our indebtedness to them if we default on other indebtedness that results in, or permits, the acceleration of such other indebtedness.

These debt agreements contain covenants that require us to maintain certain coverage ratios and may limit us with respect to certain business activities, including capital expenditures. These debt agreements allow us to add estimated EBITDA from acquired businesses for periods we did not own the acquired businesses. The debt agreements also provide for an adjustment to EBITDA, subject to certain specified limitations, for non-cash charges or gains that are non-recurring in nature.

Our key debt covenants are as follows:

• Leverage ratio - Interest-bearing debt is not to exceed 3.50x Adjusted EBITDA (or 3.75x Adjusted EBITDA after certain material acquisitions) of the prior four quarters; and



Interest earned ratio - Adjusted EBITDA over the prior four quarters must be at least 2.50x our interest expense over the same period.

At December 29, 2018, we were in compliance with all covenants related to these debt agreements. The key covenant calculations at December 29, 2018 were as follows

| (amounts in thousands):             |           |
|-------------------------------------|-----------|
| Interest-bearing debt               | \$753,279 |
| Adjusted EBITDA-last four quarters  | 336,236   |
| Leverage ratio                      | 2.24      |
|                                     |           |
| Adjusted EBITDA-last four quarters  | 336,236   |
| Interest expense-last four quarters | 44,237    |
| Interest earned ratio               | 7.60      |

The calculation of Adjusted EBITDA-last four quarters is presented under the column for fiscal 2018 in footnote (b) to the table "Selected Five-Year Financial Data" in Item 6 - Selected Financial Data.

Our businesses are cyclical, but we have diversity in our markets, from a product, customer and a geographical standpoint. We have demonstrated the ability to effectively manage through business cycles and maintain liquidity. We have consistently generated operating cash flows in excess of our capital expenditures. Based on our available credit facilities, recent issuance of senior unsecured notes and our history of positive operational cash flows, we believe that we have adequate liquidity to meet our needs for fiscal 2019 and beyond.

We previously considered the earnings in our non-U.S. subsidiaries to be indefinitely reinvested and, accordingly, recorded no related deferred income taxes. Prior to the 2017 Tax Act, we had an excess of the amount for financial reporting over the tax basis in our foreign subsidiaries, including unremitted foreign earnings of approximately \$400 million. While the tax on these foreign earnings imposed by the 2017 Tax Act ("Transition Tax") resulted in the reduction of the excess of the amount for financial reporting over the tax basis in our foreign subsidiaries, an actual repatriation from our non-U.S. subsidiaries may still be subject to foreign withholding taxes and U.S. state income taxes.

As a result of the 2017 Tax Act, we reassessed our position with respect to the approximately \$400 million of unremitted foreign earnings in our non-U.S. subsidiaries.

Our position is that the previously deferred earnings in our non-U.S. subsidiaries that were subject to the Transition Tax are not indefinitely reinvested. Further, in 2018 we have taken the position on non-U.S. subsidiaries we are not indefinitely reinvested on their 2018 unremitted foreign earnings. Of our cash balances of \$313.2 million at December 29, 2018, approximately \$203.6 million is held in our non-U.S. subsidiaries.

Consequently, with the change in our position on unremitted foreign earnings, if we distributed our foreign cash balances certain taxes would be applicable. At December 29, 2018, we have a liability for foreign withholding taxes and U.S. state income taxes of \$3.7 million and \$0.6 million, respectively.

#### FINANCIAL OBLIGATIONS AND FINANCIAL COMMITMENTS

We have future financial obligations related to (1) payment of principal and interest on interest bearing debt, (2) Delta pension plan contributions, (3) operating leases and (4) purchase obligations. These obligations at December 29, 2018 were as follows (in millions of dollars):

| Contractual | 2019  | 2020-2021 | 2022-2023 | After   |
|-------------|-------|-----------|-----------|---------|
| Total       |       |           |           | 2023    |
| Obligations |       |           |           |         |
| Long term   | \$0.8 | \$ 1.6    | \$ 6.2    | \$763.5 |
| debt        |       |           |           |         |

|                                    |            |          |          |            |
|------------------------------------|------------|----------|----------|------------|
| Interest                           | 38.9       | 77.8     | 77.6     | 950.0      |
| Delta pension plan contributions   | 14.1       | 28.2     | 28.2     | 70.4       |
| Operating leases                   | 18.8       | 30.8     | 20.8     | 76.4       |
| Unconditional purchase commitments | 94.2       | —        | —        | —          |
| Total contractual cash obligations | \$ 2,298.3 | \$ 166.8 | \$ 138.4 | \$ 1,860.3 |

Long term debt mainly consisted of \$755.0 million principal amount of senior unsecured notes. At December 29, 2018, we had outstanding borrowings of \$5.7 million under our bank revolving credit agreement. Obligations under these agreements may be accelerated in event of non compliance with debt covenants. The Delta pension plan contributions are

related to the current cash funding commitments to the plan with the plan's trustees. Operating leases relate mainly to various production and office facilities and are in the normal course of business.

Unconditional purchase commitments relate to purchase orders for zinc, aluminum and steel, all of which we plan to use in 2019, and certain capital investments planned for 2019. We believe the quantities under contract are reasonable in light of normal fluctuations in business levels and we expect to use the commodities under contract during the contract period. The unconditional purchase commitments also includes the January 2019 purchase of the non-controlling interests of Walpar, LLC for \$23.1 million as contractually required per the purchase agreement.

At December 29, 2018, we had approximately \$13.0 million of various long term liabilities related to certain income tax and other matters. These items are not scheduled above because we are unable to make a reasonably reliable estimate as to the timing of any potential payments. The contingent consideration payment for Convert Italia SpA has also been excluded from the contractual obligations schedule as the payment is not fixed but dependent on the business exceeding a profitability target for calendar 2018. The \$11.6 million accrual at December 29, 2018 is an estimate which will be finalized during the second quarter of 2019.

#### OFF BALANCE SHEET ARRANGEMENTS

We have operating lease obligations to unaffiliated parties on leases of certain production and office facilities and equipment. These leases are in the normal course of business and generally contain no substantial obligations for us at the end of the lease contracts. We also maintain standby letters of credit for contract performance on certain sales contracts.

#### MARKET RISK

##### Changes in Prices

Certain key materials we use are commodities traded in worldwide markets and are subject to fluctuations in price. The most significant materials are steel, aluminum, zinc and natural gas. Over the last several years, prices for these commodities have been volatile. The volatility in these prices was due to such factors as fluctuations in supply and demand conditions, government tariffs and the costs of steel making inputs. Steel is most significant for our utility support structures segment where the cost of steel has been approximately 50% of the net sales, on average. In 2018, we began using steel hot rolled coil derivative contracts on a limited basis to mitigate the impact of rising steel prices on operating income. Assuming a similar sales mix, a hypothetical 20% change in the price of steel would have affected our net sales from our utility support structures segment by approximately \$64 million for the year ended December 29, 2018.

We have also experienced volatility in natural gas prices in the past several years. Our main strategies in managing these risks are a combination of fixed price purchase contracts with our vendors to reduce the volatility in our purchase prices and sales price increases where possible. We use natural gas swap contracts on a limited basis to mitigate the impact of rising gas prices on our operating income.

##### Risk Management

**Market Risk**—The principal market risks affecting us are exposure to interest rates, foreign currency exchange rates and commodity prices. At times, we utilize derivative financial instruments to hedge these exposures, but we do not use derivatives for trading purposes.

**Interest Rates**—Our interest bearing debt at December 29, 2018 was mostly fixed rate debt. Our notes payable and a small portion of our long-term debt accrue interest at a variable rate. Assuming average interest rates and borrowings on variable rate debt, a hypothetical 10% change in interest rates would have affected our interest expense in 2018 and 2017

by approximately \$0.1 million. Likewise, we have excess cash balances on deposit in interest bearing accounts in financial institutions. An increase or decrease in interest rates of ten basis points would have impacted our annual interest earnings in 2018 and 2017 by approximately \$0.3 million and \$0.4 million, respectively.

Foreign Exchange—Exposures to transactions denominated in a currency other than the entity’s functional currency are not material, and therefore the potential exchange losses in future earnings, fair value and cash flows from these transactions are not material. The Company is also exposed to investment risk related to foreign operations. From time to

time, as market conditions indicate, we will enter into foreign currency contracts to manage the risks associated with anticipated future transactions, current balance sheet positions, and foreign subsidiary investments that are in currencies other than the functional currencies of our businesses. At December 29, 2018, the Company had two outstanding foreign currency forward contracts which mitigate foreign currency risk of the Company's investment in its Australian dollar and Euro denominated businesses. The forward contracts, which qualify as net investment hedges, have a maturity date of May 2020 and notional amounts to sell Australian dollars and Euro to receive \$100.0 million and \$50.0 million, respectively. On August 24, 2018, the Company entered into three fixed-for-fixed cross currency swaps ("CCS"), swapping U.S. dollar principal and interest payments on a portion of its 5.00% senior unsecured notes due 2044 for Danish krone (DKK) and Euro denominated payments. The CCS were entered into in order to mitigate foreign currency risk on the Company's Euro and DKK investments and to reduce interest expense. The notional of the two Euro and DKK CCS are \$35.0 million and \$60.0 million, respectively, and they mature in 2020 to 2023.

At December 30, 2017, the Company had open foreign currency forward contracts that qualified as net investment hedges. The purpose of the net investment hedges were to mitigate foreign currency risk on a portion of our foreign subsidiary investments in the grinding media business that are denominated in British pounds and Australian dollars. The divestiture of our grinding media business was pending at the end of 2017 and was finalized in the second quarter of 2018. The forward contracts had a maturity date in the first quarter of 2018 and a notional amount to sell British pounds and Australian dollars and receive \$24.1 million and \$21.2 million, respectively. At December 31, 2016, the Company had foreign currency forward contracts, the most significant of which was a one-year foreign currency forward contract which qualified as a net investment hedge, in order to mitigate foreign currency risk on a portion of our foreign subsidiary investments denominated in British pounds. The notional amount of this forward contract to sell British pounds was \$44.0 million and the contract was settled in May 2017. Much of our cash in non-U.S. entities is denominated in foreign currencies, where fluctuations in exchange rates will impact our cash balances in U.S. dollar terms. A hypothetical 10% change in the value of the U.S. dollar would impact our reported cash balance by approximately \$18.5 million in 2018 and \$37.2 million in 2017.

We manage our investment risk in foreign operations by borrowing in the functional currencies of the foreign entities or by utilizing hedging instruments (as discussed above) where appropriate. The following table indicates the change in the recorded value of our most significant investments at year-end assuming a hypothetical 10% change in the value of the U.S. Dollar.

|                   | 2018          | 2017   |
|-------------------|---------------|--------|
|                   | (in millions) |        |
| Australian dollar | \$18.1        | \$25.5 |
| Euro              | 12.1          | 10.7   |
| Danish krone      | 7.0           | 9.2    |
| Chinese renminbi  | 6.7           | 14.0   |
| Canadian dollar   | 4.7           | 5.7    |
| U.K. pound        | 4.4           | 9.5    |
| Brazilian real    | 2.7           | 3.1    |

Commodity risk— Steel hot rolled coil is a significant commodity input used by all of our segments in the manufacture of our products, with the exception of Coatings. Steel prices are volatile and we may utilize derivative instruments to mitigate commodity price risk on fixed price orders. In 2018, the Company entered into steel hot rolled coil forward

contracts which qualified as a cash flow hedge of the variability in the cash flows attributable to future steel purchases. The forward contracts had a notional amount of \$8,469 for the purchase of 3,500 short tons for each month from July 2018 to September 2018 and a notional amount of \$15,563 for the purchase of 6,500 short tons for each month from October 2018 to December 2018.

Natural gas is a significant commodity used in our factories, especially in our Coatings segment galvanizing operations, where natural gas is used to heat tanks that enable the hot-dipped galvanizing process. Natural gas prices are volatile and we mitigate some of this volatility through the use of derivative commodity instruments. Our current policy is to manage this commodity price risk for 0-50% of our U.S. natural gas requirements for the upcoming 6-12 months through the purchase of natural gas swaps based on NYMEX futures prices for delivery in the month being hedged. The objective of this policy is to mitigate the impact on our earnings of sudden, significant increases in the price of natural gas. At December 29, 2018, we have no natural gas swaps outstanding.

## CRITICAL ACCOUNTING POLICIES

The following accounting policies involve judgments and estimates used in preparation of the consolidated financial statements. There is a substantial amount of management judgment used in preparing financial statements. We must make estimates on a number of items, such as impairments of long-lived assets, income taxes, revenue recognition for the product lines recognized over time, inventory obsolescence, and pension benefits. We base our estimates on our experience and on other assumptions that we believe are reasonable under the circumstances. Further, we re-evaluate our estimates from time to time and as circumstances change. Actual results may differ under different assumptions or conditions. The selection and application of our critical accounting policies are discussed annually with our audit committee.

### Depreciation, Amortization and Impairment of Long-Lived Assets

Our long-lived assets consist primarily of property, plant and equipment, goodwill and intangible assets acquired in business acquisitions. We have assigned useful lives to our property, plant and equipment and certain intangible assets ranging from 3 to 40 years. Impairment losses were recorded in 2018 as facilities were closed and certain fixed assets are no longer expected to be used as a result of our restructuring plans.

We identified thirteen reporting units for purposes of evaluating goodwill and we annually evaluate our reporting units for goodwill impairment during the third fiscal quarter, which usually coincides with our strategic planning process. We assess the value of our reporting units using after-tax cash flows from operations (less capital expenses) discounted to present value and as a multiple of earnings before interest, taxes, depreciation and amortization (EBITDA). The key assumptions in the discounted cash flow analysis are the discount rate and the projected cash flows. We also use sensitivity analysis to determine the impact of changes in discount rates and cash flow forecasts on the valuation of the reporting units.

Our most recent impairment test calculated an estimated fair value of our Offshore and other complex steel structures reporting unit that was lower than its carrying value.

Lower near-term financial projections and an approximately 15% decline in the undiscounted terminal value applied in the 2018 annual impairment test, when compared to the 2017 annual impairment test, is a result of a challenging pricing environment for onshore wind and energy transmission structures that is difficult to predict when it will recover. As a result, a goodwill impairment was recorded in the third quarter of 2018 totaling \$14.4 million, which represents all of the goodwill of the Offshore and other complex steel reporting unit. All of our other reporting units exceeded their respective carrying value, so no additional goodwill was impaired.

If our assumptions on discount rates and future cash flows change as a result of events or circumstances, and we believe these assets may have declined in value, then we may record impairment charges, resulting in lower profits. Our reporting units are all cyclical and their sales and profitability may fluctuate from year to year. The Company continues to monitor changes in the global economy that could impact future operating results of its reporting units. If such conditions arise, the Company will test a given reporting unit for impairment prior to the annual test. In the evaluation of our reporting units, we look at the long-term prospects for the reporting unit and recognize that current performance may not be the best indicator of future prospects or value, which requires management judgment.



Our indefinite lived intangible assets consist of trade names. We assess the values of these assets apart from goodwill as part of the annual impairment testing. We use the relief-from-royalty method to evaluate our trade names, under which the value of a trade name is determined based on a royalty that could be charged to a third party for using the trade name in question. The royalty, which is based on a reasonable rate applied against estimated future sales, is tax-effected and discounted to present value. The most significant assumptions in this evaluation include estimated future sales, the royalty rate and the after-tax discount rate. For our evaluation purposes, the royalty rates used vary between 0.5% and 1.5% of sales and the after-tax discount rate of 12.0% to 16.0%, which we estimate to be the after-tax cost of capital for such assets.

Our trade names were tested for impairment in the third quarter of 2018 using the relief-from-royalty valuation methodology. We determined that the value of the Valmont SM trade name (offshore and other complex steel reporting unit) was impaired and we recorded an impairment charge of \$1.4 million. No other trade names were determined to be impaired.

#### Inventories

We use the last-in first-out (LIFO) method to determine the value of approximately 37% of our inventory. The remaining 63% of our inventory is valued on a first-in first-out (FIFO) basis. In periods of rising costs to produce inventory, the LIFO method will result in lower profits than FIFO, because higher recent costs are recorded to cost of goods sold than under the FIFO method. Conversely, in periods of falling costs to produce inventory, the LIFO method will result in higher profits than the FIFO method. In 2018, 2017, and 2016, we experienced higher average costs to produce inventory than in the prior year, due mainly to higher cost for steel and steel-related products. This resulted in higher costs of goods sold in 2018, 2017, and 2016 of approximately \$9.9 million, \$5.7 million, and \$3.0 million, respectively, than if our entire inventory had been valued on the FIFO method.

We write down slow-moving and obsolete inventory by the difference between the value of the inventory and our estimate of the reduced value based on potential future uses, the likelihood that overstocked inventory will be sold and the expected selling prices of the inventory. If our ability to realize value on slow-moving or obsolete inventory is less favorable than assumed, additional inventory write downs may be required.

#### Income Taxes

We record valuation allowances to reduce our deferred tax assets to amounts that are more likely than not to be realized. We consider future taxable income expectations and tax-planning strategies in assessing the need for the valuation allowance. If we estimate a deferred tax asset is not likely to be fully realized in the future, a valuation allowance to decrease the amount of the deferred tax asset would decrease net earnings in the period the determination was made. Likewise, if we subsequently determine that we are able to realize all or part of a net deferred tax asset in the future, an adjustment reducing the valuation allowance would increase net earnings in the period such determination was made.

At December 29, 2018, we had approximately \$56.9 million in deferred tax assets relating to tax credits and loss carryforwards, with a valuation allowance of \$33.2 million, including \$2.3 million in valuation allowances remaining in the Delta entities related to capital loss carryforwards, which are unlikely ever to be realized. If circumstances related to our deferred tax assets change in the future, we may be required to increase or decrease the valuation allowance on these assets, resulting in an increase or decrease in income tax expense and a reduction or increase in net income.

We previously considered the earnings in our non-U.S. subsidiaries to be indefinitely reinvested and, accordingly, recorded no related deferred income tax liabilities. The 2017 Tax Act, enacted in December 2017, subjected our unremitted foreign earnings of approximately \$400 million to tax at certain specified rates. We made a reasonable estimate of the Transition Tax and recorded a provisional transition tax obligation of \$9.9 million in 2017. Further, deferred taxes of \$11.7 million related to these unremitted foreign earnings were recorded in 2017 for future taxes that will be incurred when cash is repatriated. In 2018, as a result of additional guidance we finalized the impact of the 2017 Tax Act on our finalized unremitted foreign earnings of approximately \$394 million concluding the transitional tax obligation was \$9.3 million. In addition, we have taken the position that on non-U.S. subsidiaries we are not indefinitely reinvested on their 2018 unremitted foreign earnings. Therefore, we recorded income tax expense for foreign withholding taxes and U.S. state income taxes of \$0.9 million and \$0.1 million, respectively during 2018.

We are subject to examination by taxing authorities in the various countries in which we operate. The tax years subject to examination vary by jurisdiction. We regularly consider

the likelihood of additional income tax assessments in each of these taxing jurisdictions based on our experiences related to prior audits and our understanding of the facts and circumstances of the related tax issues. We include in current income tax expense any changes to accruals for potential tax deficiencies. If our judgments related to tax deficiencies differ from our actual experience, our income tax expense could increase or decrease in a given fiscal period.

## Pension Benefits

Delta Ltd. maintains a defined benefit pension plan for qualifying employees in the United Kingdom. There are no active employees as members in the plan. Independent actuaries assist in properly measuring the liabilities and expenses associated with accounting for pension benefits to eligible employees. In order to use actuarial methods to value the liabilities and expenses, we must make several assumptions. The critical assumptions used to measure pension obligations and expenses are the discount rate and expected rate of return on pension assets. We evaluate our critical assumptions at least annually. Key assumptions are based on the following factors:

- Discount rate is based on the yields available on AA-rated corporate bonds with durational periods similar to that of the pension liabilities.
- Expected return on plan assets is based on our asset allocation mix and our historical return, taking into consideration current and expected market conditions. Most of the assets in the pension plan are invested in corporate bonds, the expected return of which are estimated based on the yield available on AA rated corporate bonds. The long-term expected returns on equities are based on historic performance over the long-term.
- Inflation is based on the estimated change in the consumer price index (“CPI”) or the retail price index (“RPI”), depending on the relevant plan provisions.

We modified the method used to estimate the interest cost components of the net periodic pension expense in 2017. The new method uses the full yield curve approach to estimate the interest cost by applying the specific spot rates along the yield curve used to determine the present value of the benefit plan obligations to relevant projected cash outflows for the corresponding year. Prior to 2017, the interest cost components were determined using a single weighted-average discount rate. The change does not affect the measurement of the total benefit plan obligation at year-end as the change in interest cost will be offset by an equivalent but opposite change in the actuarial gains and losses recorded in other comprehensive income (loss).

The discount rate used to measure the defined benefit obligation was 2.90% at December 29, 2018. The following tables present the key assumptions used to measure pension expense for 2019 and the estimated impact on 2019 pension expense relative to a change in those assumptions:

| Assumptions                    | Pension |
|--------------------------------|---------|
| Discount rate                  | 2.55 %  |
| Expected return on plan assets | 4.29 %  |
| Inflation - CPI                | 2.20 %  |
| Inflation - RPI                | 3.30 %  |

  

| Assumptions In Millions of Dollars               | Increase<br>in<br>Pension<br>Expense |
|--|--------------------------------------|
| 0.25% decrease in discount rate                  | \$ —                                 |
| 0.25% decrease in expected return on plan assets | \$ 1.2                               |
| 0.25% increase in inflation                      | \$ 1.2                               |

## Revenue Recognition

Effective the first day of fiscal 2018, we adopted the requirements of Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606).

Please see note 1 to the consolidated financial statements for additional information on the new standard and the cumulative effect from the modified retrospective adjustment.

We determine the appropriate revenue recognition for our contracts by analyzing the type, terms and conditions of each contract or arrangement with a customer. We have no contracts with customers, under any product line, where we could

earn variable consideration. With the exception of our Utility segment and the wireless communication structures product line, our inventory is interchangeable for a variety of the product line's customers. There is one performance obligation for revenue recognition. Our Irrigation and Coatings segments recognize revenue at a point in time, which is when the service has been performed or when the goods ship; this is the same time that the customer is billed. Lighting, traffic, highway safety, and access system product lines within the ESS segment recognize revenue and bill customers at a point in time, which is typically when the product ships or when it is delivered, as stipulated in the customer contract.

The following provides additional information about our contracts with utility and wireless communication structures customers, where the revenue is recognized over time, the judgments we make in accounting for those contracts, and the resulting amounts recognized in our financial statements.

Accounting for utility structures and wireless communication monopole contracts: Steel and concrete utility and wireless communication monopole structures are engineered to customer specifications resulting in limited ability to sell the structure to a different customer if an order is canceled after production commences. The continuous transfer of control to the customer is evidenced either by contractual termination clauses or by our rights to payment for work performed to-date plus a reasonable profit as the products do not have an alternative use to us. Since control is transferring over time, revenue is recognized based on the extent of progress towards completion of the performance obligation. We have certain wireless communication structures customers' contracts where we do not have the right to payment for work performed. In those instances, we recognize revenue at a point in time which is time of shipment of the structure.

The selection of the method to measure progress towards completion requires judgment. For our steel and concrete utility and wireless communication structure product lines, we recognize revenue on an inputs basis, using total production hours incurred to-date for each order as a percentage of total hours estimated to produce the order. The completion percentage is applied to the order's total revenue and total estimated costs to determine reported revenue, cost of goods sold and gross profit. Our enterprise resource planning (ERP) system captures the total costs incurred to-date and the total production hours, both incurred to-date and forecast to complete. Revenue from the offshore and other complex steel structures business is also recognized using an inputs method, based on the cost-to-cost measure of progress. Under the cost-to-cost measure of progress, the extent of progress towards completion is measured based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation.

Management must make assumptions and estimates regarding manufacturing labor hours and wages, the usage and cost of materials, and manufacturing burden / overhead recovery rates for each production facility. For our steel, concrete and wireless communication structures, production of an order, once started, is typically completed within three months. Projected profitability on open production orders is reviewed and updated monthly. We elected the practical expedient to not disclose the partially satisfied performance obligation at the end of the period when the contract has an original expected duration of one year or less.

We also have a few steel structure customer orders in a fiscal year that require one or two years to complete, due to the quantity of structures. Burden rates and routed production hours, per structure, will be adjusted if and when actual costs incurred are significantly higher than what had been originally projected. This resets the timing of revenue recognition for future periods so it is better aligned with the new production schedule. For our offshore and other complex steel structures, we update the estimates of total costs to complete each order quarterly. Based on these updates, revenue in the current period may reflect adjustments for amounts that had been previously recognized. During fiscal 2018, there were no changes to inputs/estimates which resulted in adjustments to revenue for production that occurred prior to the beginning of the quarter. A provision for loss on the performance obligation is recognized if and when an order is projected to be at a loss, whether or not production has started.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT  
MARKET RISK.

The information required is included under the captioned paragraph, “MARKET RISK” on page 35 of this report.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

The following consolidated financial statements of the Company and its subsidiaries are included herein as listed below:

|   | Page      |
|---|-----------|
| Consolidated Financial Statements   |           |
| <u>Report of Independent Registered Public Accounting Firm</u>                            | <u>42</u> |
| Consolidated Statements of Earnings—Three-Year Period Ended December 29, 2018             | <u>43</u> |
| Consolidated Statements of Comprehensive Income—Three-Year Period Ended December 29, 2018 | <u>44</u> |
| Consolidated Balance Sheets—December 29, 2018 and December 30, 2017                       | <u>45</u> |
| Consolidated Statements of Cash Flows—Three-Year Period Ended December 29, 2018           | <u>46</u> |
| Consolidated Statements of Shareholders' Equity—Three-Year Period Ended December 29, 2018 | <u>47</u> |
| Notes to Consolidated Financial Statements—Three-Year Period Ended December 29, 2018      | <u>48</u> |



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM  
To the Shareholders and the Board of Directors of Valmont Industries, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Valmont Industries, Inc. and subsidiaries (the "Company") as of December 29, 2018 and December 30, 2017, the related consolidated statements of earnings, comprehensive income, cash flows, and shareholders' equity, for each of the three years in the period ended December 29, 2018, and the related notes and the schedule listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 29, 2018 and December 30, 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 29, 2018, in conformity with the accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 29, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2019, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ DELOITTE & TOUCHE LLP  
Omaha, Nebraska  
February 27, 2019

We have served as the Company's auditor since 1996.



Valmont Industries, Inc. and Subsidiaries  
CONSOLIDATED STATEMENTS OF EARNINGS  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

|   | 2018        | 2017        | 2016        |
|---|-------------|-------------|-------------|
| Product sales   | \$2,437,334 | \$2,447,219 | \$2,255,860 |
| Services sales  | 319,810     | 298,748     | 265,816     |
| Net sales   | 2,757,144   | 2,745,967   | 2,521,676   |
| Product cost of sales   | 1,887,959   | 1,860,087   | 1,682,355   |
| Services cost of sales  | 210,905     | 204,112     | 183,078     |
| Total cost of sales   | 2,098,864   | 2,064,199   | 1,865,433   |
| Gross profit  | 658,280     | 681,768     | 656,243     |
| Selling, general and administrative expenses  | 440,220     | 414,688     | 410,869     |
| Impairment of goodwill and intangible assets  | 15,780      | —           | —           |
| Operating income  | 202,280     | 267,080     | 245,374     |
| Other income (expenses):  |             |             |             |
| Interest expense  | (44,237     | ) (44,645   | ) (44,409   |
| Interest income   | 4,668       | 4,737       | 3,105       |
| Costs associated with refinancing of debt   | (14,820     | ) —         | —           |
| Loss from divestiture of grinding media business                                    | (6,084      | ) —         | —           |
| Other   | 1,634       | 1,292       | 16,384      |
|   | (58,839     | ) (38,616   | ) (24,920   |
| Earnings before income taxes and equity in earnings of nonconsolidated subsidiaries | 143,441     | 228,464     | 220,454     |
| Income tax expense (benefit):   |             |             |             |
| Current   | 44,794      | 66,390      | 65,748      |
| Deferred  | (1,659      | ) 39,755    | (23,685     |
|   | 43,135      | 106,145     | 42,063      |
| Net earnings  | 100,306     | 122,319     | 178,391     |
| Less: Earnings attributable to noncontrolling interests                             | (5,955      | ) (6,079    | ) (5,159    |
| Net earnings attributable to Valmont Industries, Inc.                               | \$94,351    | \$116,240   | \$173,232   |
| Earnings per share:   |             |             |             |
| Basic   | \$4.23      | \$5.16      | \$7.68      |
| Diluted   | \$4.20      | \$5.11      | \$7.63      |

See accompanying notes to consolidated financial statements.

| Valmont Industries, Inc. and Subsidiaries  |                        |           |             |
|--|------------------------|-----------|-------------|
| CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  |                        |           |             |
| Three-year period ended December 29, 2018  |                        |           |             |
|  | (Dollars in thousands) |           |             |
|  | 2018                   | 2017      | 2016        |
| Net earnings   | \$100,306              | \$122,319 | \$178,391   |
| Other comprehensive income (loss), net of tax:   |                        |           |             |
| Foreign currency translation adjustments:  |                        |           |             |
| Unrealized translation gains (losses)  | (65,436 )              | 79,279    | (58,315 )   |
| Realized loss on divestiture of grinding media business recorded in other expense  | 9,203                  | —         | —           |
|  | \$(56,233 )            | \$79,279  | \$(58,315 ) |
| Gain/(loss) on hedging activities:   |                        |           |             |
| Unrealized gain (loss) on net investment hedges, net of tax expense (benefit) of \$1,894 in 2018, (\$880) in 2017 and \$2,646 in 2016          | 5,291                  | (1,695 )  | 4,226       |
| Realized loss on grinding media net investment hedge   | 1,215                  | —         | —           |
| Amortization cost included in interest expense   | 423                    | 74        | 74          |
| Deferred loss on interest rate hedges  | (2,467 )               | —         | —           |
| Commodity hedges   | 1,021                  | —         | —           |
| Realized gain on commodity hedges recorded in earnings   | (1,021 )               | —         | —           |
| Unrealized gain (loss) on cross currency swaps   | 352                    | —         | —           |
|  | 4,814                  | (1,621 )  | 4,300       |
| Actuarial gain (loss) on defined benefit pension plan, net of tax expense (benefit) of \$8,177 in 2018, (\$501) in 2017 and (\$25,778) in 2016 | 29,885                 | (10,871 ) | (24,141 )   |
| Other comprehensive income (loss)  | (21,534 )              | 66,787    | (78,156 )   |
| Comprehensive income   | 78,772                 | 189,106   | 100,235     |
| Comprehensive income attributable to noncontrolling interests  | (8,584 )               | (5,529 )  | (6,144 )    |
| Comprehensive income attributable to Valmont Industries, Inc.  | \$70,188               | \$183,577 | \$94,091    |

See accompanying notes to consolidated financial statements.

Valmont Industries, Inc. and Subsidiaries  
**CONSOLIDATED BALANCE SHEETS**  
December 29, 2018 and December 30, 2017  
(Dollars in thousands, except shares and per share amounts)

|  | 2018        | 2017        |
|--|-------------|-------------|
| <b>ASSETS</b>  |             |             |
| Current assets:  |             |             |
| Cash and cash equivalents  | \$313,210   | \$492,805   |
| Receivables, less allowance of \$8,277 in 2018 and \$9,396 in 2017                 | 483,963     | 503,677     |
| Inventories  | 383,566     | 420,948     |
| Contract asset - costs and profits in excess of billings                           | 112,525     | 16,165      |
| Prepaid expenses, restricted cash, and other assets                                | 42,800      | 27,478      |
| Refundable income taxes  | 4,576       | 11,492      |
| Total current assets   | 1,340,640   | 1,472,565   |
| Property, plant and equipment, at cost   | 1,160,865   | 1,165,687   |
| Less accumulated depreciation and amortization                                     | 646,873     | 646,759     |
| Net property, plant and equipment  | 513,992     | 518,928     |
| Goodwill   | 385,207     | 337,720     |
| Other intangible assets, net   | 175,956     | 138,599     |
| Other assets, less allowance for doubtful receivables of \$417 in 2017             | 114,479     | 134,438     |
| Total assets   | \$2,530,274 | \$2,602,250 |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>  |             |             |
| Current liabilities:   |             |             |
| Current installments of long-term debt   | \$779       | \$966       |
| Notes payable to banks   | 10,678      | 161         |
| Accounts payable   | 218,115     | 227,906     |
| Accrued employee compensation and benefits   | 79,291      | 84,426      |
| Accrued expenses   | 91,942      | 81,029      |
| Dividends payable  | 8,230       | 8,510       |
| Total current liabilities  | 409,035     | 402,998     |
| Deferred income taxes  | 43,489      | 34,906      |
| Long-term debt, excluding current installments                                     | 741,822     | 753,888     |
| Defined benefit pension liability  | 143,904     | 189,552     |
| Deferred compensation  | 46,107      | 48,526      |
| Other noncurrent liabilities   | 10,394      | 20,585      |
| Shareholders' equity:  |             |             |
| Preferred stock of \$1 par value -<br>Authorized 500,000 shares; none issued       | —           | —           |
| Common stock of \$1 par value -<br>Authorized 75,000,000 shares; 27,900,000 issued | 27,900      | 27,900      |
| Additional paid-in capital   | —           | —           |
| Retained earnings  | 2,027,596   | 1,954,344   |
| Accumulated other comprehensive income (loss)                                      | (303,185 )  | (279,022 )  |
| Cost of treasury stock, common shares of 5,951,971 in 2018 and 5,206,474 in 2017   | (692,549 )  | (590,386 )  |
| Total Valmont Industries, Inc. shareholders' equity                                | 1,059,762   | 1,112,836   |

|  |             |             |
|--|-------------|-------------|
| Noncontrolling interest in consolidated subsidiaries | 75,761      | 38,959      |
| Total shareholders' equity                           | 1,135,523   | 1,151,795   |
| Total liabilities and shareholders' equity           | \$2,530,274 | \$2,602,250 |

See accompanying notes to consolidated financial statements.

Valmont Industries, Inc. and Subsidiaries  
CONSOLIDATED STATEMENTS OF CASH FLOWS

Three-year period ended December 29, 2018 (Dollars in thousands)

|  | 2018       | 2017       | 2016       |
|--|------------|------------|------------|
| Cash flows from operating activities:                                    |            |            |            |
| Net earnings   | \$ 100,306 | \$ 122,319 | \$ 178,391 |
| Adjustments to reconcile net earnings to net cash flows from operations: |            |            |            |
| Depreciation and amortization  | 82,827     | 84,957     | 82,417     |
| Noncash loss on trading securities                                       | (62)       | ) 237      | 586        |
| Contribution to defined benefit pension plan                             | (1,537)    | ) (40,245) | ) (1,488)  |
| Impairment of property, plant and equipment                              | 5,000      | —          | 1,099      |
| Impairment of goodwill & intangible assets                               | 15,780     | —          | —          |
| Loss on divestiture of grinding media business                           | 6,084      | —          | —          |
| Stock-based compensation   | 10,392     | 10,706     | 9,931      |
| Change in fair value of contingent consideration                         | —          | —          | ) (3,242)  |
| Defined benefit pension plan expense (benefit)                           | (2,251)    | ) 648      | 1,870      |
| (Gain) loss on sale of property, plant and equipment                     | (225)      | ) (3,924)  | ) 631      |
| Deferred income taxes  | (1,659)    | ) 39,755   | ) (23,685) |
| Changes in assets and liabilities (net of acquisitions):                 |            |            |            |
| Receivables  | 12,571     | ) (49,112) | ) 24,622   |
| Inventories  | (13,774)   | ) (57,442) | ) (11,461) |
| Prepaid expenses   | (11,048)   | ) (6,214)  | ) (1,925)  |
| Contract asset - costs and profits in excess of billings                 | (32,932)   | ) 176      | 3,063      |
| Accounts payable   | (1,486)    | ) 39,405   | 104        |
| Accrued expenses   | 49         | ) (1,998)  | ) (12,207) |
| Other noncurrent liabilities   | (10,888)   | ) (7,228)  | ) (23,880) |
| Income taxes payable (refundable)  | (4,139)    | ) 1,108    | 7,994      |
| Net cash flows from operating activities                                 | 153,008    | 133,148    | 232,820    |
| Cash flows from investing activities:                                    |            |            |            |
| Purchase of property, plant and equipment                                | (71,985)   | ) (55,266) | ) (57,920) |
| Proceeds from sale of assets   | 63,103     | 8,185      | 5,126      |
| Acquisitions, net of cash acquired                                       | (143,020)  | ) (5,362)  | ) —        |
| Proceeds from settlement of net investment hedge                         | (1,621)    | ) 5,123    | —          |
| Other, net   | (1,922)    | ) (2,295)  | ) (255)    |
| Net cash flows used in investing activities                              | (155,445)  | ) (49,615) | ) (53,049) |
| Cash flows from financing activities:                                    |            |            |            |
| Borrowings (Payments) under short-term agreements                        | 10,543     | ) (585)    | ) (200)    |
| Proceeds from long-term borrowings                                       | 251,655    | —          | —          |
| Principal payments on long-term borrowings                               | (262,191)  | ) (887)    | ) (2,006)  |
| Settlement of financial derivatives                                      | (2,467)    | ) —        | —          |
| Debt issuance costs  | (2,322)    | ) —        | —          |
| Dividends paid   | (33,726)   | ) (33,862) | ) (34,053) |
| Dividends to noncontrolling interest                                     | (7,055)    | ) (5,674)  | ) (2,938)  |
| Purchase of noncontrolling interest                                      | (5,510)    | ) —        | ) (11,009) |
| Proceeds from exercises under stock plans                                | 7,357      | 35,159     | 11,153     |
| Purchase of treasury shares  | (114,805)  | ) —        | ) (53,800) |
| Purchase of common treasury shares—stock plan exercises                  | (3,589)    | ) (26,161) | ) (2,305)  |

|   |            |           |           |
|---|------------|-----------|-----------|
| Net cash flows used in financing activities                   | (162,110 ) | (32,010 ) | (95,158 ) |
| Effect of exchange rate changes on cash and cash equivalents  | (15,048 )  | 27,682    | (20,087 ) |
| Net change in cash and cash equivalents                       | (179,595 ) | 79,205    | 64,526    |
| Cash, cash equivalents, and restricted cash—beginning of year | 492,805    | 413,600   | 349,074   |
| Cash, cash equivalents, and restricted cash—end of year       | \$313,210  | \$492,805 | \$413,600 |

See accompanying notes to consolidated financial statements.



Valmont Industries, Inc. and Subsidiaries  
 CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Three-year period ended December 29, 2018

(Dollars in thousands, except shares and per share amounts)

|   | Common<br>stock | Additional<br>paid-in<br>capital | Retained<br>earnings | Accumulated<br>other<br>comprehensive<br>income<br>(loss) | Treasury<br>stock | Noncontrolling<br>interest<br>in<br>consolidated<br>subsidiaries | Total<br>shareholders'<br>equity |
|---|-----------------|----------------------------------|----------------------|---|-------------------|--|----------------------------------|
| Balance at<br>December 26,<br>2015                            | \$27,900        | \$—                              | \$1,729,679          | \$(267,218)   | \$(571,920)       | \$46,770   | \$965,211                        |
| Net earnings  | —               | —                                | 173,232              | —   | —                 | 5,159  | 178,391                          |
| Other<br>comprehensive<br>income (loss)                       | —               | —                                | —                    | (79,141 )   | —                 | 985  | (78,156 )                        |
| Cash dividends<br>declared (\$1.50<br>per share)              | —               | —                                | (33,921 )            | —   | —                 | —  | (33,921 )                        |
| Dividends to<br>noncontrolling<br>interests                   | —               | —                                | —                    | —   | —                 | (2,938 )   | (2,938 )                         |
| Purchase of<br>noncontrolling<br>interest                     | —               | (137)                            | —                    | —   | —                 | (10,872 )  | (11,009 )                        |
| Purchase of<br>treasury shares;<br>441,494 shares<br>acquired | —               | —                                | —                    | —   | (53,800 )         | —  | (53,800 )                        |
| Stock plan<br>exercises;<br>16,777 shares<br>acquired         | —               | —                                | —                    | —   | (2,305 )          | —  | (2,305 )                         |
| Stock options<br>exercised;<br>109,893 shares<br>issued       | —               | (7,614)                          | 732                  | —   | 13,035            | —  | 11,153                           |
| Stock option<br>expense                                       | —               | 5,782                            | —                    | —   | —                 | —  | 5,782                            |
| Stock awards;<br>15,700 shares<br>issued                      | —               | 1,969                            | —                    | —   | 2,209             | —  | 4,178                            |
| Balance at<br>December 31,<br>2016                            | 27,900          | —                                | 1,874,722            | (346,359 )  | (612,781 )        | 39,104   | 982,586                          |
| Net earnings  | —               | —                                | 116,240              | —   | —                 | 6,079  | 122,319                          |
| Other<br>comprehensive<br>income (loss)                       | —               | —                                | —                    | 67,337  | —                 | (550 )   | 66,787                           |
|   | —               | —                                | (33,927 )            | —   | —                 | —  | (33,927 )                        |

|  |        |              |           |            |            |           |            |
|--|--------|--------------|-----------|------------|------------|-----------|------------|
| Cash dividends declared (\$1.50 per share)           |        |              |           |            |            |           |            |
| Dividends to noncontrolling interests                | —      | —            | —         | —          | (5,674 )   | (5,674 )  |            |
| Stock plan exercises; 154,437 shares acquired        | —      | —            | —         | (26,161 )  | —          | (26,161 ) |            |
| Stock options exercised; 284,574 shares issued       | —      | (4,666,691 ) | —         | 42,516     | —          | 35,159    |            |
| Stock option expense                                 | —      | 5,137        | —         | —          | —          | 5,137     |            |
| Stock awards; 42,846 shares issued                   | —      | (471)        | —         | 6,040      | —          | 5,569     |            |
| Balance at December 30, 2017                         | 27,900 | —            | 1,954,344 | (279,022 ) | (590,386 ) | 38,959    | 1,151,795  |
| Net earnings   | —      | —            | 94,351    | —          | —          | 5,955     | 100,306    |
| Other comprehensive income (loss)                    | —      | —            | —         | (24,163 )  | —          | 2,629     | (21,534 )  |
| Cash dividends declared (\$1.50 per share)           | —      | —            | (33,426 ) | —          | —          | —         | (33,426 )  |
| Dividends to noncontrolling interests                | —      | —            | —         | —          | —          | (7,055 )  | (7,055 )   |
| Purchase of noncontrolling interest                  | —      | —            | —         | —          | —          | (5,510 )  | (5,510 )   |
| Cumulative impact of ASC 606 adoption                | —      | —            | 9,771     | —          | —          | —         | 9,771      |
| Impact of ASU 2016-16 adoption                       | —      | —            | 1,038     | —          | —          | —         | 1,038      |
| Addition of noncontrolling interest                  | —      | —            | —         | —          | —          | 40,783    | 40,783     |
| Purchase of treasury shares; 843,278 shares acquired | —      | —            | —         | —          | (114,805 ) | —         | (114,805 ) |
| Stock plan exercises; 27,555 shares                  | —      | —            | —         | —          | (3,589 )   | —         | (3,589 )   |

|               |          |             |             |             |             |             |
|---------------|----------|-------------|-------------|-------------|-------------|-------------|
| acquired      |          |             |             |             |             |             |
| Stock options |          |             |             |             |             |             |
| exercised;    |          |             |             |             |             |             |
| 63,717 shares | —        | (2,307,518) | —           | 8,236       | —           | 7,357       |
| issued        |          |             |             |             |             |             |
| Stock option  |          |             |             |             |             |             |
| expense       | —        | 4,064       | —           | —           | —           | 4,064       |
| Stock awards; |          |             |             |             |             |             |
| 61,208 shares | —        | (1,667)     | —           | 7,995       | —           | 6,328       |
| issued        |          |             |             |             |             |             |
| Balance at    |          |             |             |             |             |             |
| December 29,  | \$27,900 | \$—         | \$2,027,596 | \$(303,185) | \$(692,549) | \$75,761    |
| 2018          |          |             |             |             |             | \$1,135,523 |

See accompanying notes to consolidated financial statements.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Valmont Industries, Inc. and its wholly and majority owned subsidiaries (the Company). The investment in Delta EMD Pty. Ltd ("EMD") is recorded at fair value subsequent to its deconsolidation in 2013. Investments in other 20% to 50% owned affiliates and joint ventures are accounted for by the equity method. Investments in less than 20% owned affiliates are accounted for by the cost method. All intercompany items have been eliminated.

Cash overdrafts

Cash book overdrafts totaling \$8,888 and \$21,537 were classified as accounts payable at December 29, 2018 and December 30, 2017, respectively. The Company's policy is to report the change in book overdrafts as an operating activity in the Consolidated Statements of Cash Flows.

Segments

The Company has four reportable segments based on its management structure. Each segment is global in nature with a manager responsible for segment operational performance and allocation of capital within the segment. Reportable segments are as follows:

**ENGINEERED SUPPORT STRUCTURES:** This segment consists of the manufacture and distribution of engineered metal and composite poles, towers, and components for global lighting, traffic, and wireless communication markets, engineered access systems, integrated structure solutions for smart cities, and highway safety products;

**UTILITY SUPPORT STRUCTURES:** This segment consists of the manufacture of engineered steel and concrete structures for the global utility transmission, distribution, and generation applications, renewable energy generation equipment, and inspection services;

**COATINGS:** This segment consists of galvanizing, painting, and anodizing services; and

**IRRIGATION:** This segment consists of the manufacture of agricultural irrigation equipment, parts, services, tubular products, water management solutions, and technology for precision agriculture.

In addition to these four reportable segments, there are other businesses and activities that individually are not more than 10% of consolidated sales, operating income or assets. This includes the manufacture of forged steel grinding media for the mining industry and is reported in the "Other" category. The grinding media business was divested in 2018.

Fiscal Year

The Company operates on a 52 or 53 week fiscal year with each year ending on the last Saturday in December. Accordingly, the Company's fiscal year ended December 29, 2018 and December 30, 2017 consisted of 52 weeks and fiscal year ended December 31, 2016 consisted of 53 weeks. The estimated impact on the company's results of operations due to the extra week in fiscal 2016 was additional net sales of approximately \$50,000 and additional net earnings of approximately \$3,000.



VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

Accounts receivable are reported on the balance sheet net of any allowance for doubtful accounts. Allowances are maintained in amounts considered to be appropriate in relation to the outstanding receivables based on age of the receivable, economic conditions and customer credit quality. As the Company's international Irrigation business has grown, the exposure to potential losses in international markets has also increased. These exposures can be difficult to estimate, particularly in areas of political instability, or with governments with which the Company has limited experience, or where there is a lack of transparency as to the current credit condition of governmental units. The Company's allowance for doubtful accounts related to current accounts receivable was \$8,277 at December 29, 2018.

Inventories

Approximately 37% and 37% of inventory is valued at the lower of cost, determined on the last-in, first-out (LIFO) method, or market as of December 29, 2018 and December 30, 2017, respectively. All other inventory is valued at the lower of cost, determined on the first-in, first-out (FIFO) method or market. Finished goods and manufactured goods inventories include the costs of acquired raw materials and related factory labor and overhead charges required to convert raw materials to manufactured and finished goods. The excess of replacement cost of inventories over the LIFO value is approximately \$53,619 and \$43,727 at December 29, 2018 and December 30, 2017, respectively.

Long-Lived Assets

Property, plant and equipment are recorded at historical cost. The Company generally uses the straight-line method in computing depreciation and amortization for financial reporting purposes and accelerated methods for income tax purposes. The annual provisions for depreciation and amortization have been computed principally in accordance with the following ranges of asset lives: buildings and improvements 15 to 40 years, machinery and equipment 3 to 12 years, transportation equipment 3 to 24 years, office furniture and equipment 3 to 7 years and intangible assets 5 to 20 years. Depreciation expense in fiscal 2018, 2017 and 2016 was \$67,499, \$69,046 and \$66,482, respectively.

An impairment loss is recognized if the carrying amount of an asset may not be recoverable and exceeds estimated future undiscounted cash flows of the asset. A recognized impairment loss reduces the carrying amount of the asset to its estimated fair value. Impairment losses were recorded in 2018 and 2016 as facilities were closed and future plans for certain fixed assets changed in connection with the Company's restructuring plans.

The Company evaluates its reporting units for impairment of goodwill during the third fiscal quarter of each year, or when events or changes in circumstances indicate the carrying value may not be recoverable. Reporting units are evaluated using after-tax operating cash flows (less capital expenditures) discounted to present value.

Indefinite lived intangible assets are assessed separately from goodwill as part of the

annual impairment testing, using a relief-from-royalty method. If the underlying assumptions related to the valuation of a reporting unit's goodwill or an indefinite lived intangible asset change materially before or after the annual impairment testing, the reporting unit or asset is evaluated for potential impairment. In these evaluations, management considers recent operating performance, expected future performance, industry conditions and other indicators of potential impairment. See footnote 8 for details of impairments recognized during 2018.

Income Taxes

The Company uses the asset and liability method to calculate deferred income taxes.

Deferred tax assets and liabilities are recognized on temporary differences between financial statement and tax bases of assets and liabilities using enacted tax rates. The effect of tax rate changes on deferred tax assets and liabilities is recognized in income during the period that includes the enactment date.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Warranties

The Company's provision for product warranty reflects management's best estimate of probable liability under its product warranties. Estimated future warranty costs are recorded at the time a sale is recognized. Future warranty liability is determined based on applying historical claim rate experience to units sold that are still within the warranty period. In addition, the Company records provisions for known warranty claims.

Pension Benefits

Certain expenses are incurred in connection with a defined benefit pension plan. In order to measure expense and the related benefit obligation, various assumptions are made including discount rates used to value the obligation, expected return on plan assets used to fund these expenses and estimated future inflation rates. These assumptions are based on historical experience as well as current facts and circumstances. An actuarial analysis is used to measure the expense and liability associated with pension benefits.

Derivative Instruments

The Company may enter into derivative financial instruments to manage risk associated with fluctuation in interest rates, foreign currency rates or commodities. Where applicable, the Company may elect to account for such derivatives as either a cash flow, fair value, or net investment hedge.

Comprehensive Income (Loss)

Comprehensive income (loss) includes net income, currency translation adjustments, certain derivative-related activity and changes in net actuarial gains/losses from a pension plan. Results of operations for foreign subsidiaries are translated using the average exchange rates during the period. Assets and liabilities are translated at the exchange rates in effect on the balance sheet dates. The components of accumulated other

comprehensive income (loss) consisted of the following:

|  | Foreign<br>Currency<br>Translation<br>Adjustments | Gain on<br>Hedging<br>Activities | Defined<br>Benefit<br>Pension<br>Plan | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) |
|--|---|----------------------------------|---------------------------------------|--|
| Balance at December 30, 2017               | \$(171,399 )                                      | \$ 6,357                         | \$(113,980)                           | \$ (279,022 )  |
| Current-period comprehensive income (loss) | (68,065 )   | 3,599                            | 29,885                                | (34,581 )  |
| Divestiture of grinding media business     | 9,203   | 1,215                            | —                                     | \$ 10,418  |
| Balance at December 29, 2018               | \$(230,261 )                                      | \$ 11,171                        | \$(84,095 )                           | \$ (303,185 )  |

Subsequent Events

On December 31, 2018, the Company acquired the assets of Larson Camouflage, an industry-leading provider of architectural and camouflage concealment solutions for the wireless telecommunication market. The business is located in Tucson, Arizona. The acquisition was funded with cash on hand and will be included in the ESS segment. On February 11, 2019, the Company acquired the outstanding shares of United Galvanizing, Inc. located in Houston, Texas. The acquisition was made to expand the North America



coatings footprint. The acquisition was funded with cash on hand and will be included in the Coatings segment.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

On December 31, 2017, the Company adopted Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (ASC 606). The Company elected to use the modified retrospective approach for the adoption of the new revenue standard. The cumulative effect of initially applying the new revenue standard was recorded as an adjustment to the opening balance of retained earnings, which impacted the Consolidated

Balance Sheet as follows:

| Balance Sheet  | December<br>30,<br>2017 | ASC 606<br>Adjustments | December<br>31,<br>2017 |
|--|-------------------------|------------------------|-------------------------|
| Assets   |                         |                        |                         |
| Inventories  | \$420,948               | \$ (36,243 )           | \$ 384,705              |
| Contract asset - costs & profits in excess of billings | 16,165                  | 51,507                 | 67,672                  |
| Liabilities and shareholders' equity                   |                         |                        |                         |
| Accrued expenses                                       | 81,029                  | 2,043                  | 83,072                  |
| Deferred income taxes                                  | 34,906                  | 3,450                  | 38,356                  |
| Retained earnings                                      | 1,954,344               | 9,771                  | 1,964,115               |

The adoption of ASC 606 had the following impact on the Consolidated Balance Sheets and Consolidated Statements of Earnings for the fiscal year ended December 29, 2018:

| Balance Sheet  | As<br>Reported | Balance<br>Excluding<br>ASC 606<br>Effects | Change     |
|--|----------------|--|------------|
| Assets   |                |  |            |
| Inventories  | \$ 383,566     | \$ 446,267                                 | \$(62,701) |
| Contract asset - costs & profits in excess of billings | 112,525        | 24,647                                     | 87,878     |
| Liabilities and shareholders' equity                   |                |  |            |
| Accrued expenses                                       | 91,942         | 86,174                                     | 5,768      |
| Deferred income taxes                                  | 43,489         | 38,492                                     | 4,997      |
| Retained earnings                                      | 2,027,596      | 2,013,184                                  | 14,412     |
| Statement of Earnings                                  |                |  |            |
| Net Sales  | \$ 2,757,144   | \$ 2,720,773                               | \$ 36,371  |
| Operating Income                                       | 202,280        | \$ 196,092                                 | \$ 6,188   |

The Company determines the appropriate revenue recognition for our contracts by analyzing the type, terms and conditions of each contract or arrangement with a customer. Contracts with customers for all businesses are fixed-price with sales tax excluded from revenue, and do not include variable consideration. Discounts included in contracts with customers, typically early pay discounts, are recorded as a reduction of net sales in the period in which the sale is recognized. Contract revenues are classified as product when the performance obligation is related to the manufacturing of goods.

Contract revenues are classified as service when the performance obligation is the performance of a service. Service revenue is primarily related to the Coatings segment.

Customer acceptance provisions exist only in the design stage of our products and acceptance of the design by the customer is required before the project is manufactured and delivered to the customer. The Company is not entitled to any compensation solely based on design of the product and does not recognize revenue associated with the design stage. There is

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

one performance obligation for revenue recognition. No general rights of return exist for customers once the product has been delivered and the Company establishes provisions for estimated warranties. The Company does not sell extended warranties for any of its products.

Shipping and handling costs associated with sales are recorded as cost of goods sold. The

Company elected to use the practical expedient of treating freight as a fulfillment obligation instead of a separate performance obligation and ratably recognize freight expense as the structure is being manufactured, when the revenue from the associated customer contract is being recognized over time. With the exception of the Utility segment and the wireless communication structures product line, the Company's inventory is interchangeable for a variety of each segment's customers. The Company elected the practical expedient to not disclose the partially satisfied performance obligation at the end of the period when the contract has an original expected duration of one year or less. The Company did not have any significant contracts with an original expected duration of more than one year at December 29, 2018. In addition, the Company elected the practical expedient to not adjust the amount of consideration to be received in a contract for any significant financing component if payment is expected within twelve months of transfer of control of goods or services; the Company expects all consideration to be received in one year or less at contract inception.

Segment and Product Line Revenue Recognition

The global Utility segment revenues are derived from manufactured steel and concrete structures for the North America utility industry and offshore and other complex structures used in energy generation and distribution outside of the United States. Steel and concrete utility structures are engineered to customer specifications resulting in limited ability to sell the structure to a different customer if an order is canceled after production commences. The continuous transfer of control to the customer is evidenced either by contractual termination clauses or by our rights to payment for work performed to-date plus a reasonable profit as the products do not have an alternative use to the Company. Since control is transferring over time, revenue is recognized based on the extent of progress towards completion of the performance obligation. The selection of the method to measure progress towards completion requires judgment. For our steel and concrete utility and wireless communication structure product lines, we generally recognize revenue on an inputs basis, using total production hours incurred to-date for each order as a percentage of total hours estimated to produce the order. The completion percentage is applied to the order's total revenue and total estimated costs to determine reported revenue, cost of goods sold and gross profit. Production of an order, once started, is typically completed within three months. Revenue from the offshore and other complex structures business is also recognized using an inputs method, based on the ratio of costs incurred to date to the total estimated costs at completion of the performance obligation. External sales agents are used in certain sales of steel and concrete structures; the Company has chosen to use the practical expedient to expense estimated commissions owed to third parties by recognizing them proportionately as the goods are manufactured.

The global ESS segment revenues are derived from the manufacture and distribution of engineered metal, composite structures and components for lighting and traffic and roadway safety, engineered access systems, and wireless communication. For the lighting and traffic and roadway safety product lines, revenue is recognized upon shipment or delivery of goods to the customer depending on contract terms, which is the same point in time that the customer is billed. For Access Systems, revenue is generally recognized upon delivery of goods to the customer which is the same point in time that the customer is billed. The wireless communication monopole product line has large regional customers who have unique product specifications for these larger communication structures. When the customer contract includes a cancellation clause that would require them to pay for work completed plus a reasonable margin if an order was canceled, revenue is recognized over time based on hours worked as a percent of total estimated hours to complete production. For the remaining wireless communication product line customers which do not provide a contractual right to bill for work completed on a canceled order, revenue is recognized upon shipment or delivery of the goods to the customer which is the same point in time that the customer is billed. For wireless communication towers and components, revenue is recognized upon shipment or delivery of goods to the customer depending on contract terms, which is the same point in time that the customer is billed.

The global Coatings segment revenues are derived by providing coating services to customers' products, which include galvanizing, anodizing, and powder coating. Revenue is recognized once the coating service has been performed and the goods are ready to be picked up or delivered to the customer which is the same time that the customer is billed.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The global Irrigation segment revenues are derived from the manufacture of agricultural irrigation equipment and related parts and services for the agricultural industry and tubular products for industrial customers. Revenue recognition for the irrigation segment is generally upon shipment of the goods to the customer which is the same point in time that the customer is billed. The remote monitoring subscription services are primarily billed annually and revenue is recognized on a straight-line basis over the subsequent twelve months.

Disaggregation of revenue by product line is disclosed in the Segment footnote. A breakdown by segment of revenue recognized over time and revenue recognized at a point in time for the fiscal year ended December 29, 2018 is as follows:

|                               | Point in<br>Time     | Over Time            |
|-------------------------------|----------------------|----------------------|
|                               | Fiscal year<br>ended | Fiscal year<br>ended |
|                               | December<br>29, 2018 | December<br>29, 2018 |
| Utility Support Structures    | \$ 16,760            | \$ 838,446           |
| Engineered Support Structures | 922,677              | 44,681               |
| Coatings                      | 286,739              | —                    |
| Irrigation                    | 612,385              | 12,376               |
| Other                         | 23,080               | —                    |
| Total                         | \$ 1,861,641         | \$ 895,503           |

The Company's contract asset as of December 29, 2018 is \$112,525. The contract assets attributable to the cumulative effect from the adoption of the new revenue recognition guidance was \$51,507; the contract asset at December 30, 2017, attributable to the offshore and other complex structures product line, was \$16,165. Both steel and concrete utility customers are generally invoiced upon shipment or delivery of the goods to the customer's specified location and there are normally no up-front or progress payments. The increase in the contract asset between ASC 606 adoption date to year-end 2018 is attributed to an increase in finished structures that had not yet been shipped to the customers. The offshore and complex steel structures business invoices customers a number of ways including advanced billings, progress billings, and billings upon shipment.

At December 29, 2018 and December 30, 2017, the contract liability for revenue recognized over time was \$4,906 and \$7,368. The contract liability is included in Accrued Expenses on the Consolidated Balance Sheets. During the fiscal year ended December 29, 2018, the Company recognized \$5,222 of revenue that was included in the liability as of December 30, 2017. The revenue recognized was due to applying advance payments received for projects completed during the period.

Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities, the reported amounts of revenue and expenses

and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

Equity Method Investments

The Company has equity method investments in non-consolidated subsidiaries which are recorded within "Other assets" on the Consolidated Balance Sheets.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Treasury Stock

Repurchased shares are recorded as "Treasury Stock" and result in a reduction of "Shareholders' Equity." When treasury shares are reissued, the Company uses the last-in, first-out method, and the difference between the repurchase cost and re-issuance price is charged or credited to "Additional Paid-In Capital."

In May 2014, the Company announced a capital allocation philosophy which covered a share repurchase program. Specifically, the Board of Directors at that time authorized the purchase of up to \$500,000 of the Company's outstanding common stock from time to time over twelve months at prevailing market prices, through open market or privately-negotiated transactions. In February 2015 and again in October 2018, the Board of Directors authorized an additional purchase of up to \$250,000 of the Company's outstanding common stock with no stated expiration date. As of December 29, 2018, the Company has acquired 5,431,409 shares for approximately \$732,634 under this share repurchase program.

Research and Development

Research and development costs are charged to operations in the year incurred. These costs are a component of "Selling, general and administrative expenses" on the Consolidated Statements of Earnings. Research and development expenses were approximately \$11,500 in 2018, \$11,600 in 2017, and \$8,300 in 2016.

Recently Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-9, Revenue from Contracts with Customers (Topic 606), which supersedes the revenue recognition requirements in Accounting Standards Codification ("ASC") 605, Revenue Recognition. Effective December 31, 2017, the Company adopted Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). The Company elected the modified retrospective approach for the adoption of the new revenue standard, resulting in a credit to retained earnings being recognized for \$9,771. The Company calculated the cumulative effect on revenue of approximately \$51,507 with \$13,121 of pre-tax operating income; these were customer orders for the steel utility, concrete utility, and wireless communication structures product lines at various stages of production at December 30, 2017.

In March 2017, the FASB issued ASU 2017-07, Presentation of Net Periodic Benefit Cost Related to Defined Benefit Plans, which amends the income statement presentation requirements for the components of net periodic benefit cost for an entity's defined benefit pension and post-retirement plans. The Company adopted this ASU in the first quarter of 2018, recognizing the Delta Pension Plan (DPP) net periodic pension expense within Other income (expense). The Company reclassified \$648 and \$1,870 of DPP net periodic pension expense in 2017 and 2016 out of selling, general, and administrative expense and into Other expense.

In December 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash, which requires amounts generally described as restricted cash and



restricted cash equivalents to be included within cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown in the statement of cash flows.

The Company adopted the ASU in the first quarter of 2018, recasting the beginning-of-period and end-of-period total cash and cash equivalent amounts on the statement of cash flows to include the £10,000 restricted cash account for the pension plan at December 31, 2016, thus reducing cash flows from operating activities by \$12,568 in 2017. The Company did not have any restricted cash at December 29, 2018 or December 30, 2017.

In August 2017, the FASB issued ASU 2017-12, Targeted Improvements to Accounting for Hedging Activities, which improves the financial reporting of hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. ASU 2017-12 is effective for periods and fiscal years beginning after December 15, 2018. Early adoption is permitted for any interim period post issuance. The

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Company adopted this ASU in the first quarter of 2018, which did not have a material impact on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments in the Statement of Cash Flows, which provides more specific guidance on cash flow presentation for certain transactions. ASU 2016-15 is effective for interim periods and fiscal years beginning after December 15, 2017, with early adoption permitted. The Company adopted this ASU in the first quarter of 2018, which did not have a material impact on the consolidated financial statements.

In October 2016, the FASB issued ASU 2016-16, Intra-Entity Transfers of Assets Other than Inventory, which requires the Company to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs, as opposed to when it is sold to an outside party. The Company adopted this standard in 2018 and the result was an increase to retained earnings of \$1,038.

Recently Issued Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases, which provides revised guidance on leases requiring lessees to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease). ASU 2016-02 is effective for interim and annual reporting periods beginning after December 15, 2018 and the Company will adopt this ASU in the first quarter of 2019. The Company's analysis estimates that total liabilities and total assets will increase by \$100,000 to \$120,000 upon adoption the first day of fiscal 2019. The Company made an accounting policy election to keep leases with an initial term of 12 months or less off of the balance sheet for all classes of underlying assets. In addition, the Company elected certain practical expedients not to reassess whether existing contracts are or contain leases, to not reassess the lease classification of any existing leases, to not reassess initial direct costs for any existing leases, and to not separate lease components for all classes of underlying assets. The Company will elect not to recast its comparative periods in transition (the "Comparatives Under 840 Option") as allowed under ASU 2018-11.

(2) ACQUISITIONS

Acquisitions of Businesses

On October 18, 2018, the Company acquired CSP Coatings Systems of Auckland, New Zealand, a provider of a wide range of coatings services for approximately \$17,711. The acquisition further strengthens the Company's Asia-Pacific market position and will be reported in the Coatings segment. The preliminary fair values assigned were \$7,373 to property, plant, and equipment, \$3,113 for customer relationships, \$5,120 for goodwill, with the remainder net working capital. Goodwill is not deductible for tax purposes and the customer relationships will be amortized over 10 years. The Company expects the

purchase price allocation to be finalized in the second quarter of 2019.

On August 3, 2018, the Company purchased approximately 72% of the outstanding shares of Walpar, LLC ("Walpar") for \$57,805 in cash. Walpar is an industry leader in the design, engineering and manufacturing of overhead sign structures for the North America transportation market. Walpar is located in Birmingham, Alabama and its operations are reported in the Engineered Support Structures segment. The transaction was funded with cash on hand and the purchase of the remaining 28% non-controlling interests was acquired in January 2019. The acquisition of Walpar was completed to expand the Company's product offering in the sign structure market. The preliminary fair value measurement disclosed below is subject to management reviews and completion of the fair value measurements of the assets acquired and liabilities assumed. Customer relationships will be amortized over 14 years and the trade name has an indefinite life. Goodwill is not deductible for tax purposes. The Company expects the purchase price allocation to be finalized in the second quarter of 2019.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

## (2) ACQUISITIONS (Continued)

The following table summarizes the preliminary fair values of the assets acquired and liabilities assumed of Walpar as of the date of acquisition:

|   | At<br>August<br>3, 2018 |
|---|-------------------------|
| Current assets                          | \$ 13,210               |
| Customer relationships                  | 32,000                  |
| Trade name                              | 4,300                   |
| Goodwill                                | 42,216                  |
| Total fair value of assets acquired     | \$ 91,726               |
| Current liabilities                     | 2,185                   |
| Deferred taxes                          | 8,654                   |
| Total fair value of liabilities assumed | \$ 10,839               |
| Non-controlling interests               | 23,082                  |
| Net assets acquired                     | \$ 57,805               |

On August 3, 2018, the Company acquired 75% of the outstanding shares of Convert Italia SpA ("Convert") for \$43,504 in cash. Convert is a designer and provider of engineered solar tracker solutions that is headquartered in Italy, with offices in Brazil and Argentina. Additional purchase price will be paid contingent on Convert realizing specific EBITDA and revenue targets in calendar years 2018 and 2020. The Company recognized \$11,608 in estimated contingent consideration liability which is subject to finalization expected to occur during the third quarter of 2019. The Company acquired

Convert to grow market adjacencies in the Utility Support Structures segment. The preliminary fair value measurements disclosed below are subject to management reviews and completion of the fair value measurements of the assets acquired and liabilities assumed. Patents and proprietary technology will be amortized over 15 years and the trade name has an indefinite life. Goodwill is not deductible for tax purposes. The Company expects the fair value measurement process and purchase price allocation to be finalized in the third quarter of 2019. The following table summarizes the preliminary fair values of the assets acquired and liabilities assumed of Convert at the date of

|                                     | acquisition:<br>At<br>August<br>3, 2018 |
|-------------------------------------|---|
| Current assets                      | \$ 18,349                               |
| Other assets                        | 3,166                                   |
| Patent and Proprietary Technology   | 16,554                                  |
| Trade name                          | 8,701                                   |
| Goodwill                            | 34,280                                  |
| Total fair value of assets acquired | \$ 81,050                               |
| Current liabilities                 | 5,376                                   |
| Contingent consideration liability  | 11,608                                  |
| Deferred taxes                      | 6,061                                   |

|   |          |
|---|----------|
| Total fair value of liabilities assumed | \$23,045 |
| Non-controlling interests               | 14,501   |
| Net assets acquired                     | \$43,504 |

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

(2) ACQUISITIONS (Continued)

On August 1, 2018, the Company acquired the operational assets of Derit Infrastructure Pvt. Ltd. ("Derit") for \$14,700 in cash, net of assumed liabilities. The Company acquired the net assets at fair value with no value assigned to intangible assets in the purchase price allocation. Derit has a manufacturing facility in India with production capabilities for steel lattice structures for power transmission, wireless communication, and a provider of zinc galvanizing services. Derit was acquired to provide the Company with lattice structure manufacturing capabilities and to further expand the geographic footprint of the galvanizing business. The majority of the business will be reported in the Utility Support Structures segment, while the galvanizing business will be reported in the Coatings segment. The purchase price allocation was finalized in the fourth quarter of 2018. Proforma disclosures were omitted as this business does not have a significant impact on the Company's financial results.

On January 26, 2018, the Company acquired 60% of the assets of Torrent Engineering and Equipment ("Torrent") for \$4,800 in cash. Torrent operates in Indiana and is an integrator of prefabricated pump stations that involves designing high pressure water and compressed air process systems. Torrent has annual sales of approximately \$9,000. In the purchase price allocation, goodwill of \$3,922 and \$4,020 of customer relationships and other intangible assets were recorded. A portion of the goodwill is deductible for tax purposes. Torrent is included in the Irrigation segment and was acquired to expand the Company's water management capabilities. The purchase price allocation was finalized in the second quarter of 2018.

On July 31, 2017, the Company purchased Aircon Guardrails Private Limited ("Aircon") for \$5,362 in cash, net of cash acquired, plus assumed liabilities. Aircon produces highway safety systems including guardrails, structural metal products, and solar structural products in India with annual sales of approximately \$10,000. In the purchase price allocation, goodwill of \$3,327 and \$2,109 of customer relationships and other intangible assets were recorded. Goodwill is not deductible for tax purposes. This business is included in the Engineered Support Structures segment and was acquired to expand the Company's geographic presence in the Asia-Pacific region. The purchase price allocation was finalized in the fourth quarter of 2017. Proforma disclosures were omitted as this business does not have a significant impact on the Company's financial results.

The Company's Consolidated Statements of Earnings for the fiscal year ended December 29, 2018 included net sales of \$33,973 and net earnings of \$1,566 resulting from the Walpar, Convert, Torrent, and CSP Coatings acquisitions. The proforma effect of these acquisitions on the 2018 and 2017 Consolidated Statements of Earnings is as follows:

|              | Fifty-two<br>Weeks<br>Ended<br>December<br>29, 2018 | Fifty-two<br>Weeks<br>Ended<br>December<br>30, 2017 |
|--------------|---|---|
| Net sales    | \$2,798,705   | \$2,818,035   |
| Net earnings | 97,170  | 122,407   |

Earnings per share-diluted 4.32 5.39

Acquisitions of Noncontrolling Interests

In March 2018, the Company acquired the remaining 10% of Valmont Industria e Comercio Ltda. that it did not own for \$5,510. In April 2016, the Company acquired the remaining 30% of IGC Galvanizing Industries (M) Sdn Bhd that it did not own for \$5,841. In June 2016, the Company acquired 5.2% of the remaining 10% of Valmont SM that it did not own for \$5,168. As these transactions were for acquisitions of part or all of the remaining shares of consolidated subsidiaries with no change in control, they were recorded within shareholders' equity and as a financing cash flow in the Consolidated Statements of Cash Flows.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

(3) DIVESTITURE

On April 30, 2018, the Company completed the sale of Donhad, its grinding media business in Australia, reported in the Other segment. The business was sold because it did not fit the long-term strategic plans for the Company. The grinding media business historical annual sales, operating profit, and net assets are not significant for discontinued operations presentation.

The grinding media business had operating income/(loss) of (\$913) for the year ended December 29, 2018, and \$2,134 for the ended December 30, 2017. The Company received Australian \$82,500 (U.S. \$62,518).

The assets and liabilities of the grinding media business at closing on April 30, 2018 were as follows:

|                                    |          |
|------------------------------------|----------|
| Receivables, net                   | \$9,848  |
| Inventories                        | 15,945   |
| Net property, plant, and equipment | 13,815   |
| Goodwill and intangible assets     | 27,153   |
| Other assets                       | 1,388    |
| Total assets                       | \$68,149 |

|                       |          |
|-----------------------|----------|
| Accounts payable      | \$7,125  |
| Accrued expenses      | 2,484    |
| Deferred income taxes | 2,187    |
| Total liabilities     | \$11,796 |

|            |          |
|------------|----------|
| Net assets | \$56,353 |
|------------|----------|

The pre-tax loss from the divestiture is reported in other income (expense). The loss is comprised of the proceeds from buyer, less deal-related costs, less the net assets of the business which resulted in a gain of \$4,334. Offsetting this amount is a \$(10,418) realized loss on foreign exchange translation adjustments and net investment hedges previously reported in shareholders' equity.

|  |           |
|--|-----------|
| Pre-tax gain from divestiture, before recognition of currency translation loss | \$4,334   |
| Recognition of cumulative currency translation loss and hedges (out of OCI)    | (10,418)  |
| Net pre-tax loss from divestiture of the grinding media business               | \$(6,084) |

The transaction did not result in a taxable capital gain as the cash proceeds were less than the tax carrying value of the business. There is an insignificant tax benefit from the tax deductibility of deal related expenses.





VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

(4) RESTRUCTURING ACTIVITIES

2018 Plan

During 2018, the Company executed certain regional restructuring activities (the "2018 Plan") primarily in the ESS and Utility segments to transform its operational business model including exiting certain local markets. The result will be the closure of seven facilities, including three in China. The one Utility facility and one ESS facility in Europe will cease production and the 2018 Plan will be completed during the second quarter of 2019. All other facilities were closed by December 29, 2018. The Company recorded the following pre-tax expenses:

|  | ESS      | Utility | Irrigation | Other/<br>Corporate | TOTAL    |
|--|----------|---------|------------|---------------------|----------|
| Severance  | \$6,255  | \$1,825 | \$ —       | \$ —                | \$8,080  |
| Other cash restructuring expenses                  | 3,512    | 2,228   | —          | —                   | 5,740    |
| Impairments of fixed assets/net loss on disposals  | 4,560    | —       | —          | —                   | 4,560    |
| Total cost of sales                                | 14,327   | 4,053   | —          | —                   | 18,380   |
| Severance  | 10,654   | 1,100   | 129        | —                   | 11,883   |
| Other cash restructuring expenses                  | 3,151    | —       | 51         | 126                 | 3,328    |
| Impairments of fixed assets/net loss on disposals  | 440      | —       | —          | —                   | 440      |
| Total selling, general and administrative expenses | 14,245   | 1,100   | 180        | 126                 | 15,651   |
| Consolidated total                                 | \$28,572 | \$5,153 | \$ 180     | \$ 126              | \$34,031 |

In connection with exiting certain local markets as a result of the 2018 Plan, the Company also recorded \$7,944 of impairments of current and other assets during fiscal 2018, primarily inventory.

2016 Plan

In July 2016, the Company identified a restructuring plan (the "2016 Plan") in Australia/New Zealand focused primarily on closing and consolidating locations within the ESS and Coatings segments. In the fourth quarter of 2016, the Company decided to close a structures facility in Canada. The 2016 Plan was mostly completed by the end of fiscal 2016. During the last six months of fiscal 2016, the Company recorded the following pre-tax expenses from the 2016 Plan:

|   | Coatings | ESS     | Other/<br>Corporate | TOTAL    |
|---|----------|---------|---------------------|----------|
| Severance                               | \$ 69    | \$1,620 | \$ —                | \$ 1,689 |
| Other cash restructuring expenses       | —        | 2,257   | —                   | 2,257    |
| Asset impairments/net loss on disposals | —        | 1,099   | —                   | 1,099    |

|  |        |         |        |          |
|--|--------|---------|--------|----------|
| Total cost of sales                                | 69     | 4,976   | —      | 5,045    |
| Severance  | 236    | 349     | —      | 585      |
| Other cash restructuring expenses                  | —      | 1,961   | 234    | 2,195    |
| Total selling, general and administrative expenses | 236    | 2,310   | 234    | 2,780    |
| Consolidated total                                 | \$ 305 | \$7,286 | \$ 234 | \$ 7,825 |

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

(4) RESTRUCTURING ACTIVITIES (Continued)

During fiscal 2016, the Company recognized the following pre-tax restructuring expense (all cash) of \$4,581 related to the 2015 Restructuring Plan:

- Utility segment recognized \$528 (cost of sales)
- ESS segment recognized \$1,040 (SG&A)
- Coatings segment recognized \$602 (SG&A)
- Irrigation segment recognized \$468 (SG&A)
- Corporate recorded \$1,943 (SG&A)

Change in the liabilities recorded for the restructuring plans were as follows:

|                                   | Balance at<br>December<br>30, 2017 | Recognized<br>Restructuring<br>Expense | Costs Paid<br>or<br>Otherwise<br>Settled | Balance at<br>December<br>29, 2018 |
|-----------------------------------|------------------------------------|--|--|------------------------------------|
| Severance                         | \$ —                               | \$ 19,963                              | \$(13,369 )                              | \$ 6,594                           |
| Other cash restructuring expenses | 1,216                              | 9,068                                  | (6,822 )                                 | 3,462                              |
| Total                             | \$ 1,216                           | \$ 29,031                              | \$(20,191 )                              | \$ 10,056                          |

A significant change in market conditions in any of the Company's segments may affect the Company's assessment of the restructuring activities.

(5) CASH FLOW SUPPLEMENTARY INFORMATION

The Company considers all highly liquid temporary cash investments purchased with an original maturity of three months or less at the time of purchase to be cash equivalents.

Cash payments for interest and income taxes (net of refunds) for the fifty-two weeks ended December 29, 2018 and December 30, 2017, and the fifty-three weeks ended

December 31, 2016 were as follows:

|              | 2018     | 2017     | 2016     |
|--------------|----------|----------|----------|
| Interest     | \$43,305 | \$44,528 | \$45,683 |
| Income taxes | 47,355   | 63,791   | 48,203   |

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to the total of the same such amounts shown in the statement of cash flows for fiscal year 2016.

|  | 2016      |
|--|-----------|
| Cash and cash equivalents  | \$399,948 |
| Restricted cash included in other current assets                                       | 13,652    |
| Total cash, cash equivalents, and restricted cash shown in the statement of cash flows | 413,600   |

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

## (6) INVENTORIES

Inventories consisted of the following at December 29, 2018 and December 30, 2017:

|                                       | 2018       | 2017       |
|---------------------------------------|------------|------------|
| Raw materials and purchased parts     | \$ 190,115 | \$ 183,029 |
| Work-in-process                       | 35,566     | 30,671     |
| Finished goods and manufactured goods | 211,504    | 250,975    |
| Subtotal                              | 437,185    | 464,675    |
| Less: LIFO reserve                    | 53,619     | 43,727     |
|                                       | \$ 383,566 | \$ 420,948 |

## (7) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, at cost, consist of the following:

|                                | 2018         | 2017         |
|--------------------------------|--------------|--------------|
| Land and improvements          | \$ 99,797    | \$ 93,258    |
| Buildings and improvements     | 348,836      | 350,937      |
| Machinery and equipment        | 549,311      | 588,439      |
| Transportation equipment       | 24,380       | 23,682       |
| Office furniture and equipment | 85,239       | 82,025       |
| Construction in progress       | 53,302       | 27,346       |
|                                | \$ 1,160,865 | \$ 1,165,687 |

The Company leases certain facilities, machinery, computer equipment and transportation equipment under operating leases with unexpired terms ranging from one to twenty years. Rental expense for operating leases amounted to \$25,549, \$25,612, and \$24,756 for fiscal 2018, 2017, and 2016, respectively.

Minimum lease payments under operating leases expiring subsequent to December 29,

|                              | 2018 are:  |
|------------------------------|------------|
| Fiscal year ending           |            |
| 2019                         | \$ 18,757  |
| 2020                         | 16,830     |
| 2021                         | 13,992     |
| 2022                         | 11,932     |
| 2023                         | 8,866      |
| Subsequent                   | 76,438     |
| Total minimum lease payments | \$ 146,815 |

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

(8) GOODWILL AND INTANGIBLE ASSETS

Amortized Intangible Assets  
The components of amortized intangible assets at December 29, 2018 and December 30, 2017 were as follows:

|                                  | December 29, 2018           |                             |                             |
|----------------------------------|-----------------------------|-----------------------------|-----------------------------|
|                                  | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Weighted<br>Average<br>Life |
| Customer Relationships           | \$219,508                   | \$ 132,180                  | 13 years                    |
| Patents & Proprietary Technology | 23,662                      | 4,837                       | 14 years                    |
| Other                            | 7,971                       | 6,891                       | 5 years                     |
|                                  | \$251,141                   | \$ 143,908                  |                             |
|                                  | December 30, 2017           |                             |                             |
|                                  | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization | Weighted<br>Average<br>Life |
| Customer Relationships           | \$200,810                   | \$ 131,062                  | 13 years                    |
| Patents & Proprietary Technology | 6,693                       | 3,999                       | 11 years                    |
| Other                            | 8,532                       | 7,228                       | 5 years                     |
|                                  | \$216,035                   | \$ 142,289                  |                             |

Amortization expense for intangible assets was \$15,328, \$15,911 and \$15,935 for the fiscal years ended December 29, 2018, December 30, 2017 and December 31, 2016, respectively.

Estimated annual amortization expense related to finite lived intangible assets is as follows:

| Estimated<br>Amortization<br>Expense |
|--------------------------------------|
| 2019\$ 16,170                        |
| 2020 15,082                          |
| 2021 13,079                          |
| 2022 10,976                          |
| 2023 9,264                           |

The useful lives assigned to finite lived intangible assets included consideration of factors such as the Company's past and expected experience related to customer retention rates, the remaining legal or contractual life of the underlying arrangement that resulted in the recognition of the intangible asset and the Company's expected use of the intangible asset.

Non-amortized intangible assets  
Intangible assets with indefinite lives are not amortized. The carrying values of trade names at December 29, 2018 and December 30, 2017 were as follows:

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

## (8) GOODWILL AND INTANGIBLE ASSETS (Continued)

|                                | December 29,<br>2018 | December 30,<br>2017 | Year Acquired |
|--------------------------------|----------------------|----------------------|---------------|
| Newmark                        | \$ 11,111            | \$ 11,111            | 2004          |
| Webforge                       | 8,872                | 9,432                | 2010          |
| Valmont SM                     | 8,155                | 9,973                | 2014          |
| Ingal EPS/Ingal Civil Products | 7,233                | 7,690                | 2010          |
| Donhad                         | —                    | 5,801                | 2010          |
| Shakespeare                    | 4,000                | 4,000                | 2014          |
| Walpar                         | 4,300                | —                    | 2018          |
| Convert                        | 8,580                | —                    | 2018          |
| Other                          | 16,472               | 16,846               |               |
|                                | \$ 68,723            | \$ 64,853            |               |

In its determination of these intangible assets as indefinite lived, the Company considered such factors as its expected future use of the intangible asset, legal, regulatory, technological and competitive factors that may impact the useful life or value of the intangible asset and the expected costs to maintain the value of the intangible asset. The Company expects that these intangible assets will maintain their value indefinitely.

Accordingly, these assets are not amortized.

The Company's trade names were tested for impairment separately from goodwill in the third quarter of 2018. The values of each trade name was determined using the relief-from-royalty method. Based on this evaluation, the value of the offshore and other complex steel structures (Valmont SM) trade name was deemed to be impaired and the Company recorded a charge of \$1,425. No other trade names were determined to be

impaired.

Goodwill

The carrying amount of goodwill by segment as of December 29, 2018 and December 30, 2017 was as follows:

|                                    | Engineered<br>Support<br>Structures<br>Segment | Utility<br>Support<br>Structures<br>Segment | Coatings<br>Segment | Irrigation<br>Segment | Other     | Total      |
|------------------------------------|--|---|---------------------|-----------------------|-----------|------------|
| Gross Balance at December 30, 2017 | \$ 170,076                                     | \$ 90,248                                   | \$ 76,696           | \$ 19,778             | \$ 15,814 | \$ 372,612 |
| Accumulated impairment losses      | (18,670 )                                      | —   | (16,222 )           | —                     | —         | (34,892 )  |
| Balance at December 30, 2017       | 151,406  | 90,248                                      | 60,474              | 19,778                | 15,814    | \$ 337,720 |
| Acquisitions                       | 42,216   | 34,280                                      | 5,120               | 5,503                 | —         | 87,119     |
| Impairment                         | —  | (14,355 )                                   | —                   | —                     | —         | (14,355 )  |
| Divestiture of grinding media      | —  | —   | —                   | —                     | (15,814 ) | (15,814 )  |
| Foreign currency translation       | (7,557 )                                       | (910 )                                      | (879 )              | (117 )                | —         | (9,463 )   |

|                                 |            |            |           |           |     |            |
|---------------------------------|------------|------------|-----------|-----------|-----|------------|
| Balance at December<br>29, 2018 | \$ 186,065 | \$ 109,263 | \$ 64,715 | \$ 25,164 | \$— | \$ 385,207 |
|---------------------------------|------------|------------|-----------|-----------|-----|------------|



VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

## (8) GOODWILL AND INTANGIBLE ASSETS (Continued)

|                                       | Engineered<br>Support<br>Structures<br>Segment | Utility<br>Support<br>Structures<br>Segment | Coatings<br>Segment | Irrigation<br>Segment | Other     | Total      |
|---------------------------------------|--|---|---------------------|-----------------------|-----------|------------|
| Gross Balance at<br>December 31, 2016 | \$ 157,689                                     | \$ 88,451                                   | \$ 75,791           | \$ 19,611             | \$ 14,460 | \$ 356,002 |
| Accumulated<br>impairment losses      | (18,670 )                                      | —   | (16,222 )           | —                     | —         | (34,892 )  |
| Balance at December<br>31, 2016       | 139,019  | 88,451                                      | 59,569              | 19,611                | 14,460    | 321,110    |
| Acquisitions                          | 3,449  | —   | —                   | —                     | —         | 3,449      |
| Foreign currency<br>translation       | 8,938  | 1,797                                       | 905                 | 167                   | 1,354     | 13,161     |
| Balance at December<br>30, 2017       | \$ 151,406                                     | \$ 90,248                                   | \$ 60,474           | \$ 19,778             | \$ 15,814 | \$ 337,720 |

The Company's annual impairment test of goodwill was performed during the third quarter of 2018, using the discounted cash flow method. The Company previously highlighted significant, adverse challenges in the wind energy market in Northern Europe that impacts our Offshore and other complex steel structures business. A lack of protective tariffs has led to an extremely competitive environment in that region. Lower near-term financial projections and an approximately 15% decline in the undiscounted terminal value applied in the 2018 test, when compared to the 2017 annual impairment test, is a result of challenging onshore wind and energy transmission structures pricing that is difficult to predict when it will recover. This resulted in an estimated fair value of the Offshore and other complex steel structures reporting unit below the Company's investment in this business. As a result, a goodwill impairment was recorded in the third quarter totaling \$14,355, which represents all of the goodwill of the offshore and other complex steel reporting unit.

## (9) BANK CREDIT ARRANGEMENTS

The Company maintains various lines of credit for short-term borrowings totaling \$137,679 at December 29, 2018. As of December 29, 2018 and December 30, 2017, \$10,678 and \$161 was outstanding and recorded as notes payable in the Consolidated Balance Sheets, respectively. The interest rates charged on these lines of credit vary in relation to the banks' costs of funds. The weighted average interest rate on short-term borrowings was 1.37% at December 29, 2018. The unused and available borrowings under the lines of credit were \$127,001 at December 29, 2018. The lines of credit can be modified at any time at the option of the banks. The Company pays no fees in connection with unused lines of credit.

## (10) INCOME TAXES

Earnings before income taxes and equity in earnings of nonconsolidated subsidiaries are as follows:

|               | 2018       | 2017       | 2016       |
|---------------|------------|------------|------------|
| United States | \$ 127,852 | \$ 152,372 | \$ 136,682 |

|         |           |           |           |
|---------|-----------|-----------|-----------|
| Foreign | 15,589    | 76,092    | 83,772    |
|         | \$143,441 | \$228,464 | \$220,454 |

In fiscal 2017, the Company estimated and recognized approximately \$41,935 of tax expense for the 2017 Tax Act. The SEC staff issued SAB 118, which provided guidance on accounting for the tax effects of the 2017 Tax Act.

The Company's accounting for the following element of the 2017 Tax Act was finalized as of December 30, 2017:

Reduction of U.S. federal corporate tax rate: The 2017 Tax Act reduces the corporate tax rate to 21 percent, effective January 1, 2018. Consequently, we have recorded a decrease related to deferred taxes of \$20,372, with a corresponding net adjustment to deferred income tax expense for the year ended December 30, 2017.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

(10) INCOME TAXES (Continued)

The Company's accounting for the following elements of the 2017 Tax Act were provisional estimates at December 30, 2017, and were finalized as of December 29, 2018 as follows:

**Deemed Repatriation transition tax:** The Deemed Repatriation transition tax ("Transition Tax") is a tax on unremitted foreign earnings of certain foreign subsidiaries, which subjected the Company's unremitted foreign earnings of approximately \$394,000 to tax at certain specified rates less associated foreign tax credits. The Company recorded a Transition Tax obligation of \$9,890 during fiscal 2017 and reduced this expense by \$550 in 2018 upon finalization.

**Indefinite reinvestment assertion:** The Company position remains that unremitted foreign earnings subject to the Transition Tax are not indefinitely reinvested. The Company recorded foreign withholding taxes and U.S. state income taxes of \$10,373 and \$1,300. This expense was recorded in 2017 with a decrease of only \$140 recognized in 2018 as it was finalized. In addition, the Company has taken the position that on non-U.S. subsidiaries, the 2018 unremitted foreign earnings are not indefinitely reinvested and it recorded additional foreign withholding taxes and U.S. state income taxes of \$918 and \$99, respectively during 2018.

Income tax expense (benefit) consists of:

|                     | 2018     | 2017      | 2016      |
|---------------------|----------|-----------|-----------|
| <b>Current:</b>     |          |           |           |
| Federal             | \$21,106 | \$49,324  | \$41,539  |
| State               | 6,585    | 4,415     | 5,467     |
| Foreign             | 17,559   | 12,880    | 19,123    |
|                     | 45,250   | 66,619    | 66,129    |
| <b>Non-current:</b> | (456 )   | (229 )    | (381 )    |
| <b>Deferred:</b>    |          |           |           |
| Federal             | 213      | (9,626 )  | 8,504     |
| State               | 9        | (385 )    | 202       |
| Foreign             | (1,881 ) | 49,766    | (32,391 ) |
|                     | (1,659 ) | 39,755    | (23,685 ) |
|                     | \$43,135 | \$106,145 | \$42,063  |



VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

## (10) INCOME TAXES (Continued)

The reconciliations of the statutory federal income tax rate and the effective tax rate follows:

|  | 2018   | 2017   | 2016   |
|--|--------|--------|--------|
| Statutory federal income tax rate                          | 21.0 % | 35.0 % | 35.0 % |
| State income taxes, net of federal benefit                 | 3.5    | 1.4    | 1.7    |
| Carryforwards, credits and changes in valuation allowances | 3.2    | (1.4 ) | 2.9    |
| Foreign tax rate differences                               | (1.0 ) | (4.1 ) | (4.8 ) |
| Changes in unrecognized tax benefits                       | (0.3 ) | (0.1 ) | (0.2 ) |
| Domestic production activities deduction                   | —      | (2.1 ) | (2.0 ) |
| Goodwill impairment  | 2.2    | —      | —      |
| UK tax rate reduction                                      | —      | —      | 1.0    |
| Reversal of contingent liability                           | —      | —      | (2.2 ) |
| UK defined benefit pension plan                            | —      | —      | (14.6) |
| Effects of 2017 Tax Act                                    | (0.5 ) | 18.4   | —      |
| Other  | 2.0    | (0.6 ) | 2.3    |
|  | 30.1 % | 46.5 % | 19.1 % |

Fiscal 2018 includes \$3,171 of tax expense related to non tax deductible goodwill and \$6,756 of tax expense primarily related to restructuring charges for which no tax benefits have been recorded due to the increase in valuation allowance. Fiscal 2017 includes \$41,935 of tax expense related to the 2017 Tax Act. Fiscal 2016 includes \$32,450 of deferred income tax benefit attributable to the re-measurement of the deferred tax asset related to the Company's U.K. defined benefit pension plan. This item arose from a 2016 international legal reorganization executed to better reflect the Company's operational business strategies. The Company considered many factors in effecting this realignment, including streamlining treasury functions, creating a platform for future growth, and capital allocation considerations. In addition, in fiscal 2016 the Company recorded a \$9,888 valuation allowance against a tax credit which is not more likely than not to be realized. The reversal of a \$16,591 contingent non-current liability in 2016 was not taxable.

Deferred income taxes reflect the net tax effects of (a) temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, and (b) operating loss and tax credit carryforwards. The tax effects of significant items comprising the Company's net deferred income tax liabilities are as follows:



VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

## (10) INCOME TAXES (Continued)

|   | 2018      | 2017      |
|---|-----------|-----------|
| Deferred income tax assets:             |           |           |
| Accrued expenses and allowances         | \$4,354   | \$13,373  |
| Accrued insurance                       | 644       | 818       |
| Tax credits and loss carryforwards      | 56,867    | 54,521    |
| Defined benefit pension liability       | 36,328    | 47,459    |
| Inventory allowances                    | 4,384     | 3,433     |
| Accrued warranty                        | 3,914     | 4,602     |
| Deferred compensation                   | 28,706    | 29,421    |
| Gross deferred income tax assets        | 135,197   | 153,627   |
| Valuation allowance                     | (33,228 ) | (27,864 ) |
| Net deferred income tax assets          | 101,969   | 125,763   |
| Deferred income tax liabilities:        |           |           |
| Work in progress                        | 1,064     | 1,805     |
| Property, plant and equipment           | 25,477    | 26,826    |
| Intangible assets                       | 44,850    | 39,613    |
| Future repatriation of foreign earnings | 2,746     | 11,673    |
| Other liabilities                       | 4,545     | 1,819     |
| Total deferred income tax liabilities   | 78,682    | 81,736    |
| Net deferred income tax asset           | \$23,287  | \$44,027  |

Deferred income tax assets (liabilities) are presented as follows on the Consolidated

|                               | Balance Sheets: |           |
|-------------------------------|-----------------|-----------|
| Balance Sheet Caption         | 2018            | 2017      |
| Other assets                  | \$66,776        | \$78,933  |
| Deferred income taxes         | (43,489 )       | (34,906 ) |
| Net deferred income tax asset | \$23,287        | \$44,027  |

Management of the Company has reviewed recent operating results and projected future operating results. The Company's belief that realization of its net deferred tax assets is more likely than not is based on, among other factors, changes in operations that have occurred in recent years and available tax planning strategies. At December 29, 2018 and December 30, 2017 respectively, there were \$56,867 and \$54,521 relating to tax credits and loss carryforwards. During 2017, several dormant UK legal entities were placed in liquidation resulting in a reduction of the capital loss carryforward of \$60,691. This reduction was fully offset by a reduction in the related valuation allowance.

Valuation allowances have been established for certain losses that reduce deferred tax assets to an amount that will, more likely than not, be realized. The deferred tax assets at December 29, 2018 that are associated with tax loss and tax credit carryforwards not reduced by valuation allowances expire in periods starting 2021.

Uncertain tax positions included in other non-current liabilities are evaluated in a two-step process, whereby (1) the Company determines whether it is more likely than not that the tax positions will be sustained based on the technical merits of the position and

(2) for those tax positions that meet the more likely than not recognition threshold, the Company would recognize the largest amount of tax benefit that is greater than fifty percent likely to be realized upon ultimate settlement with the related tax authority.



VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

## (10) INCOME TAXES (Continued)

The following summarizes the activity related to our unrecognized tax benefits in 2018 and 2017, in thousands:

|   | 2018    | 2017     |
|---|---------|----------|
| Gross unrecognized tax benefits—beginning of year | \$3,196 | \$3,400  |
| Gross increases—tax positions in prior period     | 103     | 5        |
| Gross decreases—tax positions in prior period     | (199 )  | —        |
| Gross increases—current period tax positions      | 280     | 1,044    |
| Settlements with taxing authorities               | (50 )   | (65 )    |
| Lapse of statute of limitations                   | (731 )  | (1,188 ) |
| Gross unrecognized tax benefits—end of year       | \$2,599 | \$3,196  |

There are approximately \$766 of uncertain tax positions for which reversal is reasonably possible during the next 12 months due to the closing of the statute of limitations. The nature of these uncertain tax positions is generally the computation of a tax deduction or tax credit. During 2018, the Company recorded a reduction of its gross unrecognized tax benefit of \$731 with \$577 recorded as a reduction of income tax expense, due to the expiration of statutes of limitation in the United States. During 2017, the Company recorded a reduction of its gross unrecognized tax benefit of \$1,188, with \$772 recorded as a reduction of its income tax expense, due to the expiration of statutes of limitation in the United States. In addition to these amounts, there was an aggregate of \$196 and \$187 of interest and penalties at December 29, 2018 and December 30, 2017, respectively. The Company's policy is to record interest and penalties directly related to income taxes as income tax expense in the Consolidated Statements of Earnings.

The Company files income tax returns in the U.S. and various states as well as foreign jurisdictions. Tax years 2015 and forward remain open under U.S. statutes of limitation.

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$2,536 and \$3,059 at December 29, 2018 and December 30, 2017, respectively.

## (11) LONG-TERM DEBT

Long-term debt is as follows:

|   | December 29,<br>2018 | December 30,<br>2017 |
|---|----------------------|----------------------|
| 5.00% senior unsecured notes due 2044(a)                              | \$ 450,000           | \$ 250,000           |
| 5.25% senior unsecured notes due 2054(b)                              | 305,000              | 250,000              |
| Unamortized discount on 5.00% and 5.25% senior unsecured notes (a)(b) | (21,468 )            | (4,312 )             |
| 6.625% senior unsecured notes due 2020(c)                             | —                    | 250,200              |
| Unamortized premium on 6.625% senior unsecured notes(c)               | —                    | 2,545                |
| Revolving credit agreement (d)  | 5,719                | —                    |
| IDR Bonds(e)  | 8,500                | 8,500                |
| Other notes   | 2,918                | 4,033                |
| Debt issuance costs   | (8,068 )             | (6,112 )             |
| Long-term debt  | 742,601              | 754,854              |

|  |            |            |
|--|------------|------------|
| Less current installments of long-term debt    | 779        | 966        |
| Long-term debt, excluding current installments | \$ 741,822 | \$ 753,888 |

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Three-year period ended December 29, 2018  
 (Dollars in thousands, except per share amounts)

(11) LONG-TERM DEBT (Continued)

The 5.00% senior unsecured notes due 2044 include an aggregate principal amount of \$450,000 on which interest is paid and an unamortized discount balance of \$13,930 at December 29, 2018. The notes bear interest at 5.000% per annum and are due on October 1, 2044. The discount will be amortized and recognized as interest expense as interest payments are made over the term of the notes. The notes may be repurchased prior to maturity in whole, or in part, at any time at 100% of their principal amount plus a make-whole premium and accrued and unpaid interest. These notes are guaranteed by certain subsidiaries of the Company.

The 5.25% senior unsecured notes due 2054 include an aggregate principal amount of \$305,000 on which interest is paid and an unamortized discount balance of \$7,538 at December 29, 2018. The notes bear interest at 5.250% per annum and are due on October 1, 2054. The discount will be amortized and recognized as interest expense as interest payments are made over the term of the notes. The notes may be repurchased prior to maturity in whole, or in part, at any time at 100% of their principal amount plus a make-whole premium and accrued and unpaid interest. These notes are guaranteed by certain subsidiaries of the Company.

On June 11, 2018, the Company notified the holders of the 2020 bonds of its plan to redeem all of these bonds. On July 9, 2018, the Company redeemed all \$250,200 of the 2020 bonds at a make-whole redemption price equal to approximately \$266,000 plus approximately \$3,600 of accrued and unpaid interest on the notes from April 20, 2018 to July 8, 2018. The Company recognized \$14,820 of redemption related expenses, including the recognition of the unamortized premium, in the third quarter of 2018.

On October 18, 2017, the Company amended and restated its revolving credit facility with JP Morgan Chase Bank, N.A., as Administrative Agent, and the other lenders party thereto. The credit facility provides for \$600,000 of committed unsecured revolving credit loans. The Company may increase the credit facility by up to an additional \$200,000 at any time, subject to lenders increasing the amount of their commitments. This amendment extends the maturity date of the credit facility from October 17, 2019 to October 18, 2022 and increases the available borrowings in foreign currencies from \$200 million to \$400 million. The interest rate on the borrowings will be, at the Company's option, either:

LIBOR (based on a 1, 2, 3 or 6 month interest period, as selected by the Company) plus 100 to 162.5 basis points, depending on the credit rating of the Company's senior debt published by Standard & Poor's Rating Services and Moody's Investors Service, Inc., or;

(ii) the higher of  
 the prime lending rate,  
 the Federal Funds rate plus 50 basis points, and  
 LIBOR (based on a 1 month interest period) plus 100 basis points,  
 plus, in each case, 0 to 62.5 basis points, depending on the credit rating of the Company's senior debt published by Standard & Poor's Rating Services and Mood's Investors Service, Inc.

At December 29, 2018, the Company had \$5,719 outstanding borrowings under the revolving credit facility. The revolving credit facility has a maturity date of October 18, 2022 and contains certain financial covenants that may limit additional borrowing capability under the agreement. At December 29, 2018, the Company had the ability to borrow \$579,651 under this facility, after consideration of standby letters of credit of \$14,630 associated with certain insurance obligations. We also maintain certain short-term bank lines of credit totaling \$137,679, \$127,001 of which was unused at December 29, 2018.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
 Three-year period ended December 29, 2018  
 (Dollars in thousands, except per share amounts)

(11) LONG-TERM DEBT (Continued)

The Industrial Development Revenue Bonds were issued to finance the construction of a manufacturing facility in Jasper, Tennessee. Variable interest is payable until final maturity on June 1, 2025. The effective interest rates at December 29, 2018 and December 30, 2017 were 3.27% and 2.00% respectively.

The lending agreements include certain maintenance covenants, including financial leverage and interest coverage. The Company was in compliance with all financial debt covenants at December 29, 2018. The minimum aggregate maturities of long-term debt for each of the five years following 2018 are: \$779, \$778, \$778, \$582 and \$0.

The obligations arising under the 5.00% senior unsecured notes due 2044, the 5.25% senior unsecured notes due 2054, the 6.625% senior unsecured notes due 2020, and the revolving credit facility are guaranteed by the Company and its wholly-owned subsidiaries PiRod, Inc., Valmont Coatings, Inc., Valmont Newmark, Inc., and Valmont Queensland Pty. Ltd.

(12) STOCK-BASED COMPENSATION

The Company maintains stock based compensation plans approved by the shareholders, which provide that the Human Resource Committee of the Board of Directors may grant incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock awards, restricted stock units, and bonuses of common stock. At December 29, 2018, 1,418,611 shares of common stock remained available for issuance under the plans. Shares and options issued and available are subject to changes in capitalization.

The Company's policy is to issue shares upon exercise of stock options or vesting of restricted stock units or issuance of restricted stock from treasury shares held by the Company.

Under the stock option plans, the exercise price of each option equals the market price at the time of the grant. Options vest beginning on the first anniversary of the grant in equal amounts over three years or on the fifth anniversary of the grant. Expiration of grants is seven years from the date of grant. The Company recorded \$4,064, \$5,137 and \$5,782 of compensation expense (included in selling, general and administrative expenses) in the 2018, 2017 and 2016 fiscal years, respectively. The associated tax benefits recorded in the 2018, 2017 and 2016 fiscal years was \$1,016, \$1,952 and \$2,197, respectively. At December 29, 2018, the amount of unrecognized stock option compensation expense, to be recognized over a weighted average period of 2.44 years, was approximately \$5,940.

The Company uses a binomial option pricing model to value its stock options. The fair value of each option grant made in 2018, 2017 and 2016 was estimated using the following assumptions:

|                                 | 2018    | 2017    | 2016    |
|---------------------------------|---------|---------|---------|
| Expected volatility             | 33.39 % | 33.76 % | 33.88 % |
| Risk-free interest rate         | 2.67 %  | 2.12 %  | 1.83 %  |
| Expected life from vesting date | 3.0 yrs | 3.0 yrs | 3.0 yrs |
| Dividend yield                  | 1.07 %  | 1.17 %  | 1.13 %  |



VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

## (12) STOCK-BASED COMPENSATION (Continued)

Following is a summary of the stock option activity during 2016, 2017 and 2018:

|  | Number<br>of<br>Shares | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value |
|--|------------------------|--|---|---------------------------------|
| Outstanding at December 26, 2015                           | 849,609                | \$ 117.42                                |   |                                 |
| Granted  | 85,092                 | 151.37                                   |   |                                 |
| Exercised  | (109,893)              | 101.69                                   |   |                                 |
| Forfeited  | (31,635 )              | 129.36                                   |   |                                 |
| Outstanding at December 31, 2016                           | 793,173                | \$ 122.77                                | 4.78  | \$ 16,640                       |
| Options vested or expected to vest at<br>December 31, 2016 | 774,139                | \$ 124.18                                | 4.75  | 16,200                          |
| Options exercisable at December 31, 2016                   | 469,844                | \$ 123.75                                | 3.96  | 9,056                           |

The weighted average per share fair value of options granted during 2016 was \$40.00.

|  | Number<br>of<br>Shares | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value |
|--|------------------------|--|---|---------------------------------|
| Outstanding at December 31, 2016                           | 793,173                | \$ 122.77                                |   |                                 |
| Granted  | 67,965                 | 164.35                                   |   |                                 |
| Exercised  | (284,574)              | 121.92                                   |   |                                 |
| Forfeited  | (5,942 )               | 104.26                                   |   |                                 |
| Outstanding at December 30, 2017                           | 570,622                | \$ 128.34                                | 4.66  | \$ 21,806                       |
| Options vested or expected to vest at<br>December 30, 2017 | 558,114                | \$ 128.00                                | 4.63  | 21,517                          |
| Options exercisable at December 30, 2017                   | 351,794                | \$ 123.90                                | 3.94  | 15,005                          |

The weighted average per share fair value of options granted during 2017 was \$43.68.

|  | Number<br>of<br>Shares | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Term | Aggregate<br>Intrinsic<br>Value |
|--|------------------------|--|---|---------------------------------|
| Outstanding at December 30, 2017                           | 570,622                | \$ 128.34                                |   |                                 |
| Granted  | 105,135                | 112.08                                   |   |                                 |
| Exercised  | (63,717 )              | 106.26                                   |   |                                 |
| Forfeited  | (33,627 )              | 129.52                                   |   |                                 |
| Outstanding at December 29, 2018                           | 578,413                | \$ 127.74                                | 4.35  | \$ 909                          |
| Options vested or expected to vest at<br>December 29, 2018 | 565,952                | \$ 127.84                                | 4.30  | 909                             |
| Options exercisable at December 29, 2018                   | 405,128                | \$ 126.61                                | 3.47  | 909                             |

The weighted average per share fair value of options granted during 2018 was \$30.48.





VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

(12) STOCK-BASED COMPENSATION (Continued)

Following is a summary of the status of stock options outstanding at December 29, 2018:  
Outstanding and Exercisable By Price Range

| Options Outstanding  |         |   | Options Exercisable             |         |                                 |
|----------------------|---------|---|---------------------------------|---------|---------------------------------|
| Exercise Price Range | Number  | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Number  | Weighted Average Exercise Price |
| \$104.47 - 114.11    | 277,757 | 5.09 years                                  | \$ 107.39                       | 171,607 | \$ 104.47                       |
| \$120.91 - 136.42    | 114,910 | 2.25 years                                  | 134.02                          | 114,627 | 134.01                          |
| \$142.67 - 164.35    | 185,746 | 4.55 years                                  | 154.31                          | 118,894 | 151.44                          |
|                      | 578,413 |   |                                 | 405,128 |                                 |

In accordance with shareholder-approved plans, the Human Resource Committee of the Board of Directors may grant stock under various stock based compensation arrangements, including restricted stock awards, restricted stock units, and stock issued in lieu of cash bonuses. Under such arrangements, stock is issued without direct cost to the employee. The restricted stock units are settled in Company stock when the restriction period ends. Restricted stock units and awards generally vest in equal installments over three years beginning on the first anniversary of the grant. During fiscal 2018, 2017 and 2016, the Company granted restricted stock units to directors and certain management employees as follows (which are not included in the above stock plan activity tables):

|  | 2018      | 2017      | 2016      |
|--|-----------|-----------|-----------|
| Shares granted                                 | 88,127    | 62,160    | 58,961    |
| Weighted average per share price on grant date | \$ 114.89 | \$ 163.18 | \$ 150.48 |
| Recognized compensation expense                | \$ 6,328  | \$ 5,569  | \$ 4,069  |

At December 29, 2018 the amount of deferred stock based compensation granted, to be recognized over a weighted average period of 1.82 years, was approximately \$17,754.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

## (13) EARNINGS PER SHARE

The following table provides a reconciliation between Basic and Diluted earnings per share (EPS):

|   | Basic<br>EPS | Dilutive<br>Effect<br>of<br>Stock<br>Options | Diluted<br>EPS |
|---|--------------|--|----------------|
| 2018:   |              |  |                |
| Net earnings attributable to Valmont Industries, Inc. | \$94,351     | \$ —   | \$94,351       |
| Weighted average shares outstanding (000's)           | 22,306       | 140  | 22,446         |
| Per share amount                                      | \$4.23       | \$ 0.03                                      | \$4.20         |
| 2017:   |              |  |                |
| Net earnings attributable to Valmont Industries, Inc. | \$ 116,240   | \$ —   | \$ 116,240     |
| Weighted average shares outstanding (000's)           | 22,520       | 218  | 22,738         |
| Per share amount                                      | \$5.16       | \$ 0.05                                      | \$5.11         |
| 2016:   |              |  |                |
| Net earnings attributable to Valmont Industries, Inc. | \$ 173,232   | \$ —   | \$ 173,232     |
| Weighted average shares outstanding (000's)           | 22,562       | 147  | 22,709         |
| Per share amount                                      | \$7.68       | \$ 0.05                                      | \$7.63         |

Basic and diluted net earnings and earnings per share in fiscal 2018 was impacted by impairments of goodwill and intangible assets of \$14,736 after-tax (\$0.66 per share), restructuring expenses and non-recurring asset impairments arising from exiting certain local markets of \$37,779 after-tax (\$1.68 per share), refinancing of long-term debt expenses of \$11,115 after-tax (\$0.50 per share), and a loss from the divestiture of the grinding media business of \$5,350 after-tax (\$0.24 per share).

Basic and diluted net earnings and earnings per share in fiscal 2017 were impacted by the 2017 Tax Act enacted on December 22, 2017 by the U.S. government. We remeasured our U.S. deferred income tax assets using a blended rate of 25.0% recognizing deferred income tax expense of approximately \$20,372 (\$0.90 per share). We also recorded a provision charge of approximately \$9,890 (\$0.44 per share) of income tax expense for the deemed repatriation transition tax and \$11,673 (\$0.51 per share) of deferred expenses related to foreign withholding taxes and U.S. state income taxes.

Basic and diluted net earnings and earnings per share in fiscal 2016 included a deferred income tax benefit of \$30,590 (\$1.35 per share) primarily attributable to the re-measurement of the deferred tax asset related to the Company's U.K. defined benefit pension plan. In addition, fiscal 2016 included \$9,888 (\$0.44 per share) recorded as a valuation allowance against a tax credit asset. Finally, fiscal 2016 included the reversal of a contingent liability that was recognized as part of the Delta purchase accounting of \$16,591 (\$0.73 per share) which was not taxable.

Earnings per share are computed independently for each of the quarters. Therefore, the sum of the quarterly earnings per share may not equal the total for the year.

At the end of fiscal years 2018, 2017, and 2016 there were 406,806, 0, and 197,303 outstanding stock options, respectively, with exercise prices exceeding the market price

of common stock that were excluded from the computation of diluted earnings per share,  
respectively.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

(14) EMPLOYEE RETIREMENT SAVINGS PLAN

Established under Internal Revenue Code Section 401(k), the Valmont Employee Retirement Savings Plan (“VERSP”) is a defined contribution plan available to all eligible employees. Participants can elect to contribute up to 50% of annual pay, on a pretax and/or after-tax basis. The Company also makes contributions to the Plan and a non-qualified deferred compensation plan for certain Company executives. The 2018, 2017 and 2016 Company contributions to these plans amounted to approximately \$12,300, \$11,800 and \$10,900 respectively.

The Company sponsors a fully funded, non-qualified deferred compensation plan for certain Company executives who otherwise would be limited in receiving company contributions into VERSP under Internal Revenue Service regulations. The invested assets and related liabilities of these participants were approximately \$37,516 and \$39,091 at December 29, 2018 and December 30, 2017, respectively. Such amounts are included in “Other assets” and “Deferred compensation” on the Consolidated Balance Sheets.

Amounts distributed from the Company’s non-qualified deferred compensation plan to participants under the transition rules of section 409A of the Internal Revenue Code were approximately \$2,352 and \$2,672 at December 29, 2018 and December 30, 2017, respectively. All distributions were made in cash.

(15) DISCLOSURES ABOUT THE FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of cash and cash equivalents, receivables, accounts payable, notes payable to banks and accrued expenses approximate fair value because of the short maturity of these instruments. The fair values of each of the Company’s long-term debt instruments are based on the amount of future cash flows associated with each instrument discounted using the Company’s current borrowing rate for similar debt instruments of comparable maturity (Level 2). The fair value estimates are made at a specific point in time and the underlying assumptions are subject to change based on market conditions.

At December 29, 2018, the carrying amount of the Company’s long-term debt was \$742,601 with an estimated fair value of approximately \$683,602. At December 30, 2017, the carrying amount of the Company’s long-term debt was \$754,854 with an estimated fair value of approximately \$799,258.

For financial reporting purposes, a three level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date is used. Inputs refers broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1: Quoted market prices in active markets for identical assets or liabilities.
- Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Following is a description of the valuation methodologies used for assets and liabilities measured at fair value.

Trading Securities: The assets and liabilities recorded for the investments held in the Valmont Deferred Compensation Plan of \$37,516 (\$39,091 in 2017) represent mutual funds, invested in debt and equity securities, classified as trading securities, considering the employee's ability to change investment allocation of their deferred compensation at any time. The Company's remaining ownership in Delta EMD Pty. Ltd. (JSE:DTA) of \$2,508 (\$1,951 in 2017) is recorded at fair value at December 29, 2018. Quoted market prices are available for these securities in an active market and therefore categorized as a Level 1 input. These securities are included in Other Assets on the Consolidated Balance Sheets.

Derivative Financial Instruments: The fair value of foreign currency and commodity forward and cross currency contracts is based on a valuation model that discounts cash flows resulting from the differential between the contract price and the market-based forward rate.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

(15) DISCLOSURES ABOUT THE FAIR VALUE OF FINANCIAL INSTRUMENTS  
(Continued)

|   |                | Fair Value Measurement Using:                                  |   |   |
|---|----------------|--|---|---|
|   | Carrying Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Fair Value Measurement Using:           |                |  |   |   |
| Quoted Prices                           |                |  |   |   |
| Assets:                                 |                |  |   |   |
| Trading securities                      | \$ 40,024      | \$ 40,024  | \$ —  | \$ —                                      |
| Derivative financial instruments, net   | 9,147          | —  | 9,147   | —   |
| Fair Value Measurement Using:           |                |  |   |   |
| Quoted Prices                           |                |  |   |   |
|   | Carrying Value | in Active Markets for Identical Assets (Level 1)               | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets:                                 |                |  |   |   |
| Trading securities                      | \$ 41,042      | \$ 41,042  | \$ —  | \$ —                                      |
| Liabilities:                            |                |  |   |   |
| Derivative financial instruments (826 ) | —              | —  | (826 )  | —   |

(16) DERIVATIVE FINANCIAL INSTRUMENTS

The Company manages interest rate risk, commodity price risk, and foreign currency risk related to foreign currency denominated transactions and investments in foreign subsidiaries. Depending on the circumstances, the Company may manage these risks by utilizing derivative financial instruments. Some derivative financial instruments are marked to market and recorded in the Company's consolidated statements of earnings, while others may be accounted for as fair value, cash flow, or net investment hedges. The Company had open foreign currency forward contracts that are marked to market at December 29, 2018, which are insignificant and thus excluded from the tables below. Derivative financial instruments have credit and market risk. The Company manages these risks of derivative instruments by monitoring limits as to the types and degree of risk that can be taken, and by entering into transactions with counterparties who are recognized, stable multinational banks. Fair value of derivative instruments at December 29, 2018 and December 30, 2017 are as follows:

Balance sheet location

| Derivatives designated as hedging instruments: |                                   | December 29, 2018 | December 30, 2017 |
|--|-----------------------------------|-------------------|-------------------|
| Commodity forward contracts                    | Prepaid expenses and other assets | \$ (285 )         | \$ —              |
| Foreign currency forward contracts             | Prepaid expenses and other assets | 8,357             | —                 |
| Foreign currency forward contracts             | Accrued expenses                  | —                 | (826 )            |
| Cross currency swap contracts                  | Prepaid expenses and other assets | 1,075             | —                 |
|  |                                   | \$ 9,147          | \$ (826 )         |

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

(16) DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Gains (losses) on derivatives recognized in the consolidated statements of earnings for the years ended December 29, 2018, December 30, 2017, and December 31, 2016 are as follows:

| Derivatives designated as hedging instruments: | Statements of earnings location                  | 2018     | 2017   | 2016   |
|--|--|----------|--------|--------|
| Commodity forward contracts                    | Product cost of sales                            | \$1,021  | \$—    | \$—    |
| Foreign currency forward contracts             | Loss from divestiture of grinding media business | (1,215 ) | —      | —      |
| Foreign currency forward contracts             | Other income (expense)                           | 782      | —      | —      |
| Interest rate contracts                        | Interest expense                                 | (423 )   | (74 )  | (74 )  |
| Cross currency swap contracts                  | Interest expense                                 | 828      | —      | —      |
|  |  | \$993    | \$(74) | \$(74) |

Cash Flow Hedges

In 2018, the Company entered into steel hot rolled coil (HRC) forward contracts which qualified as a cash flow hedge of the variability in the cash flows attributable to future steel purchases. The forward contracts have a notional amount of \$8,469 for the purchase of 3,500 short tons for each month from July 2018 to September 2018 and a notional amount of \$15,563 for the purchase of 6,500 short tons for each month from October 2018 to December 2018. The gain (loss) realized upon settlement is recorded in product cost of sales in the consolidated statements of earnings over average inventory turns. On June 19, 2018, the Company issued and sold \$200,000 aggregate principal amount of the Company's 5.00% senior notes due 2044 and \$55,000 aggregate principal amount of the Company's 5.25% senior notes due 2054. During the second quarter of 2018, the Company executed contracts to hedge the risk of potential fluctuations in the treasury rates on the 2044 Notes and 2054 Notes which would change the amount of net proceeds received from the debt offering. These contracts had a combined notional amount of \$175,000. On June 8, 2018, these contracts were settled with the Company paying \$2,467 to the counterparties which was recorded in OCI and will be amortized as an increase to interest expense over the term of the debt. Due to the retirement of the 2020 bonds in July 2018, the Company wrote off the remaining \$411 unamortized loss on the related cash flow hedge.

Net Investment Hedges

The Company previously executed two six-month foreign currency forward contracts which qualified as net investment hedges, in order to mitigate foreign currency risk on the grinding media business that was denominated in both Australian dollars and British pounds. Due to the sale of the grinding media business in the second quarter of 2018, the Company reclassified the net investment hedge loss of \$1,621 (\$1,215 after tax) from OCI to loss from divestiture of grinding media business in the Statements of Earnings. In the second quarter of 2018, the Company entered into two foreign currency forward contracts to mitigate foreign currency risk of the Company's investment in its Australian dollar and Euro denominated businesses. The forward contracts, which qualify as net investment hedges, have a maturity date of May 2020 and notional amounts to sell



Australian dollars and Euro to receive \$100,000 and \$50,000, respectively. Effective in the third quarter of 2018, in conjunction with the adoption of recently issued hedging accounting guidance (see Note 1 for further information), the Company elected as an accounting policy to change its method of assessing

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

(16) DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

effectiveness for all net investment hedges from the forward method to the spot method.

As a result of this election, all existing and future net investment hedges will be accounted for under the spot method. As an additional accounting policy election to be applied to similar hedges under this new standard, the initial value of any component excluded from the assessment of effectiveness will be recognized in income or expense using a systematic and rational method over the life of the hedging instrument. Due to the change in the method used to assess effectiveness from the forward to the spot method in the third quarter of 2018, the Euro and Australian dollar net investment hedges were de-designated. The forward contracts were then re-designated as net investment hedges under the spot method and the initial excluded component value related to the Australian dollar and Euro net investment hedges were \$538 and \$3,190, respectively, which the Company has elected to amortize in other income (expense) in the consolidated statements of earnings using the straight-line method over the remaining term of the contracts.

On August 24, 2018, the Company entered into three fixed-for-fixed cross currency swaps (“CCS”), swapping U.S. dollar principal and interest payments on a portion of its 5.00% senior unsecured notes due 2044 for Danish krone (DKK) and Euro denominated payments. The CCS were entered into in order to mitigate foreign currency risk on the Company's Euro and DKK investments and to reduce interest expense. Interest is exchanged twice per year on April 1 and October 1.

Key terms of the three CCS are as follows:

| Currency           | Notional Amount | Termination Date | Swapped Interest Rate | Settlement Amount |
|--------------------|-----------------|------------------|-----------------------|-------------------|
| Danish Kroner, DKK | \$ 60,000       | October 1, 2023  | 2.52%                 | DKK 386,118       |
| Euro               | \$ 25,000       | October 1, 2020  | 2.14%                 | €21,580           |
| Euro               | \$ 10,000       | October 1, 2021  | 2.29%                 | €8,631            |

The Company designated the full notional amount of the three CCS (\$95,000) as a hedge of the net investment in certain Danish and European subsidiaries under the spot method, with all changes in the fair value of the CCS that are included in the assessment of effectiveness (changes due to spot foreign exchange rates) are recorded as cumulative foreign currency translation within OCI, and will remain in OCI until either the sale or substantially complete liquidation of the related subsidiaries. Net interest receipts will be recorded as a reduction of interest expense over the life of the CCS.

(17) GUARANTEES

The Company's product warranty accrual reflects management's best estimate of probable liability under its product warranties. Historical product claims data is used to estimate the cost of product warranties at the time revenue is recognized. Changes in the product warranty accrual, which is recorded in “Accrued expenses”, for the years ended December 29, 2018 and December 30, 2017, were as follows:

|                              | 2018      | 2017      |
|------------------------------|-----------|-----------|
| Balance, beginning of period | \$ 20,109 | \$ 26,538 |
| Payments made                | (18,920 ) | (26,097 ) |

|   |          |          |
|---|----------|----------|
| Change in liability for warranties issued during the period | 13,566   | 9,787    |
| Change in liability for pre-existing warranties             | 2,253    | 9,881    |
| Balance, end of period                                      | \$17,008 | \$20,109 |

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

(18) COMMITMENTS & CONTINGENCIES

Various claims and lawsuits are pending against Company and certain of its subsidiaries. The Company cannot fully determine the effect of all asserted and unasserted claims on its consolidated results of operations, financial condition, or liquidity. Where asserted and unasserted claims are considered probable and reasonably estimable, a liability has been recorded. We do not expect that any known lawsuits, claims, environmental costs, commitments, or contingent liabilities will have a material adverse effect on our consolidated results of operations, financial condition, or liquidity.

The Company established a provision in 2010 to address a pre-acquisition contingency which arose from the Delta acquisition and was recognized as part of the purchase accounting. The applicable statutes of limitations expired and the Company determined this contingent liability is remote. Therefore in 2016, the Company reduced "Other noncurrent liabilities" by \$16,591, the amount of the provision, and recognized "Other income."

(19) DEFINED BENEFIT RETIREMENT PLAN

Delta Ltd., a wholly-owned subsidiary of the Company, is the sponsor of the Delta Pension Plan ("Plan"). The Plan provides defined benefit retirement income to eligible employees in the United Kingdom. Pension retirement benefits to qualified employees are 1.67% of final salary per year of service upon reaching the age of 65 years. This Plan has no active employees as members at December 29, 2018.

Funded Status

The Company recognizes the overfunded or underfunded status of the pension plan as an asset or liability. The funded status represents the difference between the projected benefit obligation (PBO) and the fair value of the plan assets. The PBO is the present value of benefits earned to date by plan participants, including the effect of assumed future salary increases (if applicable) and inflation. Plan assets are measured at fair value. Because the pension plan is denominated in British pounds sterling, the Company used exchange rates of \$1.349/£ and \$1.269/£ to translate the net pension liability into U.S. dollars at December 30, 2017 and December 29, 2018, respectively. The net funded status of \$143,904 at December 29, 2018 is recorded as a noncurrent liability. Projected Benefit Obligation and Fair Value of Plan Assets—The accumulated benefit obligation (ABO) is the present value of benefits earned to date, assuming no future compensation growth.

As there are no active employees in the plan, the ABO is equal to the PBO for all years presented. The underfunded ABO represents the difference between the PBO and the fair value of plan assets. On October 26, 2018, the High Court of Justice in the United Kingdom ruled that pension plans which offered guaranteed minimum pension ("GMP") benefits between 1990 and 1997 must ensure the benefit accrued between men and women were equal. The Company estimated the cost of GMP equalization at £9,500, which is being treated as a prior service cost at December 29, 2018. Changes in the PBO and fair value of plan assets for the pension plan for the period from December 31, 2016 to December 30, 2017 were as follows:



VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

(19) DEFINED BENEFIT RETIREMENT PLAN (Continued)

|                                 | Projected<br>Benefit<br>Obligation | Plan<br>Assets | Funded<br>status |
|---------------------------------|------------------------------------|----------------|------------------|
| Fair Value at December 31, 2016 | \$ 696,137                         | \$ 486,667     | \$(209,470)      |
| Employer contributions          | —                                  | 40,245         |                  |
| Interest cost                   | 18,152                             | —              |                  |
| Actual return on plan assets    | —                                  | 40,842         |                  |
| Benefits paid                   | (22,172 )                          | (22,172 )      |                  |
| Actuarial loss                  | 25,154                             | —              |                  |
| Currency translation            | 66,030                             | 48,167         |                  |
| Fair Value at December 31, 2017 | \$ 783,301                         | \$ 593,749     | \$(189,552)      |

Changes in the PBO and fair value of plan assets for the pension plan for the period from December 30, 2017 to December 29, 2018 were as follows:

|  | Projected<br>Benefit<br>Obligation | Plan<br>Assets | Funded<br>status |
|--|------------------------------------|----------------|------------------|
| Fair Value at December 30, 2017        | \$ 783,301                         | \$ 593,749     | \$(189,552)      |
| Employer contributions                 | —                                  | 1,537          |                  |
| Interest cost                          | 17,878                             | —              |                  |
| Prior service costs - GMP equalization | 12,056                             |                |                  |
| Actual return on plan assets           | —                                  | (32,120 )      |                  |
| Benefits paid                          | (28,207 )                          | (28,207 )      |                  |
| Actuarial gain                         | (95,480 )                          | —              |                  |
| Currency translation                   | (42,108 )                          | (31,423 )      |                  |
| Fair Value at December 29, 2018        | \$ 647,440                         | \$ 503,536     | \$(143,904)      |

Pre-tax amounts recognized in accumulated other comprehensive income (loss) as of December 29, 2018 and December 30, 2017 consisted of actuarial gains (losses):

|  |             |
|--|-------------|
| Balance December 31, 2016              | \$(156,878) |
| Actuarial loss                         | (1,789 )    |
| Currency translation loss              | (9,583 )    |
| Balance December 30, 2017              | (168,250 )  |
| Actuarial gain                         | 44,760      |
| Prior service costs - GMP equalization | (12,056 )   |
| Currency translation gain              | 5,358       |
| Balance December 29, 2018              | \$(130,188) |

The estimated amount to be amortized from accumulated other comprehensive income into net periodic benefit cost in 2019 is approximately \$1,650.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
 Three-year period ended December 29, 2018  
 (Dollars in thousands, except per share amounts)

(19) DEFINED BENEFIT RETIREMENT PLAN (Continued)

Assumptions—The weighted-average actuarial assumptions used to determine the benefit obligation at December 29, 2018 and December 30, 2017 were as follows:

| Percentages     | 2018   | 2017   |
|-----------------|--------|--------|
| Discount rate   | 2.90 % | 2.55 % |
| Salary increase | N/A    | N/A    |
| CPI inflation   | 2.20 % | 2.20 % |
| RPI inflation   | 3.30 % | 3.30 % |

Expense

Pension expense is determined based upon the annual service cost of benefits (the actuarial cost of benefits earned during a period) and the interest cost on those liabilities, less the expected return on plan assets. The expected long-term rate of return on plan assets is applied to the fair value of plan assets. Differences in actual experience in relation to assumptions are not recognized in net earnings immediately, but are deferred and, if necessary, amortized as pension expense.

The components of the net periodic pension expense for the fiscal years ended December 29, 2018 and December 30, 2017 were as follows:

|  | 2018       | 2017     |
|--|------------|----------|
| Net Periodic Benefit Cost:             |            |          |
| Interest cost                          | 17,878     | 18,152   |
| Expected return on plan assets         | (23,175)   | (20,486) |
| Amortization of actuarial loss         | 3,046      | 2,982    |
| Net periodic benefit expense (benefit) | \$ (2,251) | \$ 648   |

Assumptions—The weighted-average actuarial assumptions used to determine expense are as follows for fiscal 2018 and 2017:

| Percentages   | 2018   | 2017   |
|---------------|--------|--------|
| Discount rate | 2.55 % | 2.80 % |
|               | 4.29 % | 4.22 % |

|           |             |        |
|-----------|-------------|--------|
|           | Expected    |        |
|           | return on   |        |
|           | plan assets |        |
| CPI       |             |        |
| Inflation | 2.20 %      | 2.25 % |
| RPI       |             |        |
| Inflation | 3.30 %      | 3.35 % |

The discount rate is based on the yields of AA-rated corporate bonds with durational periods similar to that of the pension liabilities. The expected return on plan assets is based on our asset allocation mix and our historical return, taking into account current and expected market conditions. Inflation is based on expected changes in the consumer price index or the retail price index in the U.K. depending on the relevant plan provisions.



VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
 Three-year period ended December 29, 2018  
 (Dollars in thousands, except per share amounts)

(19) DEFINED BENEFIT RETIREMENT PLAN (Continued)

Cash Contributions

The Company completed negotiations with Plan trustees in 2016 regarding annual funding for the Plan. The annual contributions into the Plan are \$12,690 (£10,000) per annum as part of the Plan's recovery plan, along with a contribution to cover the administrative costs of the Plan of approximately \$1,396 (£1,100) per annum. The Company deferred its 2016 recovery plan contribution payment of £10,000, placing it into a restricted cash account. The restriction released in March 2017, when the Company contributed £10,000 to the Plan. The Company also made its required £10,000 annual contribution in March 2017 and prepaid the 2018 £10,000 contribution in December 2017 to the Plan.

Benefit Payments

The following table details expected pension benefit payments for the years 2019 through 2028:

|             |                   |
|-------------|-------------------|
| 2019        | \$12,790          |
| 2020        | <del>20,080</del> |
| 2021        | <del>20,095</del> |
| 2022        | <del>30,285</del> |
| 2023        | <del>30,300</del> |
| Years       | 173,470           |
| 2023 - 2028 |                   |

Asset Allocation Strategy

The investment strategy for pension plan assets is to maintain a diversified portfolio consisting of

- Long-term fixed income securities that are investment grade or government backed in nature;
- Common stock mutual funds in U.K. and non-U.K. companies, and;
- Diversified growth funds, which are invested in a number of investments, including common stock, fixed income funds, properties and commodities.

The Plan, as required by U.K. law, has an independent trustee that sets investment policy. The general strategy is to invest approximately 50% of the assets of the plan in common stock mutual funds and diversified growth funds, with the remainder of the investments in long-term fixed income securities, including corporate bonds and index-linked U.K. gilts. The trustees regularly consult with representatives of the plan sponsor and independent advisors on such matters.

The pension plan investments are held in a trust. The weighted average maturity of the corporate bond portfolio was 13 years at December 29, 2018.

Fair Value Measurements

The pension plan assets are valued at fair value. The following is a description of the valuation methodologies used for the investments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy.

Leveraged inflation-linked gilts (LDIs)—LDIs are a combination of U.K. government-backed securities (such as bonds or other fixed income securities issued directly by the U.K. Treasury) money market instruments, and derivatives combined to

give leveraged exposure to changes in the U.K. long-term interest and inflation rates. These funds are expected to offset a proportion of the impact changes in the long-term interest and inflation rates in the U.K. have on the pension plan's

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
 Three-year period ended December 29, 2018  
 (Dollars in thousands, except per share amounts)

(19) DEFINED BENEFIT RETIREMENT PLAN (Continued)

benefit plan obligation liability. The fair value recorded by the Plan is calculated using net asset value (NAV) for each investment.

Temporary Cash Investments— These investments consist of British pound sterling, reported in terms of U.S. dollars based on currency exchange rates readily available in active markets. These temporary cash investments are classified as Level 1 investments.

Corporate Bonds—Corporate bonds and debentures consist of fixed income securities issued by U.K. corporations. The fair value recorded by the Plan is calculated using NAV for each investment.

Corporate Stock—This investment category consists of common and preferred stock, including mutual funds, issued by U.K. and non-U.K. corporations. The fair value recorded by the Plan is calculated using NAV for each investment, except for one small holding that is actively traded (which is the level 1 investment).

Diversified growth funds - This investment category consists of diversified investment funds, whose holdings include common stock, fixed income funds, properties and commodities of U.K. and non-U.K. securities. The fair value recorded by the Plan is calculated using NAV for each investment.

Secured income asset (SIA) funds - This investment category consists of holdings which will have a high level of expected inflation linkage. Examples of underlying assets classes are rental streams and infrastructure debt. Due to the private nature of these investments, pricing inputs are not readily observable. Asset valuations are developed by the fund manager. These valuations are based on the application of public market multiples to private company cash flows, market transactions that provide valuation information for comparable companies, and other methods. The fair value recorded by the Plan is calculated using NAV.

At December 31, 2018 and December 31, 2017, the pension plan assets measured at fair value on a recurring basis were as follows:

| Quoted<br>Prices in<br>Active<br>Markets<br>for<br>December<br>31,<br>2018<br>Identical<br>Inputs<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total     |
|--|---|--|-----------|
| Plan<br>assets<br>at<br>fair<br>value:<br>Temporary<br>cash<br>investments                                     | \$ 1,040  | \$ —   | \$ 61,040 |

|   |          |    |  |
|---|----------|----|--|
| Corporate<br>506<br>stock   | —        | —  | 506  |
| Total<br>plan<br>net<br>assets  | \$61,546 | \$ | —\$61,546  |
| at<br>fair<br>value<br>Plan<br>assets<br>at<br>NAV:<br>Leveraged<br>inflation-linked<br>gilt<br>funds<br>Corporate<br>bonds<br>Corporate<br>stock<br>Secured<br>income<br>asset<br>funds<br>Total<br>plan<br>assets<br>at<br>NAV<br>Total<br>plan<br>assets |          |    | 122,711<br>80,454<br>183,750<br>55,075<br>441,990<br>\$503,536 |

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

## (19) DEFINED BENEFIT RETIREMENT PLAN (Continued)

| Quoted<br>Prices in<br>Active<br>Markets<br>for<br>December<br>31,<br>2017.<br>Identical<br>Inputs<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Total     |
|---|---|--|-----------|
| Plan<br>assets<br>at<br>fair<br>value:<br>Temporary<br>cash   |   |  | \$ 17,915 |
| investments   |   |  | —         |
| Corporate<br>stock  |   |  | 536       |
| Total<br>plan<br>net<br>assets  |   |  | \$ 18,451 |
| at<br>fair<br>value<br>Plan<br>assets<br>at<br>NAV:<br>Leveraged<br>inflation-linked<br>gilt<br>funds           |   |  | 158,011   |
| Corporate<br>bonds  |   |  | 88,905    |
| Corporate<br>stock  |   |  | 212,505   |
| Diversified<br>growth<br>funds  |   |  | 115,877   |
| Total<br>plan<br>assets   |   |  | 575,298   |

at  
NAV  
Total  
plan \$593,749  
assets

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

(20) BUSINESS SEGMENTS

The Company has four reportable segments based on its management structure. Each segment is global in nature with a manager responsible for segment operational performance and the allocation of capital within the segment. Net corporate expense is net of certain service related expenses that are allocated to business units generally on the basis of employee headcounts and sales dollars.

Reportable segments are as follows:

**ENGINEERED SUPPORT STRUCTURES:** This segment consists of the manufacture of engineered metal and composite poles, towers, and components for global lighting, traffic, and wireless communication markets, engineered access systems, integrated structure solutions for smart cities, and highway safety products;

**UTILITY SUPPORT STRUCTURES:** This segment consists of the manufacture of engineered steel and concrete structures for the global utility transmission, distribution, and generation applications, renewable energy generation equipment, and inspection services;

**COATINGS:** This segment consists of galvanizing, painting, and anodizing services; and

**IRRIGATION:** This segment consists of the manufacture of agricultural irrigation equipment, parts, services, tubular products, water management solutions, and technology for precision agriculture.

In addition to these four reportable segments, the Company had other businesses and activities that individually are not more than 10% of consolidated sales, operating income or assets. This includes the manufacture of forged steel grinding media for the mining industry and is reported in the "Other" category until its divestiture in 2018.

The accounting policies of the reportable segments are the same as those described in Note 1. The Company evaluates the performance of its business segments based upon operating income and invested capital. The Company does not allocate LIFO expense, interest expense, non-operating income and deductions, or income taxes to its business segments.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

| (20) BUSINESS SEGMENTS (Continued)          |                     |             |             |
|---|---------------------|-------------|-------------|
|   | Summary by Business |             |             |
|   | 2018                | 2017        | 2016        |
| <b>SALES:</b>                               |                     |             |             |
| Engineered Support Structures segment:      |                     |             |             |
| Lighting, Traffic, and Roadway Products     | \$706,582           | \$633,178   | \$612,868   |
| Communication Products                      | 149,817             | 171,718     | 162,148     |
| Access Systems                              | 130,481             | 133,206     | 131,703     |
| Engineered Support Structures segment       | 986,880             | 938,102     | 906,719     |
| Utility Support Structures segment:         |                     |             |             |
| Steel                                       | 637,979             | 658,604     | 538,284     |
| Concrete                                    | 111,875             | 99,738      | 90,256      |
| Engineered Solar Tracker Solutions          | 16,760              | —           | —           |
| Offshore and Other Complex Steel Structures | 92,559              | 100,773     | 107,824     |
| Utility Support Structures segment          | 859,173             | 859,115     | 736,364     |
| Coatings segment                            | 353,351             | 318,891     | 289,481     |
| Irrigation segment:                         |                     |             |             |
| North America                               | 386,683             | 369,832     | 351,436     |
| International                               | 246,983             | 282,598     | 223,768     |
| Irrigation segment                          | 633,666             | 652,430     | 575,204     |
| Other                                       | 23,080              | 76,300      | 83,110      |
| Total                                       | 2,856,150           | 2,844,838   | 2,590,878   |
| <b>INTERSEGMENT SALES:</b>                  |                     |             |             |
| Engineered Support Structures               | 19,522              | 25,862      | 15,620      |
| Utility Support Structures                  | 3,967               | 2,871       | 747         |
| Coatings                                    | 66,612              | 62,080      | 45,604      |
| Irrigation                                  | 8,905               | 8,058       | 7,231       |
| Total                                       | 99,006              | 98,871      | 69,202      |
| <b>NET SALES:</b>                           |                     |             |             |
| Engineered Support Structures segment       | 967,358             | 912,240     | 891,099     |
| Utility Support Structures segment          | 855,206             | 856,244     | 735,617     |
| Coatings segment                            | 286,739             | 256,811     | 243,877     |
| Irrigation segment                          | 624,761             | 644,372     | 567,973     |
| Other                                       | 23,080              | 76,300      | 83,110      |
| Total                                       | \$2,757,144         | \$2,745,967 | \$2,521,676 |



VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

|   | (20) BUSINESS SEGMENTS (Continued) |                    |                    |
|---|------------------------------------|--------------------|--------------------|
|   | 2018                               | 2017               | 2016               |
| <b>OPERATING INCOME (LOSS):</b>   |                                    |                    |                    |
| Engineered Support Structures   | \$34,776                           | \$62,960           | \$72,273           |
| Utility Support Structures  | 64,766                             | 97,853             | 71,171             |
| Coatings  | 55,325                             | 50,179             | 46,596             |
| Irrigation  | 97,722                             | 101,498            | 90,945             |
| Other   | (913                               | ) 2,134            | 8,730              |
| Adjustment to LIFO inventory valuation method                                       | (9,892                             | ) (5,680           | ) (2,972           |
| Corporate   | (39,504                            | ) (41,864          | ) (41,369          |
| <b>Total</b>  | <b>202,280</b>                     | <b>267,080</b>     | <b>245,374</b>     |
| Interest expense, net   | (39,569                            | ) (39,908          | ) (41,304          |
| Costs associated with refinancing of debt   | (14,820                            | ) —                | —                  |
| Loss from divestiture of grinding media business                                    | (6,084                             | ) —                | —                  |
| Other   | 1,634                              | 1,292              | 16,384             |
| Earnings before income taxes and equity in earnings of nonconsolidated subsidiaries | \$143,441                          | \$228,464          | \$220,454          |
| <b>TOTAL ASSETS:</b>  |                                    |                    |                    |
| Engineered Support Structures   | \$867,735                          | \$846,881          | \$776,161          |
| Utility Support Structures  | 700,915                            | 597,231            | 544,015            |
| Coatings  | 294,951                            | 288,890            | 274,666            |
| Irrigation  | 347,894                            | 369,798            | 313,982            |
| Other   | —                                  | 68,934             | 65,296             |
| Corporate   | 318,779                            | 430,516            | 417,611            |
| <b>Total</b>  | <b>\$2,530,274</b>                 | <b>\$2,602,250</b> | <b>\$2,391,731</b> |
| <b>CAPITAL EXPENDITURES:</b>  |                                    |                    |                    |
| Engineered Support Structures   | \$26,783                           | \$16,433           | \$13,313           |
| Utility Support Structures  | 17,442                             | 14,012             | 7,969              |
| Coatings  | 10,320                             | 11,080             | 24,873             |
| Irrigation  | 7,249                              | 7,055              | 8,836              |
| Other   | 7                                  | 2,376              | 1,601              |
| Corporate   | 10,184                             | 4,310              | 1,328              |
| <b>Total</b>  | <b>\$71,985</b>                    | <b>\$55,266</b>    | <b>\$57,920</b>    |

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

(20) BUSINESS SEGMENTS (Continued)

|                                | 2018     | 2017     | 2016     |
|--------------------------------|----------|----------|----------|
| DEPRECIATION AND AMORTIZATION: |          |          |          |
| Engineered Support Structures  | \$27,274 | \$27,637 | \$27,824 |
| Utility Support Structures     | 23,618   | 25,079   | 24,639   |
| Coatings                       | 15,956   | 15,115   | 12,883   |
| Irrigation                     | 11,335   | 11,173   | 12,097   |
| Other                          | 775      | 2,486    | 2,502    |
| Corporate                      | 3,869    | 3,467    | 2,472    |
| Total                          | \$82,827 | \$84,957 | \$82,417 |

Summary by Geographical Area by Location of Valmont Facilities:

|               | 2018        | 2017        | 2016        |
|---------------|-------------|-------------|-------------|
| NET SALES:    |             |             |             |
| United States | \$1,771,390 | \$1,702,826 | \$1,535,321 |
| Australia     | 325,553     | 356,959     | 315,470     |
| Denmark       | 92,559      | 100,773     | 99,719      |
| Other         | 567,642     | 585,409     | 571,166     |
| Total         | \$2,757,144 | \$2,745,967 | \$2,521,676 |

LONG-LIVED ASSETS:

|               |             |             |             |
|---------------|-------------|-------------|-------------|
| United States | \$624,143   | \$544,724   | \$568,085   |
| Australia     | 168,438     | 227,483     | 216,416     |
| Denmark       | 64,497      | 90,372      | 85,654      |
| Other         | 332,556     | 267,106     | 268,360     |
| Total         | \$1,189,634 | \$1,129,685 | \$1,138,515 |

No single customer accounted for more than 10% of net sales in 2018, 2017, or 2016. Net sales by geographical area are based on the location of the facility producing the sales and do not include sales to other operating units of the company. Australia accounted for approximately 12% of the Company's net sales in 2018; no other foreign country accounted for more than 5% of the Company's net sales.

Operating income by business segment are based on net sales less identifiable operating expenses and allocations and includes profits recorded on sales to other operating units of the company. Long-lived assets consist of property, plant and equipment, net of depreciation, goodwill, other intangible assets and other assets. Long-lived assets by geographical area are based on location of facilities.

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

## (21) GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION

The Company has two tranches of senior unsecured notes. All of the senior notes are guaranteed, jointly, severally, fully and unconditionally (subject to certain customary release provisions, including sale of the subsidiary guarantor, or sale of all or substantially all of its assets) by certain of the Company's current and future direct and indirect domestic and foreign subsidiaries (collectively the "Guarantors"), excluding its other current domestic and foreign subsidiaries which do not guarantee the debt (collectively referred to as the "Non-Guarantors"). All Guarantors are 100% owned by the parent company. The Company is the issuer.

Consolidated financial information for the Company ("Parent"), the Guarantor subsidiaries and the Non-Guarantor subsidiaries is as follows:  
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS  
For the Year ended December 29, 2018

|   | Parent       | Guarantors | Non-Guarantors | Eliminations  | Total        |
|---|--------------|------------|----------------|---------------|--------------|
| Net sales   | \$ 1,192,134 | \$ 522,366 | \$ 1,303,323   | \$ (260,679 ) | \$ 2,757,144 |
| Cost of sales   | 906,646      | 399,451    | 1,055,215      | (262,448 )    | 2,098,864    |
| Gross profit  | 285,488      | 122,915    | 248,108        | 1,769         | 658,280      |
| Selling, general and administrative expenses  | 192,343      | 51,127     | 212,530        | —             | 456,000      |
| Operating income  | 93,145       | 71,788     | 35,578         | 1,769         | 202,280      |
| Other income (expense):   |              |            |                |               |              |
| Interest expense  | (42,524 )    | (14,815 )  | (1,713 )       | 14,815        | (44,237 )    |
| Interest income   | 791          | 82         | 18,610         | (14,815 )     | 4,668        |
| Other   | (17,602 )    | 59         | (1,727 )       | —             | (19,270 )    |
|   | (59,335 )    | (14,674 )  | 15,170         | —             | (58,839 )    |
| Earnings before income taxes and equity in earnings of nonconsolidated subsidiaries | 33,810       | 57,114     | 50,748         | 1,769         | 143,441      |
| Income tax expense (benefit):   |              |            |                |               |              |
| Current   | 6,310        | 14,948     | 23,290         | 246           | 44,794       |
| Deferred  | 1,532        | 1,791      | (4,982 )       | —             | (1,659 )     |
|   | 7,842        | 16,739     | 18,308         | 246           | 43,135       |
| Earnings before equity in earnings of nonconsolidated subsidiaries                  | 25,968       | 40,375     | 32,440         | 1,523         | 100,306      |
| Equity in earnings of nonconsolidated   | 68,383       | 37,304     | —              | (105,687 )    | —            |

|   |          |          |          |              |          |
|---|----------|----------|----------|--------------|----------|
| subsidiaries  |          |          |          |              |          |
| Net earnings  | 94,351   | 77,679   | 32,440   | (104,164 )   | 100,306  |
| Less: Earnings attributable to noncontrolling interests | —        | —        | (5,955 ) | —            | (5,955 ) |
| Net earnings attributable to Valmont Industries, Inc    | \$94,351 | \$77,679 | \$26,485 | \$(104,164 ) | \$94,351 |

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

(21) GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION (Continued)  
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

|   | For the Year ended December 30, 2017 |            |                    |              |             |
|---|--------------------------------------|------------|--------------------|--------------|-------------|
|   | Parent                               | Guarantors | Non-<br>Guarantors | Eliminations | Total       |
| Net sales   | \$1,200,181                          | \$485,448  | \$1,312,214        | \$(251,876 ) | \$2,745,967 |
| Cost of sales   | 898,799                              | 375,383    | 1,042,199          | (252,182 )   | 2,064,199   |
| Gross profit  | 301,382                              | 110,065    | 270,015            | 306          | 681,768     |
| Selling, general and administrative expenses  | 192,182                              | 47,955     | 174,551            | —            | 414,688     |
| Operating income  | 109,200                              | 62,110     | 95,464             | 306          | 267,080     |
| Other income (expense):   |                                      |            |                    |              |             |
| Interest expense  | (43,642 )                            | (13,866 )  | (1,003 )           | 13,866       | (44,645 )   |
| Interest income   | 838                                  | 42         | 17,723             | (13,866 )    | 4,737       |
| Other   | 5,681                                | 58         | (4,447 )           | —            | 1,292       |
|   | (37,123 )                            | (13,766 )  | 12,273             | —            | (38,616 )   |
| Earnings before income taxes and equity in earnings of nonconsolidated subsidiaries | 72,077                               | 48,344     | 107,737            | 306          | 228,464     |
| Income tax expense (benefit):   |                                      |            |                    |              |             |
| Current   | 29,407                               | 17,928     | 18,920             | 135          | 66,390      |
| Deferred  | 10,307                               | —          | 29,448             | —            | 39,755      |
|   | 39,714                               | 17,928     | 48,368             | 135          | 106,145     |
| Earnings before equity in earnings of nonconsolidated subsidiaries                  | 32,363                               | 30,416     | 59,369             | 171          | 122,319     |
| Equity in earnings of nonconsolidated subsidiaries                                  | 83,877                               | 22,146     | —                  | (106,023 )   | —           |
| Net earnings  | 116,240                              | 52,562     | 59,369             | (105,852 )   | 122,319     |
| Less: Earnings attributable to noncontrolling interests                             | —                                    | —          | (6,079 )           | —            | (6,079 )    |
| Net earnings attributable to Valmont Industries, Inc                                | \$116,240                            | \$52,562   | \$53,290           | \$(105,852 ) | \$116,240   |



VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

(21) GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION (Continued)  
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS  
For the Year ended December 31, 2016

|   | Parent       | Guarantors | Non-<br>Guarantors | Eliminations | Total        |
|---|--------------|------------|--------------------|--------------|--------------|
| Net sales   | \$ 1,126,985 | \$ 390,756 | \$ 1,195,812       | \$(191,877 ) | \$ 2,521,676 |
| Cost of sales   | 837,616      | 285,924    | 932,609            | (190,716 )   | 1,865,433    |
| Gross profit  | 289,369      | 104,832    | 263,203            | (1,161 )     | 656,243      |
| Selling, general and<br>administrative expenses   | 184,493      | 46,244     | 180,132            | —            | 410,869      |
| Operating income  | 104,876      | 58,588     | 83,071             | (1,161 )     | 245,374      |
| Other income<br>(expense):  |              |            |                    |              |              |
| Interest expense  | (43,703 )    | (10 )      | (696 )             | —            | (44,409 )    |
| Interest income   | 273          | 112        | 2,720              | —            | 3,105        |
| Other   | 1,480        | 77         | 14,827             | —            | 16,384       |
|   | (41,950 )    | 179        | 16,851             | —            | (24,920 )    |
| Earnings before income<br>taxes and equity in<br>earnings of<br>nonconsolidated<br>subsidiaries | 62,926       | 58,767     | 99,922             | (1,161 )     | 220,454      |
| Income tax expense<br>(benefit):  |              |            |                    |              |              |
| Current   | 24,539       | 20,270     | 21,262             | (323 )       | 65,748       |
| Deferred  | 6,216        | —          | (29,901 )          | —            | (23,685 )    |
|   | 30,755       | 20,270     | (8,639 )           | (323 )       | 42,063       |
| Earnings before equity<br>in earnings of<br>nonconsolidated<br>subsidiaries                     | 32,171       | 38,497     | 108,561            | (838 )       | 178,391      |
| Equity in earnings of<br>nonconsolidated<br>subsidiaries  | 141,061      | 66,128     | —                  | (207,189 )   | —            |
| Net earnings  | 173,232      | 104,625    | 108,561            | (208,027 )   | 178,391      |
| Less: Earnings<br>attributable to<br>noncontrolling interests                                   | —            | —          | (5,159 )           | —            | (5,159 )     |
| Net earnings<br>attributable to Valmont<br>Industries, Inc                                      | \$ 173,232   | \$ 104,625 | \$ 103,402         | \$(208,027 ) | \$ 173,232   |





VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

(21) GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION (Continued)  
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
For the Year ended December 29, 2018

|  | Parent    | Guarantors | Non-<br>Guarantors | Eliminations | Total     |
|--|-----------|------------|--------------------|--------------|-----------|
| Net earnings   | \$94,351  | \$ 77,679  | \$ 32,440          | \$(104,164 ) | \$100,306 |
| Other comprehensive income<br>(loss), net of tax:                                  |           |            |                    |              |           |
| Foreign currency translation<br>adjustments:                                       |           |            |                    |              |           |
| Unrealized translation<br>gains (losses)   | —         | (6,509 )   | (58,927 )          | —            | (65,436 ) |
| Realized loss on divestiture<br>of grinding media business<br>recorded in earnings | —         | —          | 9,203              | —            | 9,203     |
| Gain (loss) on hedging<br>activities   | 4,814     | —          | —                  | —            | 4,814     |
| Actuarial gain (loss) in<br>defined benefit pension plan<br>liability              | —         | —          | 29,885             | —            | 29,885    |
| Equity in other<br>comprehensive income  | (28,977 ) | —          | —                  | 28,977       | —         |
| Other comprehensive income<br>(loss)   | (24,163 ) | (6,509 )   | (19,839 )          | 28,977       | (21,534 ) |
| Comprehensive income (loss)  | 70,188    | 71,170     | 12,601             | (75,187 )    | 78,772    |
| Comprehensive income<br>attributable to noncontrolling<br>interests                | —         | —          | (8,584 )           | —            | (8,584 )  |
| Comprehensive income (loss)<br>attributable to Valmont<br>Industries, Inc.         | \$70,188  | \$ 71,170  | \$ 4,017           | \$(75,187 )  | \$70,188  |

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

(21) GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION (Continued)  
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
For the Year ended December 30, 2017

|  | Parent    | Guarantors | Non-<br>Guarantors | Eliminations | Total     |
|--|-----------|------------|--------------------|--------------|-----------|
| Net earnings   | \$116,240 | \$52,562   | \$59,369           | \$(105,852)  | \$122,319 |
| Other comprehensive<br>income (loss), net of tax:                          |           |            |                    |              |           |
| Foreign currency translation<br>adjustments:                               |           |            |                    |              |           |
| Unrealized translation<br>gains (losses)                                   | —         | 138,795    | (59,516)           | —            | 79,279    |
| Gain (loss) on hedging<br>activities                                       | (1,621)   | —          | —                  | —            | (1,621)   |
| Actuarial gain (loss) in<br>defined benefit pension plan<br>liability      | —         | —          | (10,871)           | —            | (10,871)  |
| Equity in other<br>comprehensive income                                    | 68,958    | —          | —                  | (68,958)     | —         |
| Other comprehensive<br>income (loss)                                       | 67,337    | 138,795    | (70,387)           | (68,958)     | 66,787    |
| Comprehensive income<br>(loss)   | 183,577   | 191,357    | (11,018)           | (174,810)    | 189,106   |
| Comprehensive income<br>attributable to<br>noncontrolling interests        | —         | —          | (5,529)            | —            | (5,529)   |
| Comprehensive income<br>(loss) attributable to<br>Valmont Industries, Inc. | \$183,577 | \$191,357  | \$(16,547)         | \$(174,810)  | \$183,577 |

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

(21) GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION (Continued)  
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Year ended December 31, 2016

|   | Parent    | Guarantors | Non-<br>Guarantors | Eliminations | Total     |
|---|-----------|------------|--------------------|--------------|-----------|
| Net earnings  | \$173,232 | \$ 104,625 | \$ 108,561         | \$(208,027 ) | \$178,391 |
| Other comprehensive<br>income (loss), net of tax:                     |           |            |                    |              |           |
| Foreign currency translation<br>adjustments:                          |           |            |                    |              |           |
| Unrealized translation<br>gains (losses)                              | —         | 49         | (58,364 )          | —            | (58,315 ) |
| Gain (loss) on hedging<br>activities                                  | 4,300     | —          | —                  | —            | 4,300     |
| Actuarial gain (loss) in<br>defined benefit pension plan<br>liability | —         | —          | (24,141 )          | —            | (24,141 ) |
| Equity in other<br>comprehensive income                               | (83,252 ) | —          | —                  | 83,252       | —         |
| Other comprehensive<br>income (loss)                                  | (78,952 ) | 49         | (82,505 )          | 83,252       | (78,156 ) |
| Comprehensive income  | 94,280    | 104,674    | 26,056             | (124,775 )   | 100,235   |
| Comprehensive income<br>attributable to<br>noncontrolling interests   | —         | —          | (6,144 )           | —            | (6,144 )  |
| Comprehensive income<br>attributable to Valmont<br>Industries, Inc.   | \$94,280  | \$ 104,674 | \$ 19,912          | \$(124,775 ) | \$94,091  |

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

## (21) GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION (Continued)

| CONDENSED CONSOLIDATED BALANCE SHEETS                  |             |             |                    |               |             |
|--|-------------|-------------|--------------------|---------------|-------------|
| December 29, 2018                                      |             |             |                    |               |             |
|  | Parent      | Guarantors  | Non-<br>Guarantors | Eliminations  | Total       |
| <b>ASSETS</b>  |             |             |                    |               |             |
| Current assets:  |             |             |                    |               |             |
| Cash and cash equivalents                              | \$104,256   | \$5,518     | \$203,436          | \$—           | \$313,210   |
| Receivables, net                                       | 134,943     | 75,204      | 273,816            | —             | 483,963     |
| Inventories  | 138,158     | 37,019      | 210,791            | (2,402)       | 383,566     |
| Contra asset - costs and profits in excess of billings | 50,271      | 35,200      | 27,054             | —             | 112,525     |
| Prepaid expenses, restricted cash, and other assets    | 21,858      | 746         | 20,196             | —             | 42,800      |
| Refundable income taxes                                | 4,576       | —           | —                  | —             | 4,576       |
| Total current assets                                   | 454,062     | 153,687     | 735,293            | (2,402)       | 1,340,640   |
| Property, plant and equipment, at cost                 | 579,046     | 172,050     | 409,769            | —             | 1,160,865   |
| Less accumulated depreciation and amortization         | 390,438     | 93,374      | 163,061            | —             | 646,873     |
| Net property, plant and equipment                      | 188,608     | 78,676      | 246,708            | —             | 513,992     |
| Goodwill   | 20,108      | 110,562     | 254,537            | —             | 385,207     |
| Other intangible assets                                | 76          | 27,452      | 148,428            | —             | 175,956     |
| Investment in subsidiaries and intercompany accounts   | 1,286,545   | 1,161,612   | 932,982            | (3,381,139)   | —           |
| Other assets   | 47,674      | —           | 66,805             | —             | 114,479     |
| Total assets   | \$1,997,073 | \$1,531,989 | \$2,384,753        | \$(3,383,541) | \$2,530,274 |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>            |             |             |                    |               |             |
| Current liabilities:                                   |             |             |                    |               |             |
| Current installments of long-term debt                 | \$—         | \$—         | \$779              | \$—           | \$779       |
| Notes payable to banks                                 | —           | —           | 10,678             | —             | 10,678      |

|  |              |              |              |               |              |
|--|--------------|--------------|--------------|---------------|--------------|
| Accounts payable                                     | 68,304       | 21,081       | 128,730      | —             | 218,115      |
| Accrued employee compensation and benefits           | 41,418       | 7,186        | 30,687       | —             | 79,291       |
| Accrued expenses                                     | 25,936       | 10,132       | 55,874       | —             | 91,942       |
| Dividends payable                                    | 8,230        | —            | —            | —             | 8,230        |
| Total current liabilities                            | 143,888      | 38,399       | 226,748      | —             | 409,035      |
| Deferred income taxes                                | 14,376       | —            | 29,113       | —             | 43,489       |
| Long-term debt, excluding current installments       | 733,964      | 166,729      | 7,858        | (166,729 )    | 741,822      |
| Defined benefit pension liability                    | —            | —            | 143,904      | —             | 143,904      |
| Deferred compensation                                | 41,496       | —            | 4,611        | —             | 46,107       |
| Other noncurrent liabilities                         | 3,587        | 620          | 6,187        | —             | 10,394       |
| Shareholders' equity:                                |              |              |              |               |              |
| Common stock of \$1 par value                        | 27,900       | 457,950      | 648,682      | (1,106,632 )  | 27,900       |
| Additional paid-in capital                           | —            | 162,906      | 1,107,536    | (1,270,442 )  | —            |
| Retained earnings                                    | 2,027,596    | 624,394      | 467,699      | (1,092,093 )  | 2,027,596    |
| Accumulated other comprehensive income (loss)        | (303,185 )   | 80,991       | (333,346 )   | 252,355       | (303,185 )   |
| Treasury stock                                       | (692,549 )   | —            | —            | —             | (692,549 )   |
| Total Valmont Industries, Inc. shareholders' equity  | 1,059,762    | 1,326,241    | 1,890,571    | (3,216,812 )  | 1,059,762    |
| Noncontrolling interest in consolidated subsidiaries | —            | —            | 75,761       | —             | 75,761       |
| Total shareholders' equity                           | 1,059,762    | 1,326,241    | 1,966,332    | (3,216,812 )  | 1,135,523    |
| Total liabilities and shareholders' equity           | \$ 1,997,073 | \$ 1,531,989 | \$ 2,384,753 | \$(3,383,541) | \$ 2,530,274 |

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

(21) GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION (Continued)  
CONDENSED CONSOLIDATED BALANCE SHEETS  
December 30, 2017

|  | Parent      | Guarantors  | Non-Guarantors | Eliminations  | Total       |
|--|-------------|-------------|----------------|---------------|-------------|
| <b>ASSETS</b>  |             |             |                |               |             |
| Current assets:  |             |             |                |               |             |
| Cash and cash equivalents                              | \$83,329    | \$5,304     | \$404,172      | \$—           | \$492,805   |
| Receivables, net                                       | 149,221     | 82,995      | 271,461        | —             | 503,677     |
| Inventories  | 160,444     | 46,801      | 217,551        | (3,848)       | 420,948     |
| Contra asset - costs and profits in excess of billings | —           | —           | 16,165         | —             | 16,165      |
| Prepaid expenses, restricted cash, and other assets    | 8,607       | 970         | 17,901         | —             | 27,478      |
| Refundable income taxes                                | 11,492      | —           | —              | —             | 11,492      |
| Total current assets                                   | 413,093     | 136,070     | 927,250        | (3,848)       | 1,472,565   |
| Property, plant and equipment, at cost                 | 557,371     | 160,767     | 447,549        | —             | 1,165,687   |
| Less accumulated depreciation and amortization         | 368,668     | 84,508      | 193,583        | —             | 646,759     |
| Net property, plant and equipment                      | 188,703     | 76,259      | 253,966        | —             | 518,928     |
| Goodwill   | 20,108      | 110,562     | 207,050        | —             | 337,720     |
| Other intangible assets                                | 130         | 30,955      | 107,514        | —             | 138,599     |
| Investment in subsidiaries and intercompany accounts   | 1,416,446   | 1,181,537   | 927,179        | (3,525,162)   | —           |
| Other assets   | 50,773      | —           | 83,665         | —             | 134,438     |
| Total assets   | \$2,089,253 | \$1,535,383 | \$2,506,624    | \$(3,529,010) | \$2,602,250 |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>            |             |             |                |               |             |
| Current liabilities:                                   |             |             |                |               |             |
| Current installments of long-term debt                 | \$—         | \$—         | \$966          | \$—           | \$966       |
| Notes payable to banks                                 | —           | —           | 161            | —             | 161         |
| Accounts payable                                       | 69,915      | 18,039      | 139,952        | —             | 227,906     |

|  |             |             |             |               |             |
|--|-------------|-------------|-------------|---------------|-------------|
| Accrued employee compensation and benefits           | 44,086      | 8,749       | 31,591      | —             | 84,426      |
| Accrued expenses                                     | 28,198      | 9,621       | 43,210      | —             | 81,029      |
| Dividends payable                                    | 8,510       | —           | —           | —             | 8,510       |
| Total current liabilities                            | 150,709     | 36,409      | 215,880     | —             | 402,998     |
| Deferred income taxes                                | 20,885      | —           | 14,021      | —             | 34,906      |
| Long-term debt, excluding current installments       | 750,821     | 185,078     | 9,836       | (191,847 )    | 753,888     |
| Defined benefit pension liability                    | —           | —           | 189,552     | —             | 189,552     |
| Deferred compensation                                | 42,928      | —           | 5,598       | —             | 48,526      |
| Other noncurrent liabilities                         | 11,074      | 6           | 9,505       | —             | 20,585      |
| Shareholders' equity:                                |             |             |             |               |             |
| Common stock of \$1 par value                        | 27,900      | 457,950     | 648,682     | (1,106,632 )  | 27,900      |
| Additional paid-in capital                           | —           | 159,414     | 1,107,536   | (1,266,950 )  | —           |
| Retained earnings                                    | 1,954,344   | 622,044     | 619,622     | (1,241,666 )  | 1,954,344   |
| Accumulated other comprehensive income (loss)        | (279,022 )  | 74,482      | (352,567 )  | 278,085       | (279,022 )  |
| Treasury stock                                       | (590,386 )  | —           | —           | —             | (590,386 )  |
| Total Valmont Industries, Inc. shareholders' equity  | 1,112,836   | 1,313,890   | 2,023,273   | (3,337,163 )  | 1,112,836   |
| Noncontrolling interest in consolidated subsidiaries | —           | —           | 38,959      | —             | 38,959      |
| Total shareholders' equity                           | 1,112,836   | 1,313,890   | 2,062,232   | (3,337,163 )  | 1,151,795   |
| Total liabilities and shareholders' equity           | \$2,089,253 | \$1,535,383 | \$2,506,624 | \$(3,529,010) | \$2,602,250 |

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

(21) GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION (Continued)  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the Year ended December 29, 2018

|  | Parent    | Guarantors | Non-<br>Guarantors | Eliminations | Total     |
|--|-----------|------------|--------------------|--------------|-----------|
| Cash flows from operating activities:                                    |           |            |                    |              |           |
| Net earnings   | \$94,351  | \$ 77,679  | \$ 32,440          | \$(104,164 ) | \$100,306 |
| Adjustments to reconcile net earnings to net cash flows from operations: |           |            |                    |              |           |
| Depreciation and amortization  | 26,155    | 13,959     | 42,713             | —            | 82,827    |
| Noncash loss on trading securities                                       | —         | —          | (62 )              | —            | (62 )     |
| Contribution to defined benefit pension plan                             | —         | —          | (1,537 )           | —            | (1,537 )  |
| Impairment of property, plant and equipment                              | —         | —          | 5,000              | —            | 5,000     |
| Impairment of goodwill & intangible assets                               | —         | —          | 15,780             | —            | 15,780    |
| Loss on divestiture of grinding media business                           | 2,518     | —          | 3,566              | —            | 6,084     |
| Stock-based compensation   | 10,392    | —          | —                  | —            | 10,392    |
| Defined benefit pension plan (benefit)                                   | —         | —          | (2,251 )           | —            | (2,251 )  |
| (Gain) loss on sale of property, plant and equipment                     | 57        | (37 )      | (245 )             | —            | (225 )    |
| Equity in earnings in nonconsolidated subsidiaries                       | (68,383 ) | (37,304 )  | —                  | 105,687      | —         |
| Deferred income taxes  | 1,532     | 1,791      | (4,982 )           | —            | (1,659 )  |
| Changes in assets and liabilities (net of acquisitions):                 |           |            |                    |              |           |
| Net working capital  | (17,681 ) | (13,962 )  | (13,208 )          | (1,769 )     | (46,620 ) |
| Other noncurrent liabilities   | (7,345 )  | 615        | (4,158 )           | —            | (10,888 ) |
| Income taxes payable (refundable)  | (6,176 )  | (1,303 )   | 3,340              | —            | (4,139 )  |
| Net cash flows from operating activities                                 | 35,420    | 41,438     | 76,396             | (246 )       | 153,008   |
| Cash flows from investing activities:                                    |           |            |                    |              |           |
|  | (25,255 ) | (13,115 )  | (33,615 )          | —            | (71,985 ) |



|   |            |           |            |      |            |
|---|------------|-----------|------------|------|------------|
| Purchase of property, plant and equipment                     |            |           |            |      |            |
| Proceeds from sale of assets                                  | 44         | 268       | 62,791     | —    | 63,103     |
| Acquisitions, net of cash acquired                            | (57,805 )  | —         | (85,215 )  | —    | (143,020 ) |
| Proceeds from settlement of net investment hedge              | (1,621 )   | —         | —          | —    | (1,621 )   |
| Other, net  | 69,714     | (42,667 ) | (29,215 )  | 246  | (1,922 )   |
| Net cash flows from investing activities                      | (14,923 )  | (55,514 ) | (85,254 )  | 246  | (155,445 ) |
| Cash flows from financing activities:                         |            |           |            |      |            |
| Borrowings under short-term agreements                        | —          | —         | 10,543     | —    | 10,543     |
| Proceeds from long-term borrowings                            | 245,936    | —         | 5,719      | —    | 251,655    |
| Principal payments on long-term borrowings                    | (261,219 ) | —         | (972 )     | —    | (262,191 ) |
| Settlement of financial derivative                            | (2,467 )   | —         | —          | —    | (2,467 )   |
| Debt issuance costs   | (2,322 )   | —         | —          | —    | (2,322 )   |
| Dividends paid  | (33,726 )  | —         | —          | —    | (33,726 )  |
| Dividends to noncontrolling interest                          | —          | —         | (7,055 )   | —    | (7,055 )   |
| Intercompany dividends  | 168,757    | 11,296    | (180,053 ) | —    | —          |
| Intercompany capital contribution                             | (3,492 )   | 3,492     | —          | —    | —          |
| Purchase of noncontrolling interest                           | —          | —         | (5,510 )   | —    | (5,510 )   |
| Proceeds from exercises under stock plans                     | 7,357      | —         | —          | —    | 7,357      |
| Purchase of treasury shares                                   | (114,805 ) | —         | —          | —    | (114,805 ) |
| Purchase of common treasury shares - stock plan exercises     | (3,589 )   | —         | —          | —    | (3,589 )   |
| Net cash flows from financing activities                      | 430        | 14,788    | (177,328 ) | —    | (162,110 ) |
| Effect of exchange rate changes on cash and cash equivalents  | —          | (498 )    | (14,550 )  | —    | (15,048 )  |
| Net change in cash and cash equivalents                       | 20,927     | 214       | (200,736 ) | —    | (179,595 ) |
| Cash, cash equivalents, and restricted cash—beginning of year | 83,329     | 5,304     | 404,172    | —    | 492,805    |
| Cash, cash equivalents, and restricted cash—end of period     | \$ 104,256 | \$ 5,518  | \$ 203,436 | \$ — | \$ 313,210 |

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

(21) GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION (Continued)  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the Year ended December 30, 2017

|  | Parent     | Guarantors | Non-<br>Guarantors | Eliminations | Total      |
|--|------------|------------|--------------------|--------------|------------|
| Cash flows from operating activities:                                    |            |            |                    |              |            |
| Net earnings   | \$ 116,240 | \$ 52,562  | \$ 59,369          | \$(105,852 ) | \$ 122,319 |
| Adjustments to reconcile net earnings to net cash flows from operations: |            |            |                    |              |            |
| Depreciation and amortization  | 26,237     | 15,003     | 43,717             | —            | 84,957     |
| Noncash loss on trading securities                                       | —          | —          | 237                | —            | 237        |
| Stock-based compensation   | 10,706     | —          | —                  | —            | 10,706     |
| Defined benefit pension plan expense (benefit)                           | —          | —          | 648                | —            | 648        |
| Contribution to defined benefit pension plan                             | —          | —          | (40,245 )          | —            | (40,245 )  |
| (Gain) loss on sale of property, plant and equipment                     | (664 )     | 8          | (3,268 )           | —            | (3,924 )   |
| Equity in earnings in nonconsolidated subsidiaries                       | (83,877 )  | (22,146 )  | —                  | 106,023      | —          |
| Deferred income taxes  | 10,307     | —          | 29,448             | —            | 39,755     |
| Changes in assets and liabilities (net of acquisitions):                 |            |            |                    |              |            |
| Net working capital  | (23,943 )  | (25,717 )  | (25,219 )          | (306 )       | (75,185 )  |
| Other noncurrent liabilities   | (140 )     | —          | (7,088 )           | —            | (7,228 )   |
| Income taxes payable (refundable)  | (11,837 )  | 728        | 12,217             | —            | 1,108      |
| Net cash flows from operating activities                                 | 43,029     | 20,438     | 69,816             | (135 )       | 133,148    |
| Cash flows from investing activities:                                    |            |            |                    |              |            |
| Purchase of property, plant and equipment                                | (20,460 )  | (9,454 )   | (25,352 )          | —            | (55,266 )  |
| Proceeds from sale of assets   | 748        | 3          | 7,434              | —            | 8,185      |
| Acquisitions, net of cash acquired                                       | —          | —          | (5,362 )           | —            | (5,362 )   |
| Proceeds from settlement of net investment hedge                         | 5,123      | —          | —                  | —            | 5,123      |

|   |           |           |           |     |           |
|---|-----------|-----------|-----------|-----|-----------|
| Other, net  | 684       | (22,777 ) | 19,663    | 135 | (2,295 )  |
| Net cash flows from investing activities                      | (13,905 ) | (32,228 ) | (3,617 )  | 135 | (49,615 ) |
| Cash flows from financing activities:                         |           |           |           |     |           |
| Payments under short-term agreements                          | —         | —         | (585 )    | —   | (585 )    |
| Principal payments on long-term borrowings                    | —         | —         | (887 )    | —   | (887 )    |
| Dividends paid  | (33,862 ) | —         | —         | —   | (33,862 ) |
| Dividends to noncontrolling interest                          | —         | —         | (5,674 )  | —   | (5,674 )  |
| Intercompany dividends  | 22,662    | —         | (22,662 ) | —   | —         |
| Intercompany capital contribution                             | (10,818 ) | 10,818    | —         | —   | —         |
| Proceeds from exercises under stock plans                     | 35,159    | —         | —         | —   | 35,159    |
| Purchase of common treasury shares - stock plan exercises     | (26,161 ) | —         | —         | —   | (26,161 ) |
| Net cash flows from financing activities                      | (13,020 ) | 10,818    | (29,808 ) | —   | (32,010 ) |
| Effect of exchange rate changes on cash and cash equivalents  | —         | 205       | 27,477    | —   | 27,682    |
| Net change in cash and cash equivalents                       | 16,104    | (767 )    | 63,868    | —   | 79,205    |
| Cash, cash equivalents, and restricted cash—beginning of year | 67,225    | 6,071     | 340,304   | —   | 413,600   |
| Cash, cash equivalents, and restricted cash—end of period     | \$83,329  | \$5,304   | \$404,172 | \$— | \$492,805 |

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

(21) GUARANTOR/NON-GUARANTOR FINANCIAL INFORMATION (Continued)  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
For the Year ended December 31, 2016

|  | Parent     | Guarantors | Non-<br>Guarantors | Eliminations | Total      |
|--|------------|------------|--------------------|--------------|------------|
| Cash flows from operating activities:                                    |            |            |                    |              |            |
| Net earnings   | \$ 173,232 | \$ 104,625 | \$ 108,561         | \$(208,027 ) | \$ 178,391 |
| Adjustments to reconcile net earnings to net cash flows from operations: |            |            |                    |              |            |
| Depreciation and amortization  | 27,096     | 13,316     | 42,005             | —            | 82,417     |
| Noncash loss on trading securities                                       | —          | —          | 586                | —            | 586        |
| Impairment of property, plant and equipment                              | —          | —          | 1,099              | —            | 1,099      |
| Stock-based compensation   | 9,931      | —          | —                  | —            | 9,931      |
| Change in fair value of contingent consideration                         | —          | —          | (3,242 )           | —            | (3,242 )   |
| Defined benefit pension plan expense (benefit)                           | —          | —          | 1,870              | —            | 1,870      |
| Contribution to defined benefit pension plan                             | —          | —          | (1,488 )           | —            | (1,488 )   |
| (Gain) loss on sale of property, plant and equipment                     | 165        | 103        | 363                | —            | 631        |
| Equity in earnings in nonconsolidated subsidiaries                       | (141,061 ) | (66,128 )  | —                  | 207,189      | —          |
| Deferred income taxes  | 6,216      | —          | (29,901 )          | —            | (23,685 )  |
| Changes in assets and liabilities (net of acquisitions):                 |            |            |                    |              |            |
| Net working capital  | (12,335 )  | (5,939 )   | 19,310             | 1,160        | 2,196      |
| Other noncurrent liabilities   | (2,333 )   | 5          | (21,552 )          | —            | (23,880 )  |
| Income taxes payable (refundable)  | 32,873     | (16,567 )  | (8,312 )           | —            | 7,994      |
| Net cash flows from operating activities                                 | 93,784     | 29,415     | 109,299            | 322          | 232,820    |
| Cash flows from investing activities:                                    |            |            |                    |              |            |
| Purchase of property, plant and equipment                                | (9,031 )   | (22,320 )  | (26,569 )          | —            | (57,920 )  |

|   |           |           |           |        |           |
|---|-----------|-----------|-----------|--------|-----------|
| Proceeds from sale of assets                                  | 44        | 102       | 4,980     | —      | 5,126     |
| Other, net  | (633 )    | (5,085 )  | 5,785     | (322 ) | (255 )    |
| Net cash flows from investing activities                      | (9,620 )  | (27,303 ) | (15,804 ) | (322 ) | (53,049 ) |
| Cash flows from financing activities:                         |           |           |           |        |           |
| Payments under short-term agreements                          | —         | —         | (200 )    | —      | (200 )    |
| Principal payments on long-term borrowings                    | (215 )    | —         | (1,791 )  | —      | (2,006 )  |
| Dividends paid  | (34,053 ) | —         | —         | —      | (34,053 ) |
| Purchase of noncontrolling interest                           | —         | —         | (11,009 ) | —      | (11,009 ) |
| Dividends to noncontrolling interest                          | —         | —         | (2,938 )  | —      | (2,938 )  |
| Proceeds from exercises under stock plans                     | 11,153    | —         | —         | —      | 11,153    |
| Purchase of treasury shares                                   | (53,800 ) | —         | —         | —      | (53,800 ) |
| Purchase of common treasury shares - stock plan exercises     | (2,305 )  | —         | —         | —      | (2,305 )  |
| Net cash flows from financing activities                      | (79,220 ) | —         | (15,938 ) | —      | (95,158 ) |
| Effect of exchange rate changes on cash and cash equivalents  | —         | (49 )     | (20,038 ) | —      | (20,087 ) |
| Net change in cash and cash equivalents                       | 4,944     | 2,063     | 57,519    | —      | 64,526    |
| Cash, cash equivalents, and restricted cash—beginning of year | 62,281    | 4,008     | 282,785   | —      | 349,074   |
| Cash, cash equivalents, and restricted cash—end of period     | \$67,225  | \$6,071   | \$340,304 | \$—    | \$413,600 |

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
Three-year period ended December 29, 2018  
(Dollars in thousands, except per share amounts)

| (22) QUARTERLY FINANCIAL DATA (Unaudited) |             |              |           |           |         |             |          |                    |
|---|-------------|--------------|-----------|-----------|---------|-------------|----------|--------------------|
| Net Earnings                              |             |              |           |           |         |             |          |                    |
|   | Net Sales   | Gross Profit | Amount    | Per Share |         | Stock Price |          | Dividends Declared |
|   |             |              |           | Basic     | Diluted | High        | Low      |                    |
| 2018                                      |             |              |           |           |         |             |          |                    |
| First                                     | \$698,684   | \$169,240    | \$39,281  | \$1.74    | \$1.72  | \$171.55    | \$140.10 | \$ 0.375           |
| Second                                    | 682,405     | 174,999      | 32,960    | 1.47      | 1.46    | 154.60      | 137.90   | 0.375              |
| Third (1)                                 | 678,692     | 164,340      | 4,448     | 0.20      | 0.20    | 157.15      | 135.00   | 0.375              |
| Fourth (2)                                | 697,363     | 149,701      | 17,662    | 0.80      | 0.80    | 141.38      | 103.01   | 0.375              |
| Year                                      | \$2,757,144 | \$658,280    | \$94,351  | \$4.23    | \$4.20  | \$171.55    | \$103.01 | \$ 1.50            |
| 2017                                      |             |              |           |           |         |             |          |                    |
| First                                     | \$637,473   | \$164,605    | \$38,979  | \$1.73    | \$1.72  | \$165.20    | \$135.95 | \$ 0.375           |
| Second                                    | 712,737     | 183,280      | 45,664    | 2.03      | 2.01    | 157.60      | 144.65   | 0.375              |
| Third                                     | 680,779     | 163,594      | 35,208    | 1.56      | 1.55    | 160.35      | 140.90   | 0.375              |
| Fourth (3)                                | 714,978     | 170,289      | (3,611 )  | (0.16 )   | (0.16 ) | 176.35      | 153.65   | 0.375              |
| Year                                      | \$2,745,967 | \$681,768    | \$116,240 | \$5.16    | \$5.11  | \$176.35    | \$135.95 | \$ 1.50            |

Earnings per share are computed independently for each of the quarters. Therefore, the sum of the quarterly earnings per share may not equal the total for the year.

The third quarter of 2018 included an impairment of goodwill and intangible assets (1) totaling \$14,736 after tax (\$0.66 per share) and refinancing of long-term debt expenses of \$11,115 after-tax (\$0.50 per share).

(2) In the fourth quarter of 2018, the Company recognized restructuring activities expenses and non-recurring asset impairment charges from exiting certain markets of \$20,625 after-tax (\$0.92 per share).

(3) The fourth quarter of 2017 was impacted by the 2017 Tax Act. We remeasured our U.S. deferred income tax assets using a blended rate of 25.0% recognizing deferred income tax expense of approximately \$20,372 (\$0.90 per share). We also recorded a provision charge of approximately \$9,890 (\$0.44 per share) of income tax expense for the deemed repatriation transition tax and \$11,673 (\$0.51 per share) of deferred expenses related to foreign withholding taxes and U.S. state income taxes.



ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON  
ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

The Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Securities Exchange Act Rule 13a-15.

Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports the Company files or submits under the Securities Exchange Act of 1934 is (1) accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures and (2) recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Securities Exchange Act Rule 13a-15(f). The Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's internal control over financial reporting. The Company's management used the framework in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations (COSO) to perform this evaluation. Based on that evaluation, the Company's management concluded that the Company's internal control over financial reporting was effective as of December 29, 2018. The Company acquired Convert Italia SpA and Walpar, LLC on August 3, 2018, and they represented approximately 8% of its total assets as of December 29, 2018, 1% of its net sales, and 1% of its operating income for fiscal 2018. As these acquisitions occurred during the last 12 months, the scope of the Company's assessment of the effectiveness of internal control over financial reporting does not include Convert Italia SpA or Walpar, LLC. This exclusion is in accordance with the SEC's general guidance that an assessment of a recently acquired business may be omitted from the Company's scope in the year of acquisition.

The effectiveness of the Company's internal control over financial reporting as of December 29, 2018 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report, a copy of which is included in this Annual Report on Form 10-K.





REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM  
To the Shareholders and Board of Directors of Valmont Industries, Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Valmont Industries, Inc. and subsidiaries (the "Company") as of December 29, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 29, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 29, 2018, of the Company and our report dated February 27, 2019, expressed an unqualified opinion on those financial statements.

As described in Management's Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Walpar, LLC and Convert Italia SpA, which were both acquired on August 3, 2018 and whose financial statements constitute 8% of total assets, respectively, 1% of revenues, and 1% of operating income of the consolidated financial statement amounts as of and for the year ended December 29, 2018. Accordingly, our audit did not include the internal control over financial reporting at Walpar, LLC and Convert Italia SpA.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as

necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP  
Omaha, Nebraska  
February 27, 2019

ITEM 9B. OTHER INFORMATION.

Shareholder Return Performance Graphs

The graphs below compare the yearly change in the cumulative total shareholder return on the Company's common stock with the cumulative total returns of the S&P Mid Cap 400 Index and the S&P Mid Cap 400 Industrial Machinery Index for the five and ten-year periods ended December 29, 2018. The Company was added to these indexes in 2009 by Standard & Poor's. The graphs assume that the beginning value of the investment in Valmont Common Stock and each index was \$100 and that all dividends were reinvested.

102

---

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Except for the information relating to the executive officers of the Company set forth in Part I of this 10-K Report, the information called for by items 10, 11, and 13 is incorporated by reference to the sections entitled “Certain Shareholders”, “Corporate Governance”, “Board of Directors and Election of Directors”, “Compensation Discussion and Analysis”, “Compensation Risk Assessment”, “Human Resources Committee Report”, “Pay Ratio Information”, “Summary Compensation Table”, “Grants of Plan-Based Awards for Fiscal Year 2018”, “Outstanding Equity Awards at Fiscal Year-End”, “Options Exercised in Fiscal 2018”, “Nonqualified Deferred Compensation”, “Director Compensation”, “Potential Payments Upon Termination or Change-in-Control” and “Section 16(a) Beneficial Ownership Reporting Compliance” in the Proxy Statement.

The Company has adopted a Code of Ethics for Senior Officers that applies to the Company’s Chief Executive Officer, Chief Financial Officer and Controller and has posted the code on its website at [www.valmont.com](http://www.valmont.com) through the “Investors Relations” link. The Company intends to satisfy the disclosure requirement under Item 5.05 of Form 8-K relating to amendments to or waivers from any provision of the Code of Ethics for Senior Officers applicable to the Company’s Chief Executive Officer, Chief Financial Officer or Controller by posting that information on the Company’s Web site at [www.valmont.com](http://www.valmont.com) through the “Investors Relations” link.

ITEM 11. EXECUTIVE COMPENSATION.

See Item 10.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Incorporated herein by reference to “Certain Shareholders” and “Equity Compensation Plan Information” in the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

See Item 10.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The information called for by Item 14 is incorporated by reference to the sections titled “Ratification of Appointment of Independent Auditors” in the Proxy Statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a)(1)(2) Financial Statements and Schedules.

The following consolidated financial statements of the Company and its subsidiaries are included herein as listed below:

|  |           |
|--|-----------|
| Consolidated Financial Statements  |           |
| <u>Report of Independent Registered Public Accounting Firm</u>                                   | <u>42</u> |
| <u>Consolidated Statements of Earnings—Three-Year Period Ended December 29, 2018</u>             | <u>43</u> |
| <u>Consolidated Statements of Comprehensive Income—Three-Year Period Ended December 29, 2018</u> | <u>44</u> |
| <u>Consolidated Balance Sheets—December 29, 2018 and December 30, 2017</u>                       | <u>45</u> |
| <u>Consolidated Statements of Cash Flows—Three-Year Period Ended December 29, 2018</u>           | <u>46</u> |
| <u>Consolidated Statements of Shareholders' Equity—Three-Year Period Ended December 29, 2018</u> | <u>47</u> |
| <u>Notes to Consolidated Financial Statements—Three-Year Period Ended December 29, 2018</u>      | <u>48</u> |

The following financial statement schedule of the Company is included herein:

SCHEDULE II—Valuation and Qualifying Accounts

All other schedules have been omitted as the required information is inapplicable or the information is included in the consolidated financial statements or related notes. Separate financial statements of the registrant have been omitted because the registrant meets the requirements which permit omission.

- (a)(3) The exhibits listed on the "Index to Exhibits" are filed with this Form 10-K or incorporated by reference as set forth below.
- (b) The exhibits listed on the "Index to Exhibits" are filed with this Form 10-K or incorporated by reference as set forth below.
- (c) Additional Financial Statement Schedules

## Schedule II

VALMONT INDUSTRIES, INC. AND SUBSIDIARIES  
Valuation and Qualifying Accounts  
(Dollars in thousands)

|  | Balance<br>at<br>beginning<br>of<br>period | Charged<br>to<br>profit<br>and loss | Currency<br>Translation<br>Adjustment | Deductions<br>from<br>reserves* | Balance<br>at<br>close of<br>period |
|--|--|-------------------------------------|---------------------------------------|---------------------------------|-------------------------------------|
| Fifty-two weeks ended<br>December 29, 2018                               |  |                                     |                                       |                                 |                                     |
| Reserve deducted in balance sheet<br>from the asset to which it applies— |  |                                     |                                       |                                 |                                     |
| Allowance for doubtful receivables                                       | \$ 9,813                                   | 994                                 | (365 )                                | (2,165 )                        | \$ 8,277                            |
| Allowance for deferred income tax<br>asset valuation                     | 27,864                                     | 10,769                              | (384 )                                | (5,021 )                        | 33,228                              |
| Fifty-two weeks ended<br>December 30, 2017                               |  |                                     |                                       |                                 |                                     |
| Reserve deducted in balance sheet<br>from the asset to which it applies— |  |                                     |                                       |                                 |                                     |
| Allowance for doubtful receivables                                       | \$ 18,991                                  | 2,060                               | 510                                   | (11,748 )                       | \$ 9,813                            |
| Allowance for deferred income tax<br>asset valuation                     | 81,923                                     | 7,728                               | 5,762                                 | (67,549 )                       | 27,864                              |
| Fifty-three weeks ended<br>December 31, 2016                             |  |                                     |                                       |                                 |                                     |
| Reserve deducted in balance sheet<br>from the asset to which it applies— |  |                                     |                                       |                                 |                                     |
| Allowance for doubtful receivables                                       | \$ 21,008                                  | 1,273                               | (734 )                                | (2,556 )                        | \$ 18,991                           |
| Allowance for deferred income tax<br>asset valuation                     | 90,837                                     | 9,888                               | (18,129 )                             | (673 )                          | 81,923                              |

---

\*The deductions from reserves are net of recoveries.

INDEX TO EXHIBITS

- Exhibit 3.1 The Company's Restated Certificate of Incorporation, as amended. This document was filed as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-31429) for the quarter ended March 28, 2009 and is incorporated herein by this reference.
- Exhibit 3.2 The Company's By-Laws, as amended. This document was filed as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 29, 2014 and is incorporated herein (Commission file number 001-31429) by reference.
- Exhibit 4.1 Credit Agreement, dated as of August 15, 2012, among the Company, Valmont Industries Holland B.V. and Valmont Group Pty. Ltd., as Borrowers, JPMorgan Chase Bank, N.A., as Administrative Agent, and the other lenders party thereto. This document was filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-31429) dated August 15, 2012 and is incorporated herein by reference.
- Exhibit 4.2 First Amendment dated as of October 17, 2014 to Credit Agreement, dated as of August 15, 2012, among the Company, Valmont Industries Holland B.V. and Valmont Group Pty. Ltd., as Borrowers, JPMorgan Chase Bank, N.A., as Administrative Agent, and the other lenders party thereto. This document was filed as exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-31429) dated October 17, 2014 and is incorporated herein by this reference.
- Exhibit 4.3 Second Amendment dated as of February 23, 2016 to Credit Agreement, dated as of August 15, 2012, among the Company, Valmont Industries Holland B.V. and Valmont Group Pty. Ltd., as Borrowers, JPMorgan Chase Bank, N.A., as Administrative Agent, and the other lenders party thereto. This document was filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-31429) dated February 23, 2016 and is incorporated herein by reference.
- Exhibit 4.4 First Amended and Restated Credit Agreement, dated as of October 18, 2017, among the Company, Valmont Industries Holland B.V. and Valmont Group Pty. Ltd., as Borrowers, JPMorgan Chase Bank, N.A., as Administrative Agent, and the other lenders party thereto. This document was filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-31429) dated October 18, 2017 and is incorporated herein by reference.
- Exhibit 4.5 Indenture relating to senior debt, dated as of April 12, 2010, among Valmont Industries, Inc., the Subsidiary Guarantors party thereto and Wells Fargo Bank, National Association., as Trustee. This document was filed as Exhibit 4.1 to the Company's Current Report on Form 8-K (Commission file number 001-31429) dated April 12, 2010 and is incorporated herein by this reference.



First Supplemental Indenture, dated as of April 12, 2010, to indenture relating to senior debt, dated as of April 12, 2010, among Valmont Industries, Inc., the Subsidiary Guarantors party thereto and Wells Fargo Exhibit 4.6 Bank, National Association, as Trustee. This document was filed as Exhibit 4.2 to the Company's Current Report on Form 8-K (Commission file number 001-31429) dated April 12, 2010 and is incorporated herein by this reference.

Second Supplemental Indenture, dated as of September 22, 2014, to Indenture relating to senior debt, dated as of April 12, 2010, among Valmont Industries, Inc., the Subsidiary Guarantors party thereto and Wells Fargo Exhibit 4.7 Bank, National Association, as Trustee. This document was filed as Exhibit 4.2 to the Company's Current Report on Form 8-K (Commission file number 001-31429) dated September 22, 2014 and is incorporated herein by this reference.

|                     |   |  |
|---------------------|---|--|
| <u>Exhibit 4.8</u>  | — | Third Supplemental Indenture, dated as of September 22, 2014, to Indenture relating to senior debt, dated as of April 12, 2010, among Valmont Industries, Inc., the Subsidiary Guarantors party thereto and Wells Fargo Bank, National Association, as Trustee. This document was filed as Exhibit 4.3 to the Company's Current Report on Form 8-K (Commission file number 001-31429) dated September 22, 2014 and is incorporated herein by this reference. |
| <u>Exhibit 10.1</u> | — | The Company's 2008 Stock Plan. This document was filed as Exhibit 10.5 to the Company's Annual Report on Form 10-K (Commission file number 001-31429) for the fiscal year ended December 28, 2013 and is incorporated herein by this reference.  |
| <u>Exhibit 10.2</u> | — | The Company's 2013 Stock Plan. This document was filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-31429) dated April 30, 2013 and is incorporated herein by reference.  |
| <u>Exhibit 10.3</u> | — | 2013 Stock Plan Amendment, dated December 17, 2015. This document was filed as Exhibit 10.7 to the Company's Annual Report on Form 10-K (Commission file number 001-31429) for the year ended December 26, 2015 and is incorporated herein by this reference.  |
| <u>Exhibit 10.4</u> | — | The Company's 2018 Stock Plan. This document was filed as Exhibit 10.1 to the Company's Current Report on Form 8-K (Commission file number 001-31429) dated March 12, 2018 and is incorporated herein by reference.  |
| <u>Exhibit 10.5</u> | — | Form of Stock Option Agreement. This document was filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-31429) for the quarter ended March 31, 2018 and is incorporated herein by this reference.   |
| <u>Exhibit 10.6</u> | — | Form of Restricted Stock Unit Agreement (Domestic). This document was filed as Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-31429) for the quarter ended March 31, 2018 and is incorporated herein by reference.  |
| <u>Exhibit 10.7</u> | — | Form of Restricted Stock Unit Agreement (Director). This document was filed as Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q (Commission file number 001-31429) for the quarter ended March 31, 2018 and is incorporated herein by reference.  |
| <u>Exhibit 10.8</u> | — | Form of Restricted Stock Unit Agreement (International). This document was filed as Exhibit 10.12 to the Company's Annual Report on Form 10-K (Commission file number 001-31429) for   |

the year ended December 26, 2015 and is incorporated herein by this reference.

- Exhibit 10.9 — Form of Restricted Stock Agreement. This document was filed as Exhibit 10.4 to the Company's Current Report on Form 8-K (Commission file number 001-31429) dated April 30, 2013 and is incorporated herein by this reference.
- Exhibit 10.10 — The 2013 Valmont Executive Incentive Plan. This document was filed as Exhibit 10.2 to the Company's Current Report on Form 8-K (Commission file number 001-31429) dated April 30, 2013 and is incorporated herein by reference.
- Exhibit 10.11 — The Amended Unfunded Deferred Compensation Plan for Nonemployee Directors. This document was filed as Exhibit 10.15 to the Company's Annual Report on Form 10-K (Commission file number 001-31429) for the fiscal year ended December 28, 2013 and is incorporated herein by this reference.

Exhibit 10.12 VERSP Deferred Compensation Plan. This document was filed as Exhibit 10.16 to the Company's Annual Report on Form 10-K (Commission file number 001-31429) for the fiscal year ended December 28, 2013 and is incorporated herein by this reference.

Exhibit 21\* ~~Subsidiaries of the Company.~~

Exhibit 23\* ~~Consent of Deloitte & Touche LLP.~~

Exhibit 24\* ~~Power of Attorney.~~

Exhibit 31.1\* ~~Section 302 Certification of Chief Executive Officer.~~

Exhibit 31.2\* ~~Section 302 Certification of Chief Financial Officer.~~

Exhibit 32.1\* ~~Section 906 Certifications.~~

Exhibit 101 The following financial information from the Company's Annual Report on Form 10-K for the year ended December 29, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Statements of Earnings, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Balance Sheets, (iv) the Consolidated Statements of Cash Flows, (v) the Consolidated Statements of Shareholders' Equity, (vi) Notes to Consolidated Financial Statements, and (vii) document and entity information.

---

\*Filed herewith

Pursuant to Item 601(b)(4) of Regulation S-K, certain instruments with respect to the registrant's long-term debt are not filed with this Form 10-K. Valmont will furnish a copy of such long-term debt agreements to the Securities and Exchange Commission upon request.

Management contracts and compensatory plans are set forth as exhibits 10.1 through 10.12.

ITEM 16. FORM 10-K SUMMARY  
Not Applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on the 27th day of February, 2019.  
Valmont Industries, Inc.

By: /s/ STEPHEN G. KANIEWSKI

Stephen G. Kaniewski  
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated and on the dates indicated.

| Signature                    | Title  | Date      |
|------------------------------|--|-----------|
| /s/ Stephen G. Kaniewski     | Director,<br>President<br>and Chief<br>Executive<br>Officer<br>(Principal<br>Executive<br>Officer)         | 2/27/2019 |
| Stephen G.<br>Kaniewski      |  |           |
| /s/ MARK C. JAKSICH          | Executive<br>Vice<br>President<br>and Chief<br>Financial<br>Officer<br>(Principal<br>Financial<br>Officer) | 2/27/2019 |
| Mark C.<br>Jaksich           |  |           |
| /s/<br>TIMOTHY P.<br>FRANCIS | Senior Vice<br>President<br>and<br>Controller<br>(Principal<br>Accounting<br>Officer)                      | 2/27/2019 |
| Timothy P.<br>Francis        |  |           |
| Mogens C.<br>Bay*            | Daniel P.<br>Neary*  |           |

K.R. den Catherine J.  
Daas\* Paglia\*

Theo W. Clark T.  
Freye\* Randt\*  
James B. Walter Scott,  
Milliken\* Jr.\*  
Donna M.  
Milrod\*

---

Stephen G. Kaniewski, by signing his name hereto, signs the Annual Report on behalf of each of the directors indicated on this 27th day of February, 2019. A Power of \* Attorney authorizing Stephen G. Kaniewski to sign the Annual Report on Form 10-K on behalf of each of the indicated directors of Valmont Industries, Inc. has been filed herein as Exhibit 24.

By: /s/ STEPHEN G. KANIEWSKI  
Stephen G. Kaniewski  
Attorney-in-Fact