COSTCO WHOLESALE CORP /NEW
Form SD
June 03, 2014

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

FORM SD

SPECIALIZED DISCLOSURE REPORT

Costco Wholesale Corporation

(Exact name of the registrant as specified in its charter)

Washington	000-20355	91-1223280
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(IRS Employer Identification No)
999 Lake Drive, Issaquah, WA		98027
(Address of principal executive offices)		(Zip code)
Arthur Jackson		(425) 313-8100

(Name and telephone number, including area code, of the person to contact in connection with this report)

Check the appropriate box to indicate the rule pursuant to which this form is being filed, and provide the period to which the information in this form applies:

ý Rule 13p-1 under the Securities Exchange Act (17 CFR 240.13p-1) for the reporting period from January 1 to December 31, 2013.

Section 1 - Conflict Minerals Disclosure

Item 1.01 Conflict Minerals Disclosure and Report

Conflict Minerals Disclosure

A copy of Costco Wholesale Corporation's Conflict Minerals Report for the calendar year ended December 31, 2013 is filed as Exhibit 1.02 hereto and is publicly available at http://phx.corporate-ir.net/phoenix.zhtml?c=83830&p=irol-govhighlights.

Item 1.02 Exhibit
Section 2 - Exhibits
Item 2.01 Exhibits
The following exhibit is filed as part of this report:
Exhibit 1.02 - Conflict Minerals Report as required by Items 1.01 and 1.02 of this Form.

SIGNATURES

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

Costco Wholesale Corporation

/s/ DOUG SCHUTT	June 2, 2014
Doug Schutt	(Date)
Executive Vice President	

h:39%;">
Global priority brands

Regional champion brands

Other[1]
Blue Moon

Bergenbier

Aspall Cider
Coors Light

Borsodi

Bavaria
Miller Genuine Draft

Carling

Beck's
Staropramen

Jelen

Branik

Kamenitza

Birradamare

Niksicko

Cobra

Ozujsko

Corona Extra

Grolsch

Lowenbrau

Rekorderlig cider

Singha

Sharp's Doom Bar

Stella Artois
(1) The European business has licensing and distribution agreements with various other brewers through which it also brews and distributes Beck's, Lowenbrau, Stella Artois and Spaten, as well as a distribution agreement for the exclusive distribution of the Corona brand, throughout the Central European countries in which we operate. We have an agreement with Dutch brewer, Bavaria, for the exclusive on-premise and off-premise rights to the sales, distribution and customer marketing of Bavaria and its portfolio of brands in the U.K. Starting in 2018, we have an agreement for licensed brewing and distribution of Bavaria portfolio in Croatia, Bosnia and Herzegovina, Serbia and Montenegro. We also distribute the Rekorderlig cider brand in the U.K. and the Republic of Ireland. In the U.K., we also sell the Cobra brands through the Cobra Beer Partnership Ltd. joint venture and the Grolsch brands through a joint venture with Royal Grolsch N.V., and are the exclusive distributor for several brands including Singha. Additionally, in order to be able to provide a full line of beer and other beverages to our U.K. on-premise customers, we sell "factored" brands, which are third-party beverage brands for which we provide distribution to retail, typically on a non-exclusive basis.

Brands sold in International

Global priority brands	Regional champion brands	Other
Blue Moon	Miller High Life	Carling Strong
Coors Light[1]	Thunderbolt	Coors Banquet
Miller Genuine Draft[1]		Coors 1873
Miller Lite[1]		Keystone
Staropramen		Milwaukee's Best
		Miller Ace
		Miller Chill
		Miller Ultra
		Molson Canadian
		Zima

(1) Focus brands in International segment

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Our Segments

In 2018, we operated the following segments: the U.S., Canada, Europe and International. A separate operating team manages each segment and each segment manufactures, markets, and sells beer and other malt beverage products.

United States Segment

- Headquarters: Chicago, Illinois
- Approximately 7,300 employees
- Second largest brewer by volume in the U.S., selling approximately 24% of the total 2018 U.S. brewing industry shipments (excluding exports)
- Currently operating seven primary breweries, six craft breweries and two container operations

Prior to the Acquisition completed on October 11, 2016, MCBC owned a 50% voting and 42% economic interest in MillerCoors (which was originally formed on July 1, 2008, as a joint venture between MCBC and SABMiller), and MillerCoors was accounted for under the equity method of accounting. Following the completion of the Acquisition, MillerCoors became a wholly-owned subsidiary of MCBC and its results were fully consolidated by MCBC prospectively beginning on October 11, 2016.

Sales and Distribution

In the United States, beer is generally distributed through a three-tier system consisting of manufacturers, distributors and retailers. A national network of approximately 400 independent distributors and one owned distributor, Coors Distributing Company, purchases our products and distributes them to on- and off-premise retail accounts. References to on- and off-premise sales volumes are the sales to retailers of these distributors, which we believe is a useful data point relative to consumer trends.

Channels

In the United States, the on-premise channel industry volume, which includes sales in bars and restaurants, declined approximately 2% in 2018.

The off-premise channel includes sales in convenience stores, grocery stores, liquor stores and other retail outlets. The off-premise channel industry volume declined approximately 1% in 2018 versus prior year.

The following table reflects the industry channel trends over the last five years in the United States. Note that percentages reflect estimates based on market data currently available.

	Industry channel trend				
	2018	2017	2016	2015	2014
On-premise	16%	16%	16%	17%	17%
Off-premise	84%	84%	84%	83%	83%

Coors Distributing Company distributed less than 2% of our total owned and non-owned volume in 2018.

Manufacturing, Production and Packaging

Brewing Raw Materials

We use high quality ingredients to brew our products. We malt a portion of our production requirements, using barley purchased under primarily annual contracts from independent farmers located predominantly in the western United States. Other barley, malt, and cereal grains are purchased from suppliers primarily in the U.S. Hops are purchased from suppliers in the U.S. and Europe. We both own and lease water rights, as well as purchase water through local municipalities, to provide for and sustain brewing operations in case of a prolonged drought in the regions where we have operations. We do not currently anticipate future difficulties in accessing water or agricultural products used in our brewing process in the near term.

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Packaging Materials

The following summarizes the percentage of our U.S. segment's packaging materials by type for the year ended December 31, 2018.

Aluminum cans or bottles:

- A portion of the aluminum containers was purchased from Rocky Mountain Metal Container ("RMMC"), our joint venture with Ball Corporation ("Ball"), whose production facilities, which are leased from us, are located near our brewery in Golden, Colorado.
- In addition to the supply agreement with RMMC, we have a supply agreement with Ball to purchase cans and ends in excess of what is supplied through RMMC.
- The RMMC joint venture agreement along with the cans and ends purchase agreement expire on December 31, 2021.

Glass bottles:

- A portion of the glass bottles was provided by Rocky Mountain Bottle Company ("RMBC"), our joint venture with Owens-Brockway Glass Container, Inc. ("Owens"), whose production facilities, which are leased from us, are located in Wheat Ridge, Colorado. The RMBC joint venture agreement expires on July 31, 2025.
- In addition to the supply agreement with RMBC, we have a supply agreement with Owens for requirements in excess of RMBC's production, which expires on December 31, 2021.

Stainless steel kegs:

- Kegs are packaged in half, quarter, and one-sixth barrel stainless steel kegs.
- A limited number of kegs are purchased each year, and we have no long-term supply agreement.

Crowns, labels, corrugate and paperboard are purchased from a small number of sources unique to each product. In recent years, we have experienced a slight shift in the allocation among different packaging types toward aluminum cans and bottles and away from glass bottles. In general, aluminum cans allow for lower packaging costs compared to most other types of packaging materials. We do not currently anticipate future difficulties in accessing packaging products in the near term.

Contract Manufacturing

We have an agreement to brew, package and ship products for Pabst Brewing Company. Additionally, the U.S. segment produces beer for export to our Canada and International segments.

Seasonality of the Business

Total industry volume in the U.S. is sensitive to factors such as weather, changes in demographics, consumer preferences and drinking occasions. Weather conditions consisting of high temperatures and extended periods of warm weather favor increased consumption of our products, while unseasonably cool or wet weather, especially during the summer months, adversely affects our sales volumes and net sales. Accordingly, consumption of beer in the U.S. is seasonal, with approximately 39% of industry sales volume typically occurring during the warmer months from May through August.

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Known Trends and Competitive Conditions

2018 U.S. Beer Industry Overview

The beer industry in the United States is highly competitive, and the two largest brewers, ABI and MCBC together represented the majority of the market in 2018. However, we estimate the two largest brewers lost share in 2018 due to volume growth in the import and flavored malt beverage categories as consumer preferences continue to shift within the industry to above premium priced beers. We believe growing or even maintaining our market share will require stabilizing our core brands and increasing our presence in the fast growing areas of the industry.

Competition from outside of the beer category continues to be a challenge for the beer industry. The following table summarizes the estimated percentage market share by volume of beer (including flavored malt beverages) and other alcohol beverages, including wine and spirits, as a component of the overall U.S. alcohol market over the last five years. We anticipate that 2018 data, when available, will reflect a continuation of the recent consumer trends. Note that percentages reflect estimates based on market data currently available.

	2017	2016	2015	2014	2013
Beer	50%	51%	51%	51%	52%
Other alcohol beverages	50%	49%	49%	49%	48%

Our Competitive Position

Our portfolio of beers competes with numerous above premium, premium, and economy brands. These competing brands are produced by international, national, regional and local brewers. We compete most directly with ABI brands, but also compete with imported and craft beer brands, as well as flavored malt beverages. The following table summarizes the estimated percentage share of the U.S. beer market represented by Molson Coors, ABI and all other brewers over the last five years. Note that current year percentages reflect estimates based on market data currently available.

	2018	2017	2016	2015	2014
MCBC's share	24%	25%	25%	26%	27%
ABI's share	42%	43%	44%	45%	46%
Others' share	34%	32%	31%	29%	27%

Our products also compete with other alcohol beverages, including wine and spirits, and thus their competitive position is affected by consumer preferences between and among these other categories. Driven by increased spirits advertising along with increased wine and spirits sales execution, sales of wine and spirits have grown faster than sales of beer in recent years, resulting in a reduction in the beer segment's lead in the overall alcohol beverage market.

Regulation

The U.S. beer business is regulated by federal, state, and local governments. These regulations govern many parts of our operations, including brewing, marketing and advertising, transportation, distributor relationships, sales, and environmental issues. To operate our facilities, we must obtain and maintain numerous permits, licenses and approvals from various governmental agencies, including the U.S. Treasury Department, Alcohol and Tobacco Tax and Trade Bureau, the U.S. Department of Agriculture, the U.S. Food and Drug Administration, state alcohol regulatory agencies, and state and federal environmental agencies.

Governmental entities also levy taxes and may require bonds to ensure compliance with applicable laws and regulations. In 2018, excise taxes on malt beverages were approximately $15 per hectoliter sold on a reported basis which includes the impact of the Craft Beverage Modernization and Tax Reform Act which took effect on January 1, 2018, for all qualified large domestic brewers and importers effective for 2018 and 2019, and resulted in reduced excise taxes for MCBC in the U.S. by $2 per barrel on the first six million barrels, which equated to $1.70 per hectoliter on this portion of volume. We transfer a portion of our share of these savings to distributors consistent with the revenue splitting approach of our U.S. segment’s economic model. State excise taxes are levied in specific states at varying rates.

Refer to Part I—Item 1A, Risk Factors for risks associated with the regulatory environment in the U.S.

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Canada Segment

- Headquarters: Toronto, Ontario
- Approximately 2,600 employees
- Canada's second largest brewer by volume and North America's oldest beer company, selling approximately 32% of the total 2018 Canada beer market
- Currently operating five primary breweries and four craft breweries

We brew, market, sell and distribute a wide variety of beer brands nationally. Our portfolio has leading brands in all major product and price segments. In 2018, Coors Light had an approximate 10% market share and was the second largest selling beer brand in Canada, and Molson Canadian had an approximate 5% market share and was the fourth largest selling beer in Canada. As a result of the Acquisition, the Miller brands returned to our Canada business.

The Canada segment also includes our partnership arrangements related to the distribution of beer in Ontario, Brewers' Retail Inc. ("BRI"), and in the Western provinces, Brewers' Distributor Ltd. ("BDL"). BRI and BDL are accounted for under the equity method of accounting. The majority of ownership in BRI resides with MCC, Labatt Breweries of Canada LP (a subsidiary of ABI) and Sleeman Breweries Ltd. (a subsidiary of Sapporo International). BDL is jointly owned by MCC and ABI.

In line with our strategic initiatives to expand our craft portfolio, the Canada segment acquired two craft breweries in Quebec, Le Trou du Diable and Brasseurs de Montréal, Inc. in 2017 and in 2016, respectively. There were no additional acquisitions during 2018. However, on October 4, 2018, a wholly-owned subsidiary within our Canadian business completed the formation of an independent Canadian joint venture, Truss LP ("Truss"), with HEXO Corp. ("HEXO") to pursue opportunities to develop, produce and market non-alcoholic, cannabis-infused beverages once legal in Canada. Truss is structured as a standalone start-up company with its own board of directors and an independent management team and we maintain a 57.5% controlling interest in the joint venture.

Sales and Distribution

In Canada, provincial governments regulate the beer industry, particularly with regard to the pricing, mark-up, container management, sale, distribution and advertising of beer. Distribution and the retail sale of alcohol products involve a wide range and varied degree of Canadian government control through their respective provincial liquor boards. See below discussion for details by province.

Channels

In Canada, the on-premise channel includes sales in bars and restaurants. In Ontario and Western Canada, we use jointly-owned distribution systems to deliver beer to on-premise customers along with products from Labatt Breweries of Canada LP and Sleeman Breweries Ltd. In Quebec and Eastern Canada, we primarily deliver directly. The on-premise channel, and relationships with customers, are highly regulated and the regulations differ significantly across different provincial jurisdictions.

The off-premise channel includes sales to convenience stores, grocery stores, liquor stores and other specialty retail outlets, including "The Beer Store" in Ontario, which is the world's largest beer retailer and is co-owned by Ontario's three largest brewers. The off-premise channel is highly regulated and differs significantly across different provincial jurisdictions.

The following table reflects the industry channel trends over the last five years in Canada.

	Industry channel trend				
	2018	2017	2016	2015	2014
On-premise	16%	17%	17%	17%	17%
Off-premise	84%	83%	83%	83%	83%

Province of Ontario

In Ontario, beer is primarily purchased at retail outlets operated by BRI, at government-regulated retail outlets operated by the Liquor Control Board of Ontario ("LCBO"), at approved agents of the LCBO, at certain licensed grocery stores, or at any bar, restaurant, or tavern licensed by the LCBO to sell alcohol for on-premise consumption. The BRI retail outlets operate under The Beer Store name. Brewers may deliver directly to BRI's outlets or may choose to use BRI's distribution centers to access retail stores in Ontario, the LCBO system, the grocery channel and licensed establishments.

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Province of Québec

In Québec, the distribution and sale of beer is governed by the Quebec Alcohol Corporation ("SAQ"). Beer is distributed to retail outlets directly by each brewer or through approved independent agents. We are the agent for the licensed brands we distribute. The brewer or agent distributes the products to permit holders for retail sales for on-premise consumption. Québec retail sales for off-premise consumption are made through grocery and convenience stores, as well as government operated outlets.

Province of British Columbia

In British Columbia, the government's Liquor Distribution Branch controls the regulatory elements of distribution of all alcohol products in the province. BDL, which we co-own with ABI, manages the distribution of our products throughout British Columbia. Consumers can purchase beer at any Liquor Distribution Branch retail outlet, at any independently owned and licensed retail store or at any licensed establishment for on-premise consumption. Establishments licensed primarily for on-premise alcohol sales may also be licensed for off-premise consumption.

Province of Alberta

In Alberta, the distribution of beer is managed by independent private warehousing and shipping companies or by a government sponsored system in the case of U.S. sourced products. All sales of liquor in Alberta are made through retail outlets licensed by the Alberta Gaming and Liquor Commission or licensees, such as bars, hotels and restaurants. BDL manages the distribution of our products in Alberta.

Other Provinces

Our products are distributed in the provinces of Manitoba and Saskatchewan through local liquor boards. Manitoba and Saskatchewan also have licensed private retailers. BDL manages the distribution of our products in Manitoba and Saskatchewan. In the Maritime Provinces (other than Newfoundland), local liquor boards distribute and sell our products. In Newfoundland, our products are sold through independent distributors. In Yukon, Northwest Territories and Nunavut, government liquor commissioners manage the distribution and sale of our products.

Manufacturing, Production and Packaging

Brewing Raw Materials

We use high quality ingredients to brew our products. We also use hedging instruments to mitigate the risk of volatility in certain commodities and foreign exchange markets.

We source barley malt from one primary provider, from which we have a committed supply through 2022. Hops are purchased from a variety of global suppliers in the U.S. and Europe through contracts that vary in length based on market conditions and cover our supply requirements through 2021. Other starch brewing adjuncts are sourced from two main suppliers, both in North America, through 2022. Water used in the brewing process is from local sources in the communities where our breweries operate. We do not currently anticipate future difficulties in accessing water or agricultural products used in our brewing process in the near term.

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Packaging Materials

The following summarizes the percentage of our Canada segment's packaging materials by type for the year ended December 31, 2018.

Aluminum cans or bottles:

- We source cans and lids from two primary providers with contracts ending December 2021 and December 2023, respectively.
- The distribution systems in each province generally provide the collection network for returnable bottles and aluminum cans.

Bottles:

- We single source glass bottles and have a committed supply through December 2021.
- The standard bottle for beer brewed in Canada is the 341 ml returnable bottle and represents the vast majority of our bottle sales.
- Bottle sales continue to decline as we have experienced a shift in consumers' preference toward aluminum cans. The standard returnable bottle requires significant investment behind our returnable bottle inventory and bottling equipment. The trend away from returnable bottles could result in higher fixed cost deleverage related to these assets and an ultimate decreased need for the assets that support this packaging, which could adversely impact profitability.

Stainless steel kegs:

- A limited number of kegs are purchased every year, and we have no long-term supply commitment.

Crowns are currently sourced from one major supplier with a contract through June 2019, which we are currently in the process of extending. Paperboard and labels are currently sourced from one supplier each with contracts through December 2020 and December 2021, respectively. Corrugate is purchased from a small number of sources with contracts through December 2020 and March 2021 and we are in the process of extending two additional contracts which expired in 2018, however, supply has continued without issue while these are being negotiated. We do not currently anticipate future difficulties in accessing any of our required packaging materials in the near term.

Contract Manufacturing

We have an agreement with North American Breweries, Inc. ("NAB") to brew and package certain Labatt brands for export to the U.S. market. We also have an agreement with Asahi to brew and package Asahi Super Dry and Asahi Select for export to the U.S. market.

Seasonality of Business

Total industry volume in Canada is sensitive to factors such as weather, changes in demographics, consumer preferences and drinking occasions. Weather conditions consisting of high temperatures and extended periods of warm weather favor increased consumption of our products, while unseasonably cool or wet weather, especially during the summer months, adversely affects our sales volumes and net sales. Accordingly, consumption of beer in Canada is seasonal, with approximately 41% of industry sales volume typically occurring during the warmer months from May through August.

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Known Trends and Competitive Conditions

2018 Canada Beer Industry Overview

The Canadian brewing industry is a mature market and ABI and MCBC are the two largest brewers. It is characterized by aggressive competition for volume and market share from regional brewers, microbrewers and certain foreign brewers, as well as our main domestic competitor. These competitive pressures require significant annual investment in marketing and selling activities. In 2018, the Ontario and Québec markets accounted for approximately 61% of the total beer market in Canada.

There are three major beer price segments: above premium, which includes craft and most imports; premium, which includes the majority of domestic brands and the light sub-segment; and value (below premium). Since 2001, the premium beer segment in Canada has gradually lost volume to the above premium and value segments.

The beer industry has declined in five of the last six years. Aging population and strong competition from other alcohol beverages have been the main contributors to the declining state of the beer industry.

The following table summarizes the estimated percentage market share by volume of beer (including adjacencies, such as cider) and other alcohol beverages, including wine and spirits, as a component of the overall Canadian alcohol market over the last five years, for which data is currently available. We anticipate that 2018 data, when available, will reflect a continuation of the recent consumer trends. Note that percentages reflect estimates based on market data currently available.

	2017	2016	2015	2014	2013
Beer	47 %	47 %	48 %	48 %	48 %
Other alcohol beverages	53 %	53 %	52 %	52 %	52 %

Our Competitive Position

Our brands compete with competitor beer brands and other alcohol beverages, including wine and spirits, and thus our competitive position is affected by consumer preferences among these other categories. Our brand portfolio gives us strong representation in all major beer segments.

The following table summarizes the estimated percentage share of the Canadian beer market represented by MCBC, ABI and all other brewers over the last five years. Note that the sum of the percentages below may not equal 100% due to rounding. Current year percentages reflect estimates based on market data currently available.

	2018	2017	2016	2015	2014
MCBC's share[(1)]	32 %	33 %	33 %	34 %	37 %
ABI's share[(1)]	42 %	42 %	43 %	43 %	43 %
Others' share	26 %	25 %	24 %	23 %	21 %

(1) The decrease in MCBC's share in 2015 was largely driven by the loss of the contract with Miller Brewing Company ("Miller"), under which we had exclusive rights to distribute certain Miller brands in Canada and was terminated effective March 2015. As a result of the Acquisition, beginning October 11, 2016, these Miller brands returned to our Canada business.

Regulation

In Canada, provincial governments regulate the production, marketing, distribution, selling and pricing of beer (including the establishment of minimum prices), and impose commodity taxes and license fees in relation to the production, distribution and sale of beer. In addition, the federal government regulates the advertising, labeling, quality control, and international trade of beer, and also imposes commodity taxes on both domestically produced and imported beer. In 2018, our Canada segment excise taxes were approximately $54 per hectoliter sold on a reported basis. Further, certain bilateral and multilateral treaties entered into by the federal government, provincial governments and certain foreign governments, especially with the United States, affect the Canadian beer industry.

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Europe Segment

- Headquarters: Prague, Czech Republic
- Approximately 6,600 employees
- Europe's second largest brewer by volume, on a combined basis, within the European countries in which we operate, with an approximate aggregate 20% market share (excluding factored products) in 2018
- Currently operating twelve primary breweries, five craft breweries and one cidery

The majority of our European segment sales are in the U.K., Croatia, Czech Republic and Romania. Our portfolio includes beers that have the largest share in their respective countries, such as Carling in the U.K., Ozujsko in Croatia, Jelen in Serbia and Niksicko in Montenegro. We have beers that rank in the top three in market share in their respective segments throughout the region, such as Bergenbier in Romania, Kamenitza in Bulgaria and Borsodi in Hungary. Additionally, as a result of the Acquisition, we began selling Miller Genuine Draft in various European countries. Our Europe segment includes our consolidated joint venture arrangements for the production and distribution of Grolsch and Cobra brands in the U.K. and the Republic of Ireland and factored brand sales (beverage brands owned by other companies, but sold and delivered to retail by us).

Effective January 1, 2017, European markets including Sweden, Spain, Germany, Ukraine and Russia, which were previously reported under our International segment, are reported within our Europe segment. Additionally, in January 2017, we purchased a controlling interest in the Spanish craft brewery La Sagra Brew. Located near Madrid, La Sagra expands our craft portfolio in the world's 11th largest beer market and offers a new distribution partner in Spain for Blue Moon Belgian White, the largest craft brand in the U.S. In July 2017, we also completed the purchase of Birradamare, a small Italian craft brewery based just outside of Rome, which gives us an opportunity to develop its special brands in Italy and select export markets. In January 2018, we purchased Aspall Cider Limited in the U.K., which will strengthen the U.K. portfolio with a premium top ten cider as well as a cider production facility.

Sales and Distribution

In Europe, beer is generally distributed through either a two-tier system consisting of manufacturers and retailers, or a three-tier system consisting of manufacturers, distributors and retailers. Distribution activities for both the on-premise and off-premise channels are conducted primarily by third-party logistics providers. Most of our beer in the U.K. is sold directly to retailers. We have an agreement with Tradeteam Ltd. ("Tradeteam", a subsidiary of DHL) to provide the distribution of our products throughout the U.K. through 2023. We utilize several hundred third-party logistics providers across our Central European operations. We also conduct a small amount of secondary distribution in Czech Republic utilizing our own fleet of vehicles. It is also common in the U.K. for brewers to distribute beer, wine, spirits, and other products owned and produced by other companies, which we refer to as factored brands, to the on-premise channel (bars and restaurants). Approximately 18% of our Europe segment net sales in 2018 represented factored brands. In addition, we have an agreement with Heineken through December 2019, whereby they sell, market and distribute Coors Light in the Republic of Ireland.

Channels

In Europe, the on-premise channel includes sales to pubs and restaurants. The installation and maintenance of draught beer dispensing equipment in the on-premise channel is generally the responsibility of the brewer. Accordingly, we own refrigeration units and other equipment used to dispense beer from kegs to consumers that are used in on-premise outlets. This includes beer lines, cooling equipment, taps, and counter mounts.

The off-premise channel includes sales to supermarkets, convenience stores, liquor stores, distributors, and wholesalers. Over the last few years, the off-premise channel has become increasingly concentrated among a small number of super-store chains.

Generally, over the years, industry volumes in Europe have shifted from the higher margin on-premise channel, where products are consumed in pubs and restaurants, to the lower margin off-premise channel, also referred to as the "take-home" market. In 2018, approximately 40% of sales were on-premise and 60% were off-premise. Consistent with prior years, the on-premise channel has continued to experience declines from shifting consumer preference to off-premise partially due to smoking bans in many countries.

Manufacturing, Production and Packaging

Brewing Raw Materials

We use high quality ingredients to brew our products. During 2018, our malt requirements were sourced from third-party suppliers. We have multiple agreements with various suppliers that cover almost all of our total required malt, with terms ending in 2020 through 2026. Hops are purchased under various contracts with suppliers in Germany, the U.S. and the U.K.,

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which cover our requirements through 2019. Adjuncts are purchased under various contracts with local producers, which are typically crop year contracts commencing in October of each year. Water used in the brewing process is sourced from various wells and through water rights and supply contracts. We do not currently anticipate future difficulties in accessing required water or agricultural products used in our brewing process in the near term.

Packaging Materials

The following summarizes the percentage of our Europe segment's packaging materials by type for the year ended December 31, 2018.

Bottles:

- A significant majority of returnable bottles are sourced under various agreements with third-party suppliers.

Kegs:

- A limited number of kegs are purchased each year from various suppliers, and we have no long-term supply commitment. We are currently in the process of signing new agreements which would cover all of our requirements for kegs in 2019.

Cans:

- We have long-term agreements with various suppliers that cover all of our required supply of cans, with terms ending in 2019 through 2023.

Recyclable plastic containers:

- We have multiple agreements with various manufacturers in the region, covering 100% of our requirements which expire in 2019. We do not currently anticipate any issues in renegotiating and extending contracts or in otherwise being able to access recyclable plastic containers.

Crowns, labels and corrugate are purchased from sources unique to each category. We do not currently foresee future difficulties in accessing these or other packaging materials in the near term.

Seasonality of Business

In Europe, the beer industry is subject to seasonal sales fluctuations primarily influenced by holidays, weather and by certain major televised sporting events. Weather conditions consisting of high temperatures and extended periods of warm weather favor increased consumption of our products, while unseasonably cool or wet weather, especially during the summer months, adversely affects our sales volumes and net sales. Accordingly, the peak selling seasons typically occur during the summer and during the Christmas and New Year holiday season.

Known Trends and Competitive Conditions

2018 Europe Beer Industry Overview

Based on current data, we estimate that the Europe beer market increased in 2018 compared to 2017, driven by increased beer consumption versus last year in some of the largest regions in which we operate. Since 2010, the off-premise market share has increased in our European markets from 55% to over 60% of total volume, and the on-premise market share has declined

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from 45% to below 40%. Europe beer industry retail shipments have fluctuated by approximately 1% to 2% annually over the last five years. These market fluctuations are consistent with the fluctuations within the overall alcohol market in each of the respective years.

Our beers compete not only with similar products from competitors, but also with other alcohol beverages, including wines and spirits. The following table summarizes the estimated percentage market share by volume of beer and other alcohol beverages, including wine and spirits, as a component of the overall European alcohol market, within the countries in which we have production facilities, over the last five years, for which data is currently available. We anticipate that 2018 data, when available, will reflect a continuation of the recent consumer trends. Note that percentages reflect estimates based on market data currently available.

	2017	2016	2015	2014	2013
Beer	28 %	28 %	28 %	28 %	29 %
Other alcohol beverages	72 %	72 %	72 %	72 %	71 %

Our Competitive Position

In European countries where we currently operate, our primary competitors are Heineken, Asahi, ABI and Carlsberg. We believe our brand portfolio gives us strong representation in all major beer categories. The following table summarizes our estimated percentage share of the beer market within the European countries where we operate and our primary competitors over the last five years. Note that current year percentages reflect estimates based on market data currently available.

	2018	2017	2016	2015	2014
MCBC's share	20 %	20 %	20 %	20 %	20 %
Primary competitors' share	57 %	56 %	57 %	57 %	59 %
Others' share	23 %	24 %	23 %	23 %	21 %

Regulation

Each country that is part of our Europe segment is either a member of the European Union ("EU") or a current candidate to join, with the exception of Bosnia, which is a potential candidate, and, as such, there are similarities in the regulations that apply to many parts of our Europe segment's operations and products, including brewing, food safety, labeling and packaging, marketing and advertising, environmental, health and safety, employment and data protection regulations. To operate breweries and conduct our business in Europe, we must obtain and maintain numerous permits and licenses from various governmental agencies.

The U.K. is expected to leave the European Union on March 29, 2019. However, the proposed withdrawal agreement was rejected by the U.K. Parliament on November 14, 2018 and January 15, 2019. As a result, the terms of the withdrawal remain unknown, which subjects our Europe segment to regulatory and market uncertainty in the U.K. and in the rest of Europe. See Part I—Item 1A Risk Factors under "Risks Specific to the Europe Segment" for further discussion of the risks specific to the U.K.'s proposed exit from the EU.

Each country's government levies excise taxes on all alcohol beverages. With the exception of Serbia, Montenegro and Bosnia, all countries' laws on excise taxes are consistent with the directives of the EU. With the exception of Serbia, where a flat excise per hectoliter is used, all European countries use similar measurements based on either alcohol by volume or Plato degrees. The EU Excise Directives are currently under review which may result in all jurisdictions being required to account by reference to alcohol by volume. In 2018, the excise taxes for our Europe segment were approximately $46 per hectoliter on a reported basis. Refer to Part I—Item 1A, Risk Factors for risks associated with the regulatory environment in Europe.

International Segment

- Headquarters: Denver, Colorado
- Approximately 450 employees
- International beer markets, including emerging markets in Latin America, Asia Pacific and Africa
- Currently operating under export models and license agreements, as well as owned breweries, which brew and package brands sold in India

The objective of our International segment is to grow and expand our business and brand portfolio in new and existing markets, while being a meaningful contributor to overall MCBC growth. Our strategy is centered on our focus markets and

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focus brands. Our focus brands are Coors Light, Miller Lite and Miller Genuine Draft, which are aligned with global priority brands and account for the majority of our volumes. The International segment's portfolio of beers competes within the above premium category in most of our markets. Our principal competitors include large global brewers, as well as local brewers. As our International segment's objective is to grow and expand our business, we are developing scale and building market share in the countries where we operate. Many of the markets in which we operate are considered emerging beer markets, with other brewers controlling the majority of the market share. Our beers compete not only with similar products from competitors, but also with other alcohol beverages, including wines, spirits, and ciders, and thus our competitive position is affected by consumer preferences between and among these other categories.

As part of the acquisition of the Miller International Business, which we acquired in the fourth quarter of 2016, we entered into various Transitional Service Agreements (“TSAs”) with local SABMiller and now ABI owned entities for services including the selling, distribution and production of Miller brands. We have successfully created a presence and commercial routes to market related to the Miller brands, but continue to leverage production TSAs, which are set to expire in October 2019, in certain markets. We are in the process of establishing alternative production for the Miller brands and do not currently anticipate any material disruption in the supply of our products after the currently-scheduled expiration of the production TSAs.

Latin America

In Latin America, we use a combination of export models and license agreements to sell Blue Moon, Coors Light, Miller Genuine Draft, Miller High Life, Miller Lite and other brands. In our export model markets, we import beer from the U.S. and sell it through agreements with independent distributors. Our export markets include countries such as Dominican Republic, Paraguay and Puerto Rico. In license markets, such as Argentina, Colombia and Mexico, we have established exclusive licensing agreements with brewers and distributors for the manufacturing and distribution of our products. In Honduras, Panama and Chile we rely on a combination of export and license agreements.

Asia Pacific

Our operations in the Asia Pacific region include markets such as Australia, India, Japan and South Korea. Our business in India consists primarily of operations in the states of Haryana, Punjab and Uttar Pradesh. Our consolidated India business produces, markets and sells a beer portfolio consisting of Thunderbolt, Miller Ace, Miller High Life and Carling Strong. We own three breweries in India (one of which is currently not operational as a result of the State of Bihar, India’s enactment of total alcohol prohibition in 2016), where we use high quality ingredients to brew our products, which are sourced through various contracts with local suppliers. We do not currently anticipate any significant disruption in the supply of these raw materials or brewing inputs in the near term.

Our Japan business imports our brands and sells through independent wholesalers. Our focus is on the marketing and selling of the Blue Moon, Coors Light and Zima brands. During the fourth quarter of 2018, we entered into an exclusive distribution agreement with Boon Rawd Trading International Co. Ltd, best known for its flagship brand, Singha. Under this agreement, we will be the exclusive importer, distributor, marketer and seller of Singha in Japan beginning January 2019. In Australia, we license our brands to a local partner that distributes locally produced and imported products including Blue Moon, Coors, Miller Genuine Draft, Miller Chill and other products for us. In South Korea, our brands include Blue Moon, Coors Light, Miller Genuine Draft, Miller Lite and Staropramen and are imported and sold through an independent distributor. During the first half of 2018, we decided to formally exit our business in China and we have subsequently completed the substantial liquidation of the corresponding entity.

Africa

We sell Miller Genuine Draft in South Africa and Zambia. Miller Genuine Draft is produced in South Africa and sold through a local license agreement.

Corporate

Corporate is not a reportable segment and primarily includes interest and certain other general and administrative costs that are not allocated to any of the operating segments. The majority of these corporate costs relate to worldwide administrative functions, such as corporate affairs, legal, human resources, information technology, finance, internal audit, insurance, ethics and compliance, risk management, global growth, supply chain and commercial initiatives, as well as acquisition, integration and financing costs associated with the Acquisition. Additionally, Corporate includes

the results of our water resources and energy operations in Colorado as well as the unrealized changes in fair value on our commodity swaps not designated in hedging relationships recorded within cost of goods sold, which are later reclassified when realized to the segment in which the underlying exposure resides.

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Other Information

Global Intellectual Property

We own trademarks on the majority of the brands we produce and have licenses for the remainder. We also hold several patent and design registrations with expiration dates through 2038 relating to brewing methods, beer dispensing systems, packaging and certain other innovations. We are not reliant on patent royalties for our financial success. Therefore, these expirations are not expected to have a significant impact on our business.

Sustainability

We believe in producing a beer we can be proud of, from barley to bottle. Our Beer Print is MCBC's approach to sustainability and the right way to grow our business. Our Beer Print is integral to how we will build long-term value for society and our shareholders, while leaving a positive imprint on our communities, on our environment and on our business.

We have a long legacy of leaving a positive imprint on the environment and our community. MCBC has been recognized on the Dow Jones Sustainability North America Index for eight consecutive years for our sustainability performance.

In 2012, MCBC built on long-standing efforts to reduce harmful drinking by becoming a signatory of the Beer, Wine and Spirits Producers' Commitments to Reduce Harmful Drinking. We have been working closely with other leading beer, wine and spirit companies and with governments around the world to deliver a 10% reduction in the harmful use of alcohol by 2025. The current phase of the Commitments ended in 2017, and we look forward to working with our industry partners to develop the next set of ambitious targets.

In 2017, we launched Our Beer Print 2025 agenda, Raising the Bar on Beer, a new sustainability strategy for Molson Coors and a set of ambitious goals to take us to 2025. We focused our efforts where we can have the most positive impact on our business and society. We established goals across three pillars - Responsibly Refreshing, Sustainable Brewing and Collectively Crafted - that aim to address the shifting expectations of our consumers and stakeholders, while we continue to drive our operations to be even more resource efficient and resilient. More information about Our Beer Print 2025 agenda can be found on our sustainability website, www.OurBeerPrint.com, which includes:

- Our Beer Print Report 2018, which presents our 2025 strategy and highlights of our work across our three pillars and
- ESG (Environment, Social and Governance) Report 2018, which offers greater detail on Molson Coors sustainability performance.

The information provided on our website (or any other website referred to in this report) is not part of this report and is not incorporated by reference as part of this report.

Environmental Matters

Our operations are subject to a variety of extensive and changing federal, state and local environmental laws, regulations and ordinances that govern activities or operations that may have an impact on human health or the environment. Such laws, regulations or ordinances may impose liability for the cost of remediation, and for certain damages resulting from sites of past releases of hazardous materials. Our policy is to comply with all such legal requirements. While we cannot predict our eventual aggregate cost for the environmental and related matters in which we may be or are currently involved, we believe that any payments, if required, for these matters would be made over a period of time in amounts that would not be material in any one year to our operating results, cash flows, or our financial or competitive position. We believe adequate reserves have been provided for losses that are probable and estimable. However, there can be no assurance that environmental laws will not become more stringent in the future or that we will not incur material costs in the future in order to comply with such laws. See Part II—Item 8 Financial Statements and Supplementary Data, Note 18, "Commitments and Contingencies" of the Notes under the caption "Environmental" for additional information regarding environmental matters.

Employees

As of the end of 2018, we employed approximately 17,750 employees within our business globally. Specifically, we employed approximately 7,300 within our U.S. segment, 6,600 within our Europe segment, 2,600 within our Canada

segment, 450 within our International segment, 300 within our Corporate headquarters in Colorado and 500 within our Global Business Services center.

Available Information

We file with, or furnish to, the SEC reports, including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports pursuant to Section 13(a) or 15(d) of the Exchange Act. These

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reports are available free of charge via EDGAR through the SEC website (www.sec.gov) and are also available free of charge on our corporate website (www.molsoncoors.com) as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. The foregoing website addresses are provided as inactive textual references only. The information provided on our website (or any other website referred to in this report) is not part of this report and is not incorporated by reference as part of this report.

Executive Officers

The following table sets forth certain information regarding our executive officers as of February 12, 2019:

Name	Age	Position
Mark R. Hunter	56	President and Chief Executive Officer
Tracey I. Joubert	52	Chief Financial Officer
Gavin D.K. Hattersley	56	President and Chief Executive Officer, MillerCoors LLC
Sergey Yeskov	42	President and Chief Executive Officer, Molson Coors International
Simon Cox	51	President and Chief Executive Officer, Molson Coors Europe
Frederic Landtmeters	45	President and Chief Executive Officer, Molson Coors Canada
E. Lee Reichert	52	Chief Legal and Corporate Affairs Officer and Secretary
Celso L. White	57	Chief Supply Chain Officer
Michelle S. Nettles	47	Chief People and Diversity Officer
Krishnan Anand	61	Chief Growth Officer

ITEM 1A. RISK FACTORS

Investing in our Company involves risk. The reader should carefully consider the following risk factors and the other information contained within this Annual Report on Form 10-K. The risks set forth below are those that management believes are most likely to have a material adverse effect on us, however, are not a comprehensive description of the risks facing our Company. We may also be subject to other risks or uncertainties not presently known to us or that we currently deem to be immaterial but may materially adversely affect our business, financial condition or results of operations in future periods. If the following risks or uncertainties, individually or in combination, actually occur, they may have a material adverse effect on our business, results of operations and prospects.

Risks Specific to Our Company

The global beer industry is constantly evolving, and our position within the global beer industry and our markets in which we operate may fundamentally change. If we do not successfully transform along with the evolving industry and market dynamics, then the result could have a material adverse effect on our business and financial results. The brewing industry has significantly evolved over the years becoming an increasingly global beer market. For many years, the industry operated primarily on local presence with modest international expansion achieved through export, license and partnership arrangements, whereas it has now become increasingly complex as the global consolidation of brewers has resulted in fewer major market participants. At the same time, smaller local brewers within certain geographies are seeing accelerated growth as consumers increasingly place value on locally-produced and/or regionally-sourced products. As a result of the increased global consolidation of brewers and the dynamic of an expanding new segment within the industry with new market entrants, the markets in which we operate, particularly the more mature markets, may evolve at a disadvantage to our current market position and local governments may intervene, which may fundamentally accelerate transformational changes to such markets. For example, U.S. and Canada beer markets have long consisted of a select number of significant market participants with government-regulated routes to market. However, evolution in these and others of our beer markets together with emerging changes to consumer preferences have introduced a significant expansion of market entrants and resulted in increased consumer choice and market competition, as well as increased government scrutiny. Specifically, in the U.S., Canada and Europe, we have experienced vast expansion in the craft beer industry along with the expansion of cider and flavored malt beverages. If our competitors are able to respond more quickly to the evolving trends within the craft beer, cider and flavored malt beverages categories, or if our new products are not successful, our business and financial results may be adversely impacted. In Canada, changes to interprovincial trade rules, regulations, distribution models, and packaging requirements, such as government-owned retail outlets and industry standard returnable bottles, may be disadvantageous to us. Currently, in Ontario and other provinces, provincial governments are

reviewing and/or changing this historical foundation as a result of this market evolution and increased demand by some for government intervention to enhance competition and choice. If we are unsuccessful in evolving with, and navigating through, the changes to the markets in which we operate, there could be a

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material adverse effect on our business and financial results. See risk factors below under “Risks Specific to the Canadian Segment” for additional risks specific to competition in the Canadian beer market.

Competition in our markets could require us to reduce prices or increase capital and other expenditures or cause us to lose sales volume, any of which could have a material adverse effect on our business and financial results. In many of our markets, our primary competitors have greater financial, marketing, production and distribution resources than we do, and may be more diverse in terms of their geographies and brand portfolios. In all of the markets in which we operate, aggressive marketing strategies, such as reduced pricing, brand positioning, and increased capital or other investments by these competitors could have a material adverse effect on our business and financial results. In addition, continuing consolidation among major global brewers and between brewers and other beverage companies may lead to stronger or new competitors, loss of partner brands, negative impacts on our distributor networks and pressures from marketing and pricing tactics by competitors. Further, consolidation of distributors in our industry could reduce our ability to promote our brands in the market in a manner that enhances rather than diminishes their value, as well as reduce our ability to manage our pricing effectively. Additionally, due to competition with brewers and other beverage companies, an increase in the purchasing power of our large competitors may cause further pricing pressures which could prevent us from increasing prices to recover higher costs necessary to compete. Such pressures could have a material adverse impact on our business and our financial results and market share. Failure to generate significant cost savings and margin improvement through our ongoing initiatives could adversely affect our profitability. Increased pressures for reduced pricing or difficulties in increasing prices while remaining competitive within our markets, as well as the need for increased capital investment, marketing and other expenditures could result in lower margins or loss of market share and volumes. Moreover, most of our major markets are mature, so growth opportunities may be more limited to us than to our competitors. For example, sales in the U.S. and Canada accounted for approximately 80% of our total 2018 sales.

Our success as an enterprise depends largely on the success of relatively few products in several mature markets specific to the beer industry; if consumer preferences shift away from our products or consumption of our products decline, our business and financial results could be materially adversely affected. Our Coors Light and Miller Lite brands in the U.S., Coors Light, Molson Canadian, Coors Banquet and Carling brands in Canada, and Carling, Staropramen, Jelen, Bergenbier and Coors Light brands in Europe represented approximately half of each respective segment's sales volumes in 2018. Additionally, several of our brands represent a significant share of their respective market, therefore volatility in these markets could disproportionately impact the performance of these brands. Consequently, any material shift in consumer preferences away from these brands, or from the categories in which they compete, could have a material adverse effect on our business and financial results. Consumer preferences and tastes may shift away from our brands or beer generally due to, among others, changing taste preferences, demographics, downturn in economic conditions or perceived value, as well as changes in consumers' perception of our brands due to negative publicity, regulatory actions or litigation. Recently, there has been more attention focused on health concerns and the harmful effects of alcoholic beverages which could result in a change in the social acceptability of beer and other alcoholic beverages which could materially impact the consumption of beer and our sales. Additionally, in some of our major markets, specifically Canada, the U.S. and Europe, there has been a shift in consumer preferences within the total beer market away from premium brands to "craft beer" produced by smaller, regional microbreweries, as well as a shift within the total alcohol beverage market from beer to wine and spirits. Moreover, several of our major markets are mature and we have a significant share in such markets, therefore, small movements in consumer preference, such as consumer shifts away from premium light brands, can disproportionately impact our results. Although the ultimate impact is currently unknown, the emergence of legal cannabis in certain U.S. states and Canada may result in a shift of discretionary income away from our products or a change in consumer preferences away from beer. As a result, a shift in consumer preferences away from our products or beer or a decline in the consumption of our products could result in a material adverse effect on our business and financial results.

The success of our business relies heavily on brand image, reputation, product quality and protection of intellectual property. It is important that we maintain and increase the image and reputation of our existing brands and products. Concerns about product quality, even when unsubstantiated, could be harmful to our image and reputation of our brands and products. While we have quality control programs in place, in the event we experienced an issue with product quality, we may experience recalls or liability in addition to business disruption which could further negatively impact brand image and reputation and negatively affect our sales. Our brand image and reputation may also be more difficult to protect due to less oversight and control as a result of the outsourcing of some of our operations. We also could be exposed to lawsuits relating to product liability or marketing or sales practices. Deterioration to our brand equity may be difficult to combat or reverse and could have a material effect on our business and financial results. In addition, because our brands carry family names, personal activities by certain members of the Molson or Coors families that harm their public image or reputation could have an adverse effect on our brands. Further, our success is dependent on our ability to protect our intellectual property rights, including trademarks, patents, domain names, trade secrets and know-how. We cannot be certain that the steps we have taken to protect

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our intellectual property rights will be sufficient or that third parties will not infringe upon or misappropriate these rights. If we are unable to protect our intellectual property rights, it could have a material adverse effect on our business and financial results.

Weak, or weakening of, economic or other negative conditions in the markets in which we do business could have a material adverse effect on our business and financial results. Beer consumption in many of our markets is closely tied to general economic conditions and a significant portion of our portfolio consists of premium and above premium brands. Difficult macroeconomic conditions in our markets, such as decreases in per capita income and level of disposable income driven by increases to inflation, income taxes, the cost of living, unemployment levels, political or economic instability or other country-specific factors could have an adverse effect on the demand for our products. For example, a trend towards value brands in certain of our markets or deterioration of the current economic conditions could result in a material adverse effect on our business and financial results. A significant portion of our consolidated net sales revenues are concentrated in the U.S. Therefore, unfavorable macroeconomic conditions, such as a recession or slowed economic growth, in the U.S. could negatively affect consumer demand for our product in this important market. Under difficult economic conditions, consumers may seek to reduce discretionary spending by forgoing purchases of our products or by shifting away from our products to lower-priced products offered by other companies. Softer consumer demand for our products, particularly in the U.S., could reduce our profitability and could negatively affect our overall financial performance.

We may not be able to realize anticipated cost and operational synergies from the Acquisition. The success of the Acquisition will depend, in part, on our ability to realize anticipated cost and operational synergies. Our success in realizing these cost synergies, and the timing of this realization, depends on the successful integration of our business and operations with the acquired business and operations. Even if we are able to integrate the acquired businesses and operations successfully, this integration may not result in the realization of the full benefits of the cost and operational synergies of the Acquisition that we currently expect within the anticipated time frame, or at all.

Our debt level, which increased significantly to fund the Acquisition, subjects us to financial and operating risks, and the agreements governing such debt subject us to financial and operating covenants and restrictions. Our indebtedness subjects us to financial and operating covenants, including restrictions on priority indebtedness, leverage thresholds, liens, certain types of secured debt and certain types of sale lease-back transactions and transfers of assets, which may limit our flexibility in responding to our business needs. If we are not able to maintain compliance with stated financial covenants or if we breach other covenants in any debt agreement, we could be in default under such agreement. Such a default would adversely affect our credit ratings, may allow our creditors to accelerate the related indebtedness, and may result in the acceleration of any other indebtedness to which a cross-acceleration or cross-default provision applies. Our significant debt level and the terms of such debt could, among other things:

- make it more difficult to satisfy our obligations under the terms of our indebtedness;
- limit our ability to refinance our indebtedness on terms acceptable to us, or at all;
- limit our flexibility to plan for and adjust to changing business and market conditions and increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow to make interest and principal payments on our debt, thereby limiting the availability of our cash flow to fund future acquisitions, working capital, business activities, and other general corporate requirements;
- limit our ability to obtain additional financing for working capital, capital expenditures, strategic opportunities, including acquisitions or other investments, to fund growth or for general corporate purposes,

even when necessary to maintain adequate liquidity, particularly if any ratings assigned to our debt securities by rating organizations were revised downward; and

•adversely impact our competitive position in the industry.

In addition, certain of our current and future debt and derivative financial instruments have or, in the future, could have interest rates that are tied to reference interest rates, such as the LIBOR. The volatility and availability of such reference rates are out of our control. Accordingly, changes to or the unavailability of such rates, could result in increases to the cost of debt which would negatively affect our profitability. For example, in 2017, the UK's Financial Conduct Authority announced that after 2021 it would no longer persuade or compel panel banks to submit the rates required to calculate LIBOR, and it is unclear whether the banks currently reporting information used to set LIBOR will stop doing so after 2021. Should LIBOR no

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longer be available, the rates we pay under certain derivative financial instruments could increase, which would negatively affect our profitability, and the attractiveness of borrowings under our current credit facility or future debt issuances could diminish, thereby limiting our access to capital.

Failure to comply with our debt covenants could have an adverse effect on our ability to obtain future financing at competitive rates and/or our ability to refinance our existing indebtedness. Under the terms of each of our debt facilities, we must comply with certain restrictions. These include restrictions on priority indebtedness (certain threshold percentages of secured consolidated net tangible assets), leverage thresholds, liens, and restrictions on certain types of sale lease-back transactions and transfers of assets. Failure to comply with these restrictions or maintain our credit rating may result in issues with our current financing structure and potential future financing requirements.

A deterioration in our credit rating could increase our borrowing rates or have an adverse effect on our ability to obtain future financing or refinance current debt. Ratings agencies may downgrade our credit ratings below their current investment grade levels if we are unable to meet our deleveraging commitments. A credit ratings downgrade could increase our costs of future borrowing and harm our ability to refinance our debt in the future on acceptable terms or access the capital markets.

Default by or failure of one or more of our counterparty financial institutions could cause us to incur significant losses. As part of our risk management activities, we enter into transactions involving derivative financial instruments, including, among others, forward contracts, commodity swap contracts, option contracts, with various financial institutions. In addition, we have significant amounts of cash and cash equivalents on deposit or in accounts with banks or other financial institutions in the U.S. and abroad. As a result, we are exposed to the risk of default by, or failure of, counterparty financial institutions. The risk of counterparty default or failure may be heightened during economic downturns and periods of uncertainty in the financial markets. If one of our counterparties were to become insolvent or file for bankruptcy, our ability to recover losses incurred as a result of default or to retrieve our assets that are deposited or held in accounts with such counterparty may be limited by the counterparty's liquidity or the applicable laws governing the insolvency or bankruptcy proceedings.

Our operations face significant exposure to changes in commodity prices, which could materially and adversely affect our business and financial results.   We use a large volume of agricultural and other raw materials, some of which are purchased through supply contracts with third parties, to produce our products, including barley, malted barley, hops, corn, other various starches, water and packaging materials, including aluminum cans and bottles, glass and polyethylene terephthalate containers, as well as, cardboard and other paper products. We also use a significant amount of diesel fuel, natural gas and electricity in our operations. The supply and price of these raw materials and commodities can be affected by a number of factors beyond our control, including market demand, alternative sources for suppliers, global geopolitical events (especially as to their impact on crude oil prices and the resulting impact on diesel fuel prices), trade agreements among producing and consuming nations, governmental regulations, including tariffs, frosts, droughts and other weather conditions, changes in precipitation patterns, the frequency of extreme weather events, economic factors affecting growth decisions, inflation, plant diseases, theft and industry surcharges and other practices. For example, in June 2018, U.S. tariffs on aluminum imports from Canada, Mexico and EU went into effect, which has created volatility in the price of aluminum in the U.S. and increased the price of aluminum used in some of our product packaging. To the extent any of the foregoing factors affect the availability or prices of ingredients or packaging or our hedging arrangements do not effectively or completely hedge changes in commodity price risks and we are not able to pass these increased costs along to customers, our business and financial results could be materially adversely impacted.

Unfavorable outcomes of legal or regulatory proceedings may adversely affect our business and financial condition. We are from time to time involved in or subject to legal or regulatory proceedings related to our business. Such

proceedings can be complex, costly, and highly disruptive to business operations by diverting the attention and energies of management and other key personnel. The assessment of the outcome of such proceedings, including our potential liability, if any, is a highly subjective process that requires judgments about future events that are not within our control. The outcome of litigation, arbitration, regulatory or other proceedings, including amounts ultimately received or paid upon judgment or settlement, may differ materially from management's outlook or estimates, including any amounts accrued in the financial statements. Actual outcomes, including judgments, awards, settlements or orders, could have a material adverse effect on our business, financial condition, operating results, or cash flows.

We may incur impairments of the carrying value of our goodwill and other intangible assets which could have a material adverse effect on our business and financial results. In connection with various business combinations, we have historically allocated material amounts of the related purchase prices to goodwill and other intangible assets that are considered to have indefinite useful lives. For example, as a result of the Acquisition, we allocated approximately $6.3 billion and $7.6

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billion to goodwill and indefinite-lived intangible assets, respectively. These assets are tested for impairment at least annually, using estimates and assumptions affected by factors such as economic and industry conditions and changes in operating performance. Additionally, in conjunction with the brand impairment tests, we also reassess each brand's indefinite-life classification. Potential resulting charges from an impairment of goodwill or brand intangible, as well as reclassification of an indefinite-lived to a definite-lived brand intangible, could have a material adverse effect on our results of operations. For example, the results of our annual impairment testing completed as of October 1, 2016, indicated that the fair value of the Molson core brand indefinite-lived intangible asset was below its carrying value. As a result, we recorded an impairment charge of $495.2 million recorded within special items in our consolidated statements of operations during the fourth quarter of 2016. Additionally, during this review, we also reassessed the asset’s indefinite-life classification and determined that the Molson core brands have characteristics that have evolved which now indicate a definite-life is more appropriate. These brands were therefore reclassified as definite-lived intangible assets and are being amortized over useful lives ranging from 30 to 50 years.

Our most recent impairment analysis, conducted as of October 1, 2018, the first day of our fiscal fourth quarter, indicated that the fair value of the U.S., Europe and Canada reporting units were estimated at approximately 19%, 11% and 6% in excess of their carrying values, respectively. In the current year testing, it was determined that the fair value of each of the reporting units declined from the prior year, resulting in our Europe and Canada reporting units now being considered at risk of future impairment in the event of significant unfavorable changes in the forecasted cash flows (including prolonged weakening of economic conditions, or significant unfavorable changes in tax, environmental or other regulations, including interpretations thereof), terminal growth rates, market multiples and/or weighted-average cost of capital utilized in the discounted cash flow analyses. Although the fair values of our reporting units are in excess of their carrying values, the fair values are sensitive to the aforementioned potential unfavorable changes that could have an adverse impact on future analyses. Any future impairment of the U.S., Europe or Canada reporting units or brands, or reclassification of indefinite-lived brands to definite-lived, may result in material charges that could have a material adverse effect on our business and financial results. Additionally, if the on-going integration of the MillerCoors and Miller International Business is unsuccessful due to, for example, unexpected challenges or difficulties, or adverse economic, market or industry conditions, material impairment charges may be incurred in the future. The testing of our goodwill for impairment is predicated upon our determination of our reporting units. Any change to the conclusion of our reporting units or the aggregation of components within our reporting units could result in a different outcome to our annual impairment test. See Part II-Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations, Critical Accounting Estimates and Part II-Item 8 Financial Statements and Supplementary Data, Note 10, "Goodwill and Intangible Assets" of the Notes for additional information related to the results of our annual impairment testing.

Termination of one or more manufacturer/distribution agreements could have a material adverse effect on our business and financial results.   We manufacture and/or distribute products of other beverage companies through various joint venture, licensing, distribution, contract brewing or other similar arrangements, such as our agreement to import, market, distribute and sell Heineken in Canada and our arrangements to brew and distribute Beck's, Stella Artois, Lowenbrau and Spaten and to distribute Corona in Central Europe. Our inability to renew or the loss of one or more of these arrangements, as a result of industry consolidation or otherwise, could have a material adverse effect on our business and financial results. For example, in 2017, our International segment was adversely impacted by the loss of the Modelo brands in Japan.

Changes in various supply chain standards or agreements could have a material adverse effect on our business and financial results.   Our business includes various joint venture and industry agreements which standardize parts of the supply chain system. An example includes our warehousing and customer delivery systems in Canada organized under joint venture agreements with other brewers. Any negative change in these agreements or material terms within these agreements could have a material adverse effect on our business and financial results.

We rely on a small number of suppliers to obtain the packaging materials we need to operate our business. The inability to obtain materials could unfavorably affect our ability to produce our products which could have a material adverse effect on our business and financial results. We purchase certain types of packaging materials including aluminum cans and bottles, glass bottles and paperboard from a small number of suppliers. Consolidation of packaging materials suppliers has reduced local supply alternatives and increased risks of supply disruptions. The inability of any of these suppliers to meet our production requirements without sufficient time to develop an alternative source could have a material adverse effect on our business and financial results. Additionally, if the financial condition of these suppliers deteriorates our business and financial results could be adversely impacted. Our suppliers' financial condition is affected in large part by conditions and events that are beyond our and their control, including: competitive and general market conditions in the locations in which they operate; the availability of capital and other financing resources on reasonable terms; loss of major customers; or disruptions of bottling operations that may be caused by strikes, work stoppages, labor unrest or natural disasters. A deterioration of the financial condition or results of operations of one or more of our major suppliers could adversely affect our business and financial results.

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Risks associated with operating our joint ventures may materially adversely affect our business and financial results. We have entered into several joint ventures, including our joint ventures with Ball Corporation (i.e. Rocky Mountain Metal Container), and with Owens-Brockway Glass Container Inc. (i.e. Rocky Mountain Bottle Company), for a portion of our aluminum and glass packaging supply in the U.S. We may enter into additional joint ventures in the future. Our joint venture partners may at any time have economic, business or legal interests or goals that are inconsistent with our goals or with the goals of the joint venture. In addition, we compete against our joint venture partners in certain of our other markets. Disagreements with our business partners may impede our ability to maximize the benefits of our partnerships. Our joint venture arrangements may require us, among other matters, to pay certain costs or to make certain capital investments or to seek our joint venture partner's consent to take certain actions. In addition, our joint venture partners may be unable or unwilling to meet their economic or other obligations under the operative documents, and we may be required to either fulfill those obligations alone to ensure the ongoing success of a joint venture or to dissolve and liquidate a joint venture.

Our operations in developing and emerging markets expose us to additional risks which could harm our business and financial results. We expect our operations in developing and emerging markets to become more significant to our operating results as we continue to further expand internationally, including in connection with our acquisition of the Miller International Business. In certain of these markets, we have limited operating experience and may not succeed. In addition to risks described elsewhere in this section, our operations in these markets expose us to additional risks, including: changes in local political, economic, social and labor conditions; restrictions on foreign ownership and investments; repatriation of cash earned in countries outside the U.S.; import and export requirements; increased costs to ensure compliance with complex foreign laws and regulations; currency exchange rate fluctuations; a less developed and less certain legal and regulatory environment, which among other things can create uncertainty with regard to liability issues; longer payment cycles, increased credit risk and higher levels of payment fraud; and other challenges caused by distance, language, and cultural differences.

In addition, as a global company, we are subject to foreign and U.S. laws and regulations designed to combat governmental corruption, including the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act. Violations of these laws and regulations could result in fines and penalties, criminal sanctions against us, our officers, or our employees, prohibitions on the conduct of our business and prohibitions on our ability to offer our products and services in one or more countries, each of which could have a materially negative effect on our reputation, brands and our operating results. Although we have implemented policies and procedures designed to ensure compliance with these foreign and U.S. laws and regulations, including the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act, there can be no assurance that our employees, business partners or agents will not violate our policies.

Changes to the regulation of the distribution systems for our products could adversely affect our business and financial results. Many countries in which we operate regulate the distribution of alcohol products and if those regulations were changed, it could alter our business practices and have material adverse effect on our business and financial results. For example, in the U.S. market, there is a three-tier distribution system that governs the sale of malt beverage products. That system, consisting of required separation of manufacturers, distributors and retailers, dates back to the repeal of prohibition and is periodically subject to legal challenges. To the extent that such challenges are successful and allow changes to the three-tier system, such changes could have a material adverse effect on our U.S. segment results of operations. Further, in Canada, our products are required to be distributed through each province's respective provincial liquor board. Additionally, in certain Canadian provinces, we rely on our joint venture arrangements, such as BRI and BDL, to distribute our products via retail outlets that are mandated and regulated by provincial government regulators. BRI owns and operates commercial retail outlets, known as The Beer Store, in Ontario, and BDL facilitates the distribution of our products in the Western Canadian provinces. If provincial regulation should change, the costs to adjust our distribution methods could have a material adverse effect on our business and financial results.

Our consolidated financial statements are subject to fluctuations in foreign exchange rates, most significantly the Canadian dollar and the European operating currencies such as, Euro, British Pound, Czech Koruna, Croatian Kuna, Serbian Dinar, New Romanian Leu, Bulgarian Lev and Hungarian Forint. We hold assets and incur liabilities, earn revenues and pay expenses in different currencies, most significantly in Canada and throughout Europe. Because our financial statements are presented in USD, we must translate our assets, liabilities, income and expenses into USD. Increases and decreases in the value of the USD will affect, perhaps adversely, the value of these items in our financial statements, even if their local currency value has not changed. Additionally, we are exposed to currency transaction risks related to transactions denominated in currencies other than one of the functional currencies of our operating entities, such as the purchase of certain raw material inputs or capital expenditures, as well as sales transactions and debt issuances or other incurred obligations. Further, certain actions by the government of any of the jurisdictions in which we operate could adversely affect our results and financial position. To the extent that we fail to adequately manage these risks through our risk management policies intended to protect our exposure to currency movements, which may affect our operations, including if our hedging arrangements do not

effectively or completely hedge changes in foreign currency rates, our results of operations may be materially and adversely affected. For example, as a result of the U.K. vote in 2016 to leave the European Union, the GBP experienced a significant decline in comparison to USD and EUR and may continue to be volatile. Any significant further weakening of the GBP to the USD will have an adverse impact on our European revenues as reported in USD due to the importance of U.K. sales. Additionally, the strengthening of the USD against the Canadian dollar, European currencies and various other global currencies would adversely impact our USD reported results due to the impact on foreign currency translation.

Changes in tax, environmental, trade or other regulations or failure to comply with existing licensing, trade and other regulations could cause volatility or have a material adverse effect on our business and financial results.   Our business is highly regulated by national, state, provincial and local laws and regulations in various jurisdictions regarding such matters as tariffs, licensing requirements, trade and pricing practices, labeling, advertising, promotion and marketing practices, relationships with distributors, environmental matters, ingredient regulations, and other matters. These laws and regulations are subject to frequent re-evaluation, varying interpretations and political debate and inquiries from government regulators charged with their enforcement, which could have a material adverse effect on our business and financial results. For example, on December 22, 2017, H.R. 1, also known as the Tax Cuts and Jobs Act (the "2017 Tax Act"), was enacted in the U.S. This enactment resulted in a number of significant changes to U.S. federal income tax law for U.S. corporations. Most notably, the statutory federal corporate income tax rate was changed from 35% to 21% for corporations and, as a result, we recorded an estimated net tax benefit of approximately $567 million in our consolidated statements of operations during the fourth quarter of 2017 driven by the effects of the 2017 Tax Act on our deferred tax positions as of December 31, 2017. We continue to monitor the 2017 Tax Act, including proposed regulations which may change upon finalization, as well as yet to be issued regulations and interpretations. If the forthcoming regulations and interpretations change relative to our current understanding and initial assessment of the impacts of the 2017 Tax Act, the resulting impacts could have a material adverse impact on our tax rate and cash tax expectations. Separately, in December 2018, the U.S. Department of Treasury issued a regulation that impacts our ability to claim a refund of certain federal duties, taxes, and fees paid for beer sold between the U.S. and certain other countries effective in February 2019, and, as a result, future claims will no longer be accepted, and further, we may be unable to collect approximately $38 million in historically claimed, but not yet received, refunds, which would negatively impact our revenue. Additionally, modifications of U.S. laws and policies governing foreign trade and investment (including trade agreements and tariffs, such as the North American Free Trade Agreement or aluminum tariffs) could adversely affect our supply chain, business and results of operations. For example, in June, U.S. 2018 tariffs on aluminum imports from Canada, Mexico and EU went into effect, which has created volatility in the price of aluminum in the U.S. and increased the price of aluminum used in some of our product packaging. Continued imposition of U.S. aluminum tariffs, the implementation of additional tariffs and retaliatory tariffs from trade partners or related uncertainties could further increase the cost of certain of our imported materials, thereby adversely affecting our profitability. Failure to comply with existing laws and regulations or changes in these laws, regulations, or interpretations thereof, or in tax, environmental, excise tax levels imposed or any other laws or regulations could result in the loss, revocation or suspension of our licenses, permits or approvals and could have a material adverse effect on our business, financial condition and results of operations. Additionally, uncertainties exist with respect to the interpretation of, and potential future developments in, complex domestic and international tax laws and regulations, the amount and timing of future taxable income and the interaction of such laws and regulations among jurisdictions. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded.

Climate change, weather and water availability may negatively affect our business and financial results.   There is concern that a gradual increase in global average temperatures could cause significant changes in global weather patterns and an increase in the frequency and severity of natural disasters. Changing weather patterns and more

volatile weather conditions could result in decreased agricultural productivity in certain regions which may impact quality, limit availability or increase the cost of key agricultural commodities, such as hops, barley and other cereal grains, which are important ingredients for our products. Furthermore, should weather patterns in our markets shift from warm or high temperatures to unseasonably cool or wet weather, consumption of our products may decline, which could have a material adverse effect on our business and results of operations. Increased frequency or duration of extreme weather conditions could also impair production capabilities, disrupt our supply chain, distribution networks and routes to market, or impact demand for our products. In addition, public expectations for reductions in greenhouse gas emissions could result in increased energy, transportation and raw material costs and may require us to make additional investments in facilities and equipment. Clean water is a limited resource in many parts of the world and climate change may increase water scarcity and cause a deterioration of water quality in areas where we maintain brewing operations. The competition for water among domestic, agricultural and manufacturing users is increasing in some of our brewing communities. Even where water is widely available, water purification and waste treatment infrastructure limitations could increase costs or constrain our operations.

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Concern over climate change may result in new or increased regional, federal and global legal and regulatory requirements to reduce or mitigate the effects of greenhouse gases, or to limit or impose additional costs on commercial water use due to local water scarcity concerns. In the event that such regulation is more stringent than current regulatory obligations or the measures that we are currently undertaking to monitor and improve our energy efficiency and water conservation, we may experience disruptions in, or increases in our costs of, operation and delivery and we may be required to make additional investments in facilities and equipment or relocate our facilities. In particular, increasing regulation of fuel emissions could increase the cost of energy, including fuel, required to operate our facilities or transport and distribute our products, thereby increasing the distribution and supply chain costs associated with our products. As a result, the effects of climate change or water scarcity could negatively affect our business and operations. In addition, any failure to achieve our goals with respect to reducing our impact on the environment or perception (whether or not valid) of our failure to act responsibly with respect to water use and the environment or to effectively respond to new, or changes in, legal or regulatory requirements concerning climate change or water scarcity could result in adverse publicity and could adversely affect our business, reputation, financial condition or results of operations. There is also increased focus, including by governmental and non-governmental organizations, investors, customers and consumers on these and other environmental sustainability matters, including deforestation, land use, climate impact and water use. Our reputation could be damaged if we or others in our industry do not act, or are perceived not to act, responsibly with respect to our impact on the environment.

Loss or closure of a major brewery or other key facility, due to unforeseen or catastrophic events or otherwise, could have a material adverse effect on our business and financial results. Our business could be interrupted and our financial results could be materially adversely impacted by physical risks such as earthquakes, hurricanes, floods, terror attacks and other natural disasters or catastrophic events that damage or destroy one of our breweries or key facilities or the key facilities of our significant suppliers. Additionally, certain catastrophes are not covered by our general insurance policies, which could result in significant unrecoverable losses. Furthermore, our business and results of operations could be adversely impacted by under-investment in physical assets or production capacity, including contract brewing and effect on priority of our brands if production capacity is limited. Further, significant excess capacity at any of our breweries as a result of increased efficiencies in our supply chain process or continued volume declines, could result in under-utilization of our assets, which could lead to excess overhead expenses or additional costs incurred associated with the closure of one or more of our facilities. For example, as part of a strategic review of our supply chain network, certain breweries and bottling lines were closed in recent years, and we have and continue to incur brewery closure costs. We regularly review our supply chain network to ensure that our supply chain capacity is aligned with the needs of the business. Such reviews could potentially result in further closures and the related costs could be material.

Failure to successfully identify, complete or integrate attractive acquisitions and joint ventures into our existing operations could have an adverse effect on our business and financial results. We have made a number of acquisitions and entered into several strategic joint ventures. In order to compete in the consolidating global brewing industry, we anticipate that we may, from time to time, in the future acquire additional businesses or enter into additional joint ventures that we believe would provide a strategic fit with our business such as the Acquisition and our Canadian business' joint venture with HEXO. Potential risks associated with acquisitions and joint ventures could include, among other things: our ability to identify attractive acquisitions and joint ventures; our ability to offer potential acquisition targets and joint venture partners' competitive transaction terms; our ability to raise capital on reasonable terms to finance attractive acquisitions and joint ventures; our ability to realize the benefits or cost savings that we expect to realize as a result of the acquisition or joint venture; diversion of management's attention; our ability to successfully integrate our businesses with the business of the acquired company; motivating, recruiting and retaining key employees; conforming standards, controls, procedures and policies, business cultures and compensation structures among our company and the acquired company; consolidating and streamlining sales, marketing and corporate operations; potential exposure to unknown liabilities of acquired companies; potential exposure to unknown or future liabilities or costs that affect the markets in which acquired companies or joint ventures operate; reputational

or other damage due to the conduct of a joint venture partner; loss of key employees and customers of the acquired business; and managing tax costs or inefficiencies associated with integrating our operations following completion of an acquisition or entry into a joint venture.

Poor investment performance of pension plan holdings and other factors impacting pension plan costs could unfavorably affect our business, liquidity and our financial results. Our costs of providing defined benefit pension plans are dependent upon a number of factors, such as the rates of return on the plans' assets, discount rates, the level of interest rates used to measure the required minimum funding levels of the plans, exchange rate fluctuations, government regulation, court rulings or other changes in legal requirements, global equity prices, and our required and/or voluntary contributions to the plans. While we comply with the minimum funding requirements, we have certain qualified pension plans with obligations which exceed the value of the plans' assets. These funding requirements also may require contributions even when there is no reported deficit. Without sustained growth in the pension investments over time to increase the value of the plans' assets, and depending upon the other factors as listed above, we could be required to fund the plans with significant amounts of cash. Such

cash funding obligations (or the timing of such contributions) could have a material adverse effect on our cash flows, credit rating, cost of borrowing, financial position and/or results of operations. For example, following the completion of the triennial review of the U.K. pension plan with the plan's trustees in 2014, we made a GBP 150 million contribution to our U.K. pension plan in January 2015, based on the underfunded status of the plan and the evaluation of the plan's performance and long-term obligations. In addition, we made pension plan contributions during 2017 of approximately $310 million, including $200 million of discretionary contributions to the U.S. pension plan.

We depend on key personnel, the loss of whom could harm our business. The loss of the services and expertise of any key employee could harm our business. Our future success depends on our ability to identify, attract and retain qualified personnel on a timely basis. Turnover of senior management can adversely impact our stock price, our results of operations and our client relationships and may make recruiting for future management positions more difficult. In addition, we must successfully integrate any new management personnel that we hire within our organization, or who join our organization as a result of an acquisition, in order to achieve our operating objectives, and changes in other key management positions may temporarily affect our financial performance and results of operations as new management becomes familiar with our business.

Due to a high concentration of workers represented by unions or trade councils in Canada, Europe, and the U.S., we could be significantly affected by labor strikes, work stoppages or other employee-related issues. As of December 31, 2018, approximately 50%, 35%, and 30% of our Canadian, European and U.S. workforces, respectively, are represented by trade unions or councils. Stringent labor laws in certain of our key markets expose us to a greater risk of loss should we experience labor disruptions in those markets. A prolonged labor strike, work stoppage or other employee-related issue, could have a material adverse effect on our business and financial results. For example, in the first quarter of 2017, our Toronto brewery unionized employees commenced a labor strike initiated from on-going negotiations of the collective bargaining agreement. This labor strike resulted in slower than expected production at the Toronto brewery in the first quarter of 2017. From time to time, our collective bargaining agreements come due for renegotiation, and, if we are unable to timely complete negotiations, affected employees may strike, which could have an adverse effect on our business and financial results.

Because of our reliance on third-party service providers and internal and outsourced systems for our information technology and certain other administrative functions, we could experience a disruption to our business. We rely extensively on information services providers worldwide for our information technology functions including network, help desk, hardware and software configuration. Additionally, we rely on internal networks and information systems and other technology, including the internet and third-party hosted services, to support a variety of business processes and activities, including procurement and supply chain, manufacturing, distribution, invoicing and collection of payments. We use information systems for certain human resource activities and to process our employee benefits, as well as to process financial information for internal and external reporting purposes and to comply with various reporting, legal and tax requirements. As information systems are critical to many of our operating activities, our business may be impacted by system shutdowns, service disruptions, obsolescence, or security breaches. Additionally, if one of our service providers were to fail and we were unable to find a suitable replacement in a timely manner, we could be unable to properly administer our outsourced functions.

A breach of our information systems could cause material financial or reputational harm. Our internal and outsourced systems may also be the target of cyber-attacks or other breaches to our security, which, if successful, could expose us to the loss of key business, employee, customer or vendor information and disruption of our operations. If our information systems suffer severe damage, disruption or shutdown, we could experience delays in reporting our financial results and we may lose revenue and profits as a result of our inability to timely prepare, distribute, invoice and collect payments from our customers. Misuse, leakage or falsification of information could result in a violation of data privacy laws and regulations, such as the European Union's General Data Protection Regulation, or damage our reputation and credibility. In addition, we may suffer financial and reputational damage because of lost or

misappropriated confidential information and may become subject to legal action and increased regulatory oversight or consumers may avoid our brands due to negative publicity. We could also be required to spend significant financial and other resources to remedy the damage caused by a security breach or to repair or replace networks and information systems, which could have a material adverse effect on our business and financial results.

If the Pentland Trust and the Coors Trust do not agree on a matter submitted to our stockholders or if a super-majority of our board of directors do not agree on certain actions, generally the matter will not be approved, even if beneficial to us or favored by other stockholders or a majority of our board of directors. Pentland Securities (1981) Inc. (the "Pentland Trust") (a company controlled by the Molson family and related parties) and the Adolph Coors, Jr. Trust (the "Coors Trust"), which together control more than 90% of our Class A common stock and Class A exchangeable shares, have a voting trust agreement through which they have combined their voting power over the shares of our Class A common stock and the Class A exchangeable shares that they own. If these two stockholders do not agree to vote in favor of a matter submitted to a stockholder vote (other than the election of directors), the voting trustees are required to vote all of the Class A common stock

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and Class A exchangeable shares deposited in the voting trust against the matter. There is no other mechanism in the voting trust agreement to resolve a potential deadlock between these stockholders. Therefore, if either the Pentland Trust or the Coors Trust is unwilling to vote in favor of a proposal that is subject to a stockholder vote, we would be unable to implement the proposal even if our board of directors, management or other stockholders believe the proposal is beneficial to us. Similarly, our bylaws require the authorization of a super-majority (two-thirds) of the board of directors to take certain transformational actions. Thus, it is possible that the Company will not be authorized to take action even if it is supported by a simple majority of the board of directors.

The interests of the controlling stockholders may differ from those of other stockholders and could prevent the Company from making certain decisions or taking certain actions that would be in the best interest of the other stockholders. Our Class B common stock has fewer voting rights than our Class A common stock and holders of our Class A common stock have the ability to effectively control or have a significant influence over certain company actions requiring stockholder approval, which could have a material adverse effect on Class B stockholders. See Part II-Item 8 Financial Statements and Supplementary Data, Note 8, "Stockholders' Equity" of the Notes for additional information regarding voting rights of Class A and Class B stockholders.

Changes in the social acceptability of alcohol, perceptions of our products and the political view of the alcohol beverage industry may harm our business. The alcoholic beverage industry is regularly the subject of anti-alcohol activist activity related to the health concerns from the misuse of alcohol and concerns regarding underage drinking and exposure to alcohol advertisements. In addition, in recent years, there has been an increase in public and political attention on health and well-being as it relates to the alcohol beverage and other industries. Negative publicity regarding beer and changes in consumer perceptions in relation to beer and other alcoholic beverages, could adversely affect the sale and consumption of our products which could, in turn, adversely affect our business and financial conditions. Additionally, the concerns around alcohol as well as health and well-being could result in unfavorable regulations or other legal requirements in certain of our markets, such as advertising, selling and other restrictions, increased taxes associated with our sales, or the establishment of minimum unit pricing. Any such regulations or requirements could change consumer and customer purchasing patterns, which could negatively impact our business, results of operations, cash flows or financial condition. In particular, advocates of prohibition and other severe restrictions on the marketing and sales of alcohol are becoming increasingly organized and coordinated on a global basis, seeking to impose laws or regulations or to bring actions against us, to curtail substantially the consumption of alcohol, including beer, in developed and developing markets. To the extent such views gain traction in regulations of jurisdictions in which we do or plan to do business, they could have a material adverse effect on our business and financial results. For example, in early 2016, the government of Bihar, India, the largest state in India in which our International segment operates, announced a complete prohibition on the sale and distribution of alcohol, which resulted in the impairment of assets totaling $30.8 million, recorded during the second quarter of 2016.

The Acquisition subjects us to significant additional liabilities, costs and other risks. We have assumed all of the liabilities of MillerCoors, including, among others, significant pension and other post-employment benefit liabilities. The assumed liabilities put additional pressure on our ability to successfully meet our deleveraging commitments and grow our business over time as discussed further below. In addition, as a result of the Acquisition, we are subject to the risks of the U.S. beer market to a much greater extent, and a significant majority of our overall business is in mature, low growth beer markets, such as the U.S., Canada and the U.K. Economic conditions and consumer preferences in these markets will have a greater impact on our results of operations and financial condition.

We face numerous risks associated with the integration of the Miller International Business. The acquisition of the Miller International Business may subject us to unknown expenses and liabilities. The success of our acquisition of the Miller International Business will depend, in part, on our ability to realize all or some of the anticipated synergies and other benefits from integrating this business with our existing businesses and operations. The potential difficulties of the continuing integration of operations include, among others:

- failure to implement our business plan for the combined business;

- unanticipated changes in applicable laws and regulations;

- inherent operating risks in the business;

- increased foreign currency exposures which could adversely affect the amounts recorded for our foreign assets, liabilities, revenues and expenses, and could have a negative effect on our results of operations;

- reliance on competitors, ABI, to provide production services as we continue to transition the business; and

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• failure to develop sustainable production sources prior to the expiration of ABI's production services.

We may not be able to maintain the levels of revenue, earnings or operating efficiency that each of the Company and the Miller International Business had achieved or might achieve separately. The markets in which the Miller International Business operates may not experience the growth rates expected and any economic downturn affecting those markets could negatively impact the Miller International Business. These markets are in differing stages of development and may experience more volatility than expected or face more operating risks than in the more mature markets in which we have historically operated. If the Miller International Business or the markets in which it operates deteriorate, the potential cost savings, growth opportunities and other synergies of the acquisition of the Miller International Business may not be realized fully, or at all, or may take longer to realize than expected. In such case, our business, financial condition, results of operations and cash flows may be negatively impacted.

We have identified a material weakness in our internal control over financial reporting which, if not remediated, could adversely affect our business, reputation and stock price. As part of preparing our 2018 consolidated financial statements, we identified errors in the accounting for income taxes related to the deferred tax liabilities for our partnership in MillerCoors. See Part II-Item 8 Financial Statements and Supplementary Data, Note 1, "Basis of Presentation and Summary of Significant Accounting Policies" for further discussion.

As a result of these errors, management identified a material weakness in internal control over financial reporting as of December 31, 2018, related to designing and maintaining effective controls over the completeness and accuracy of the accounting for, and disclosure of, the income tax effects of acquired partnership interests. Specifically, we did not design appropriate controls to identify and reconcile deferred income taxes associated with the accounting for acquired partnership interests. This material weakness resulted in material errors in connection with our step acquisition of MillerCoors that were corrected through the restatement of the consolidated financial statements as of and for the years ended December 31, 2017, and December 31, 2016, as described in Part II-Item 8 Financial Statements and Supplementary Data, Note 1, "Basis of Presentation and Summary of Significant Accounting Policies" to the consolidated financial statements and the correction of the unaudited quarterly financial information for fiscal years 2018 and 2017. Additionally, this material weakness could result in misstatements to the aforementioned account balances or disclosures that would result in a material misstatement to the annual or interim consolidated financial statements that would not be prevented or detected. As a result of the material weakness in internal control over financial reporting, management has concluded that we did not maintain effective internal control over financial reporting as of December 31, 2018, based on criteria set forth by the Committee of Sponsoring Organization of the Treadway Commission in “Internal Control-An Integrated Framework (2013).” We cannot assure you that we will not identify additional material weaknesses in our internal control over financial reporting in the future related to income tax or other controls. If the steps we take do not correct the material weakness in a timely manner, we may be unable to conclude in the future that we maintain effective internal control over financial reporting. The occurrence of or failure to remediate this or future material weaknesses may adversely affect our reputation and business and the market price of our common stock.

Risks Specific to the United States Segment

Our U.S. business is highly dependent on independent distributors to sell our products, with no assurance that these distributors will effectively sell our products. We sell nearly all of our products, including all of our imported products, in the U.S. to independent distributors for resale to retail outlets. These independent distributors are entitled to exclusive territories and protected from termination by state statutes and regulations. Consequently, if we are not allowed, or are unable under acceptable terms or at all, to replace unproductive or inefficient distributors, our business, financial position and results of operation may be adversely affected, which could have a material adverse effect on our business and financial results.

Risks Specific to the Canada Segment

Our Canadian business faces numerous risks relating to its joint venture in the Canadian cannabis industry. On October 4, 2018, a wholly-owned subsidiary within our Canadian business completed the formation of an independent Canadian joint venture with HEXO, a Canadian entity listed on the Toronto Stock Exchange that serves the Canadian cannabis market. The joint venture, Truss LP, will pursue opportunities to develop non-alcoholic, cannabis-infused beverages for the Canadian market following legalization. The success and consumer acceptance of any products produced by the joint venture cannot be assured. Further, our Canadian subsidiary's involvement in the Canadian cannabis industry may negatively impact: consumer, business partner, investor or public sentiment regarding our brands, Canadian beer business or our company. The emerging cannabis industry in Canada and in other jurisdictions is evolving rapidly and subjects us to a high degree of political, legal and regulatory uncertainty, including when and if regulations in Canada will ultimately be adopted that would allow the

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sale of the non-alcoholic beverages contemplated by the joint venture. The occurrence of any of the above risks could have a material adverse effect on our business.

We may experience adverse effects on our Canada business and financial results due to declines in the overall Canadian beer industry, continued price discounting, increased cost of goods sold and higher taxes. If the Canadian beer market continues to decline, the impact to our financial results could be exacerbated due to our significant share of the overall market. Additionally, continuation or acceleration of price discounting, in Ontario, Québec, Alberta or other provinces, as well as increases in our cost of goods sold, could adversely impact our business. Further, changes in the Canadian tax legislation, such as the potential for an increase in beer excise taxes, could decrease our net sales. Although the ultimate impact is currently unknown, the legalization of cannabis in Canada may result in a shift of discretionary income away from our products or a change in consumer preferences away from beer or our other products. Moreover, the future success and earnings growth of the Canada business depends, in part, on our ability to efficiently conduct our operations. Failure to generate significant cost savings and margin improvement through our ongoing initiatives could adversely affect our profitability.

If we are required to move away from the industry standard returnable bottle we use today, we may incur unexpected losses. Along with other brewers in Canada, we currently use an industry standard returnable bottle which represents approximately 29% of total volume sales (excluding imports) in Canada. Changes to the Industry Standard Bottle Agreement could impact our use of the industry standard returnable bottle. If we cease to use the industry standard returnable bottle, our current bottle inventory and a portion of our bottle packaging equipment could become obsolete and could result in a material write-off of these assets.

Indemnities provided to the purchaser of 83% of the Cervejarias Kaiser Brasil S.A. ("Kaiser") business in Brazil could result in future cash outflows and statement of operations charges. In 2006, we sold our 83% ownership interest in Kaiser, which was held by our Canadian business, to FEMSA Cerveza S.A. de C.V. ("FEMSA"). The terms of the sale agreement require us to indemnify FEMSA for exposures related to certain tax, civil and labor contingencies and certain purchased tax credits. The ultimate resolution of these claims is not under our control. These indemnity obligations are recorded as liabilities on our consolidated balance sheets, however, we could incur future statement of operations charges as facts further develop resulting in changes to our estimates or changes in our assessment of probability of loss on these items as well as due to fluctuations in foreign exchange rates. Due to the uncertainty involved in the ultimate outcome and timing of these contingencies, significant adjustments to the carrying value of our indemnity liabilities and corresponding statement of operations charges/credits could result in the future. We historically presented the liabilities associated with these indemnity obligations within discontinued operations, however, these have been reclassified into other current and long-term liabilities.

Risks Specific to the Europe Segment

The vote in the U.K. to leave the European Union could adversely affect us. Approximately 11% of our consolidated net sales in 2018 came from the U.K., which is our largest market in Europe. In 2016, a majority of voters in the U.K. voted in favor of the U.K. leaving the European Union and the U.K. intends to withdraw from the European Union in March 2019. The withdrawal remains controversial in the U.K., and the terms of the withdrawal remain unknown. The U.K. vote to leave the European Union triggered a decline in the GBP in comparison to USD and EUR. Any significant weakening of the GBP to the USD will have an adverse impact on our European revenues as reported in USD due to the importance of U.K. sales. Furthermore, the withdrawal may result in disruption to and decline of the U.K. and European economies. Weakening of economic conditions or economic uncertainties tend to harm the beer business, and if such conditions emerge in the U.K. or in the rest of Europe, it may have a material adverse effect on our Europe segment. The withdrawal may also result in significant disruption in trade and the movement of goods, including prolonged transportation delays, which could negatively affect our ability to source raw materials and packaging for our products as well as our ability to import and export products. Because the terms of the exit are still unknown, we face regulatory and market uncertainty and may need to quickly adapt to regulatory changes and market volatility, including potential increased legal and regulatory complexities and potential higher costs of conducting business in the U.K. or Europe. Any of these effects, among others, could adversely affect our European business,

results of operations, and financial condition.

Economic trends and intense competition in European markets could unfavorably affect our profitability. Our European businesses have been, and, in the future may be, adversely affected by conditions in the global financial markets and general economic and political conditions, as well as a weakening of their respective currencies versus the U.S. dollar. Additionally, we face intense competition in certain of our European markets, particularly with respect to pricing, which could lead to reduced sales or profitability. In particular, the on-going focus by large competitors in Europe to drive increased market share through aggressive pricing strategies could adversely affect our sales and results of operations. In addition, in recent years, beer volume sales in Europe have been shifting from pubs and restaurants (on-premise) to retail stores (off-premise) for the industry in general. Sales to off-premise customers tend to be lower than margins on sales to on-premise customers, and, as a result, continuation or acceleration of this trend would further adversely affect our profitability.

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Risks Specific to the International Segment

An inability to expand our operations in emerging markets could adversely affect our growth prospects. The continued expansion of our International segment in emerging markets depends on our ability to react to social, economic, and political conditions in those markets; to create effective product distribution networks and consumer brand awareness in new markets; and, in many cases, to find appropriate local partners. Due to product price, local regulatory changes, local competition from competitors that are larger and have more resources than we do, and cultural differences, or absence of effective routes to market, there is no assurance that our products will be accepted in any particular emerging market. If we are unable to expand our businesses in emerging markets, our growth prospects could be adversely affected.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

As of February 12, 2019, our major facilities were owned (unless otherwise indicated) and are as follows:

Facility	Location	Character
U.S. Segment		
Administrative offices	Chicago, Illinois[(1)]	U.S. segment headquarters
	Golden, Colorado	U.S. segment administrative office
	Milwaukee, Wisconsin	U.S. segment administrative office
Brewery/packaging plants	Albany, Georgia[(2)]	Brewing and packaging
	Elkton, Virginia[(2)]	Brewing and packaging
	Fort Worth, Texas	Brewing and packaging
	Golden, Colorado[(2)]	Brewing and packaging
	Irwindale, California	Brewing and packaging
	Milwaukee, Wisconsin[(2)]	Brewing and packaging
	Trenton, Ohio[(2)]	Brewing and packaging
Beer distributorship	Denver, Colorado	Distribution
Container operations	Wheat Ridge, Colorado[(3)]	Bottling manufacturing facility
	Golden, Colorado[(3)]	Can and end manufacturing facilities
Malting operations	Golden, Colorado	Malting
Canada Segment		
Administrative offices	Montréal, Québec	Corporate headquarters
	Toronto, Ontario	Canada segment headquarters
Brewery/packaging plants	Montréal, Québec[(4)]	Brewing and packaging
	Toronto, Ontario[(4)]	Brewing and packaging
	Vancouver, British Columbia[(5)]	Brewing and packaging
Europe Segment		
Administrative offices	Prague, Czech Republic	Europe segment headquarters
Brewery/packaging plants	Apatin, Serbia[(6)]	Brewing and packaging
	Bőcs, Hungary	Brewing and packaging
	Burton-on-Trent, U.K.[(6)]	Brewing and packaging
	Haskovo, Bulgaria	Brewing and packaging
	Niksic, Montenegro	Brewing and packaging
	Ostrava, Czech Republic	Brewing and packaging
	Ploiesti, Romania[(6)]	Brewing and packaging
	Prague, Czech Republic[(6)]	Brewing and packaging
	Tadcaster Brewery, Yorkshire, U.K.[(6)]	Brewing and packaging
	Zagreb, Croatia	Brewing and packaging

(1) We lease the office space for our U.S. segment headquarters in Chicago, Illinois.

(2) The Golden, Trenton, Albany, Elkton and Milwaukee breweries collectively account for approximately 75% of our U.S. production.

(3) The Wheat Ridge and Golden Colorado facilities are leased from us by RMBC and RMMC, respectively.

(4) The Montréal and Toronto breweries collectively account for approximately 79% of our Canada production. As part of our ongoing strategic review of our Canadian supply chain network, in the third quarter of 2017 we announced the plan to build a more efficient and flexible brewery in the greater Montreal area. As a result of this decision, we have begun to develop plans to transition out of our existing Montreal brewery, and are in the process of actively

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negotiating the sale of the property with targeted completion of the sale in the second quarter of 2019. The brewery continues to be operational, and as part of the sale, we anticipate leasing back the property for continued use until the new brewery is operational, which is currently expected to occur in 2021.

(5) We lease two brewing and packaging facilities in British Columbia. As a result of the continuation of our Canadian strategic review, during 2016 we completed the sale of our Vancouver brewery. In conjunction with the sale of the brewery, we agreed to leaseback the existing property to continue operations on an uninterrupted basis while the new brewery is being constructed. The final closure of the brewery is currently expected to occur in the third quarter of 2019.

(6) The Burton-on-Trent, Prague, Ploiesti, Apatin and Tadcaster breweries collectively account for approximately 71% of our Europe production.

In addition to the properties listed above, we have smaller capacity facilities, including craft breweries and cideries, in each of our segments. We own and lease various warehouses, distribution centers and office spaces throughout the United States, Canada and Europe.

We also lease offices in Colorado, the location of our Corporate and International segment headquarters, as well as various warehouse and office spaces within the United States and international countries in which our International segment operates. We believe our facilities are well maintained and suitable for their respective operations. In 2018, our operating facilities were not capacity constrained.

ITEM 3. LEGAL PROCEEDINGS

Litigation and other disputes

For information regarding litigation, other disputes and environmental and regulatory proceedings see Part II—Item 8 Financial Statements and Supplementary Data, Note 18, "Commitments and Contingencies" of the Notes.

We are involved in other disputes and legal actions arising in the ordinary course of our business. While it is not feasible to predict or determine the outcome of these proceedings, in our opinion, based on a review with legal counsel, none of these disputes and legal actions are currently expected to have a material impact on our business, consolidated financial position, results of operations or cash flows. However, litigation is subject to inherent uncertainties and an adverse result in these or other matters may arise from time to time that may harm our business.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

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

Our Class A common stock and Class B common stock trade on the New York Stock Exchange under the symbols "TAP.A" and "TAP," respectively. In addition, the Class A exchangeable shares and Class B exchangeable shares of our indirect subsidiary, Molson Coors Canada Inc., trade on the Toronto Stock Exchange under the symbols "TPX.A" and "TPX.B," respectively. The Class A and B exchangeable shares are a means for shareholders to defer tax in Canada and have substantially the same economic and voting rights as the respective common shares. The exchangeable shares can be exchanged for our Class A or B common stock at any time and at the exchange ratios described in the Merger documents, and receive the same dividends. At the time of exchange, shareholders' taxes are due. The exchangeable shares have voting rights through special voting shares held by a trustee.

The approximate number of record security holders by class of stock at February 7, 2019, is as follows:

Title of class	Number of record security holders
Class A common stock, $0.01 par value	23
Class B common stock, $0.01 par value	2,624
Class A exchangeable shares, no par value	218
Class B exchangeable shares, no par value	2,338

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PERFORMANCE GRAPH

The following graph compares our cumulative total stockholder return over the last five fiscal years with the S&P 500 and a customized peer index including MCBC, ABI, Carlsberg, Heineken and Asahi (the "Peer Group"). We have used a weighted-average based on market capitalization to determine the return for the Peer Group. The graph assumes $100 was invested on December 31, 2013, in our Class B common stock, the S&P 500 and the Peer Group, and assumes reinvestment of all dividends. The below is provided for informational purposes and is not indicative of future performance.

	2013	2014	2015	2016	2017	2018
Molson Coors	$100.00	$135.70	$174.70	$184.06	$158.10	$110.85
S&P 500	$100.00	$113.68	$115.24	$126.23	$153.78	$147.03
Peer Group	$100.00	$123.19	$155.28	$144.39	$152.76	$112.32

Dividends

We currently plan to maintain our current quarterly dividend of $0.41 per share until we achieve a leverage ratio of approximately 3.75x debt to EBITDA on a rating agency basis, which we expect to achieve around the middle of 2019. Upon achieving approximately 3.75x leverage, our board's intention is to reinstitute a dividend payout-ratio target in the range of 20-25% of annual trailing EBITDA for the second half of 2019 and ongoing thereafter.

Issuer Purchases of Equity Securities

In February 2015, we announced that our board of directors approved and authorized a new program to repurchase up to $1.0 billion of our Class A and Class B common stock. As a result of the Acquisition, we suspended the share repurchase program and thus, there were no shares of Class A or Class B common stock repurchased since 2015. Under the program, shares may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Exchange Act. The number, price and timing of the repurchases will be at the Company’s sole discretion and will be evaluated depending on market conditions, liquidity needs or other factors. The Company’s board of directors may

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suspend, modify or terminate the share repurchase program at any time without prior notice. We have suspended our share repurchase program as we continue to pay down debt.

ITEM 6. SELECTED FINANCIAL DATA

The table below summarizes selected financial information for the five years ended December 31, 2018. For further information, refer to our consolidated financial statements and notes thereto presented under Part II—Item 8 Financial Statements and Supplementary Data. Net income attributable to MCBC and the related net income per basic and diluted share amounts for 2017 and 2016 have been restated due to the correction of errors related to income tax accounting. See details at Part II—Item 8 Financial Statements and Supplementary Data, Note 1, "Basis of Presentation and Accounting Policies."

	2018	2017 As Restated	2016[1] As Restated	2015	2014
	(In millions, except per share data)				
Consolidated Statements of Operations:					
Net sales	$10,769.6	$11,002.8	$4,885.0	$3,567.5	$4,146.3
Net income attributable to MCBC[2]	$1,116.5	$1,565.6	$1,593.9	$395.2	$538.6
Net income attributable to MCBC per share[2]:					
Basic	$5.17	$7.27	$7.52	$2.13	$2.91
Diluted	$5.15	$7.23	$7.47	$2.12	$2.89
Consolidated Balance Sheets:					
Total assets	$30,109.8	$30,246.9	$29,341.5	$12,276.3	$13,980.1
Current portion of long-term debt and short-term borrowings	$1,594.5	$714.8	$684.8	$28.7	$849.0
Long-term debt	$8,893.8	$10,598.7	$11,387.7	$2,908.7	$2,321.3
Other information:					
Dividends per share of common stock	$1.64	$1.64	$1.64	$1.64	$1.48

(1) Includes MillerCoors' results of operations on a consolidated basis for the post-Acquisition period October 11, 2016, through December 31, 2016, as well as the assets acquired and related debt issued in connection with the Acquisition. Prior to October 11, 2016, MCBC's 42% share of MillerCoors' results of operations was reported as equity income in MillerCoors in the consolidated statements of operations and our 42% share of MillerCoors' net assets was reported as Investment in MillerCoors in the consolidated balance sheets. Also included in net income attributable to MCBC is a net special items gain of approximately $3.0 billion related to the fair value remeasurement of our pre-existing 42% interest in MillerCoors over its carrying value, as well as the reclassification of the loss related to MCBC's historical AOCI on our 42% interest in MillerCoors. See Part II—Item 8 Financial Statements and Supplementary Data, Note 4, "Acquisition and Investments" of the Notes for further discussion of the Acquisition.

(2) Includes the impact of the reduction to the U.S. federal income tax rate as a result of U.S. tax reform in 2017. Additionally, during the first quarter of 2018 we recorded a gain within special items, net of $328.0 million which constitutes the Adjustment Amount related to the settlement agreement between MCBC and ABI as previously discussed.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is provided to assist in understanding our company, operations and current business environment and should be considered a supplement to, and read in conjunction with, the accompanying consolidated financial statements and notes included within Part II—Item 8 Financial Statements and Supplementary Data, as well as the discussion of our business and related risk factors in Part I—Item 1 Business and Part I—Item 1A Risk Factors, respectively. See also "Cautionary Statement Pursuant to Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995".

We have restated our financial statements for 2017 and 2016 due to the correction of errors in the accounting for income taxes related to the deferred tax liabilities for our partnership in MillerCoors. Accordingly, the Management's Discussion and Analysis of Financial Condition and Results of Operations set forth below reflect the effects of the restatements. See details at Part II—Item 8 Financial Statements and Supplementary Data, Note 1, "Basis of Presentation and Summary of Significant Accounting Policies."

Our Fiscal Year

Unless otherwise indicated, (a) all $ amounts are in USD and (b) comparisons are to comparable prior periods. For 2016, the consolidated statement of operations includes MillerCoors' results of operations for the period from January 1, 2016, to October 10, 2016, on an equity method basis of accounting and from October 11, 2016, to December 31, 2016, on a consolidated basis of accounting. Where indicated, we have reflected unaudited pro forma financial information for 2016 which gives effect to the Acquisition and the related financing as if they were completed on January 1, 2016, the first day of the Company's 2016 fiscal year.

Operational Measures

We have certain operational measures, such as STWs and STRs, which we believe are important metrics. STW is a metric that we use in our business to reflect the sales from our operations to our direct customers, generally wholesalers. We believe the STW metric is important because it gives an indication of the amount of beer and adjacent products that we have produced and shipped to customers. STR is a metric that we use in our business to refer to sales closer to the end consumer than STWs, which generally means sales from our wholesalers or our company to retailers, who in turn sell to consumers. We believe the STR metric is important because, unlike STWs, it provides the closest indication of the performance of our brands in relation to market and competitor sales trends.

Acquisition

On October 11, 2016, we completed the acquisition of SABMiller plc's ("SABMiller") 58% economic interest and 50% voting interest in MillerCoors and all trademarks, contracts and other assets primarily related to the "Miller International Business," as defined in the purchase agreement, outside of the U.S. and Puerto Rico (the "Acquisition") from Anheuser-Busch InBev SA/NV ("ABI"). The Acquisition was completed for $12.0 billion in cash, subject to a downward purchase price adjustment as described in the purchase agreement. This purchase price "Adjustment Amount," as defined in the purchase agreement, required payment to MCBC if the unaudited EBITDA for the Miller International Business for the twelve months prior to closing was below $70 million.

On January 21, 2018, MCBC and ABI entered into a settlement agreement related to the purchase price adjustment under the purchase agreement, and on January 26, 2018, pursuant to the settlement agreement, ABI paid to MCBC $330.0 million, of which $328.0 million constitutes the Adjustment Amount. As this settlement occurred following the finalization of purchase accounting, we recorded the settlement proceeds related to the Adjustment Amount as a gain within special items, net in our consolidated statement of operations in our Corporate segment and within cash provided by operating activities within our consolidated statement of cash flows for the year ended December 31, 2018. MCBC and ABI also agreed to certain mutual releases as further described in the settlement agreement.

Executive Summary

We are one of the world's largest brewers and have a diverse portfolio of owned and partner brands, including global priority brands Blue Moon, Coors Banquet, Coors Light, Miller Genuine Draft, Miller Lite, and Staropramen, regional champion brands Carling, Molson Canadian and other leading country-specific brands, as well as craft and specialty beers such as Creemore Springs, Cobra, Doom Bar, Henry's Hard and Leinenkugel's. With centuries of brewing heritage, we have been crafting high-quality, innovative products with the purpose of delighting the world's beer

drinkers and with the ambition to be the first choice for our consumers and customers. Our success depends on our ability to make our products available to meet a wide range of consumer segments and occasions.

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In 2018, we continued to focus on building our brand strength and transforming our portfolio toward the above premium, flavored malt beverage, craft and cider segments. Further, we continued to focus on generating higher returns on our invested capital, managing our working capital and delivering a greater return on investment for our shareholders.

Adoption of Revenue Recognition Guidance

On January 1, 2018, we adopted the FASB's new accounting pronouncement related to revenue recognition. This guidance was adopted using the modified retrospective approach, and therefore, prior period results have not been restated. The following table highlights the impact of this new guidance on summarized components of our consolidated statement of operations for the year ended December 31, 2018, when comparing our current period results of operations under the new guidance, versus our results of operations if historical guidance had continued to be applied.

	Year Ended December 31, 2018				
	U.S.	Canada	Europe	International	Consolidated
	(In millions)				
Impact to Consolidated Statement of Operations - Favorable/(Unfavorable):					
Net sales	$(6.6)	$(47.3)	$(1.7)	$ 0.1	$ (55.5)
Cost of goods sold	$—	$—	$—	$ —	$ —
Gross profit	$(6.6)	$(47.3)	$(1.7)	$ 0.1	$ (55.5)
Marketing, general and administrative expenses	$7.7	$47.3	$4.7	$ —	$ 59.7
Operating income (loss)	$1.1	$—	$3.0	$ 0.1	$ 4.2
Interest income (expense), net	$—	$—	$(3.4)	$ —	$ (3.4)
Income (loss) before income taxes	$1.1	$—	$(0.4)	$ 0.1	$ 0.8

These impacts are primarily driven by the reclassification of certain cash payments to customers from marketing, general and administrative expenses to a reduction of revenue, as well as a change in the timing of recognition of certain promotional discounts and cash payments to customers. See Part I—Item 1. Financial Statements, Note 1, "Basis of Presentation and Summary of Significant Accounting Policies" and Note 2, "New Accounting Pronouncements" for further discussion on the adoption of this guidance.

Adoption of Pension and Other Postretirement Benefit Guidance

On January 1, 2018, we adopted the FASB's new accounting pronouncement related to the classification of pension and other postretirement benefit costs. Specifically, the new guidance requires us to report only the service cost component in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period; while the other components of net benefit cost are now presented in the consolidated statements of operations separately from the service cost component and outside of operating income. The amendments in this update also allow only the service cost component to be eligible for capitalization when applicable. We have also determined that only service cost will be reported within each operating segment and all other components will be reported within the Corporate segment. The guidance related to the income statement presentation of service costs and other pension and postretirement benefit costs is applied retrospectively, while the capitalization of service costs component is applied prospectively. This adjustment is classification only and had no impact to our consolidated net income. See Note 2, "New Accounting Pronouncements" for further details including updated historical financial information.

Summary of Consolidated Results of Operations

The following table highlights summarized components of our consolidated statements of operations for the years ended December 31, 2018, December 31, 2017, and December 31, 2016, and unaudited pro forma financial information for the year ended December 31, 2016. See Part II-Item 8 Financial Statements and Supplementary Data, “Consolidated Statements of Operations” for additional details of our U.S. GAAP results.

We have presented unaudited pro forma financial information to enhance comparability of financial information between periods. The unaudited pro forma financial information is based on the historical consolidated financial statements of MCBC and MillerCoors, both prepared in accordance with U.S. GAAP, and gives effect to the Acquisition and the completed financing as if they were completed on January 1, 2016. Pro forma adjustments are

based on items that are factually supportable, are directly attributable to the Acquisition or the related financing, and are expected to have a continuing impact on MCBC's results of operations. Any non-recurring items directly attributable to the Acquisition or the related financing are excluded in the unaudited pro forma statements of operations. The unaudited pro forma financial information does not include adjustments for costs related to integration activities following the completion of the Acquisition, cost savings or synergies that have been or

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may be achieved by the combined businesses. The unaudited pro forma financial information is presented for illustrative purposes only and does not necessarily reflect the results of operations of MCBC that actually would have resulted had the Acquisition and related financing occurred at the date indicated, or project the results of operations of MCBC for any future dates or periods. See "Unaudited Pro Forma Financial Information" below for details of pro forma adjustments.

Net income attributable to MCBC and the related diluted per share amounts for 2017 and 2016 have been restated due to the correction of errors related to income tax accounting. See details at Part II—Item 8 Financial Statements and Supplementary Data, Note 1, "Basis of Presentation and Accounting Policies."

	For the years ended December 31, 2018		December 31, 2017	December 31, 2016		
	As Reported	Change	As Restated	As Restated	Pro Forma	Pro Forma Change
	(In millions, except percentages and per share data)					
Financial volume in hectoliters[1]	96.627	(2.9)%	99.563	46.912	101.934	(2.3)%
Net sales	$10,769.6	(2.1)%	$ 11,002.8	$4,885.0	$10,983.2	0.2 %
Net income (loss) attributable to MCBC	$1,116.5	(28.7)%	$ 1,565.6	$1,593.9	$291.8	N/M
Net income (loss) attributable to MCBC per diluted share	$5.15	(28.8)%	$ 7.23	$7.47	$1.35	N/M

N/M = Not meaningful

(1) Financial volumes for the year ended December 31, 2016, were recast to reflect the impacts of aligning policies on reporting financial volumes as a result of the Acquisition.

2018 Financial Highlights

- In 2018, net income attributable to MCBC decreased 28.7% compared to the prior year primarily driven by the one-time income tax benefit recognized in the prior year due to the reduction to the U.S. federal corporate income tax rate as a result of the 2017 Tax Act. This decline was also driven by unrealized mark-to-market changes on commodity positions and lower volume and cost inflation in the U.S. and Canada, partially offset by the gain of $328.0 million related to the Adjustment Amount as previously discussed, positive global net pricing, global marketing optimization, general and administrative spend reductions and cost savings, as well as lower interest expense.
- During 2018, we repaid our CAD 400 million 2.25% notes with cash on hand as part of our deleveraging commitment. We also repaid $379 million of commercial paper which was outstanding at December, 31, 2017.
- We generated cash flow from operating activities of approximately $2.3 billion, representing a 24.9% increase from approximately $1.9 billion in 2017. The increase in operating cash flow in 2018 compared to 2017 is primarily related to the proceeds received during the first quarter of 2018 of $328.0 million related to the Adjustment Amount as previously discussed, as well as lower pension contributions and lower interest paid, partially offset by unfavorable changes in working capital and lower cash tax receipts.
- Regional financial highlights:
- In the U.S. segment, we reported income before income taxes of $1,320.7 million in 2018, versus income of $1,394.2 million in 2017, primarily driven by lower volume, cost of goods sold inflation, higher special charges and negative sales mix, partially offset by lower marketing, general and administrative expenses and higher net pricing. During the year we grew our share of the premium light segment with Miller Lite, which completed its seventeenth consecutive quarter of increased segment share, according to Nielsen. Coors Light remained the number two beer in industry share. In above premium, we established a foundation for growth by successfully introducing Arnold Palmer Spiked, establishing Peroni as the fastest growing European import, and relaunching the Sol brand. Additionally, Peroni grew volume for the seventeenth consecutive quarter. Blue Moon remained the number one national craft brand in the U.S.
- In our Canada segment, we drove positive pricing primarily in Ontario and West. However, volume declined in the West and Ontario, partially offset by growth in Quebec. We reported income before income taxes of $157.0 million in

2018, versus income of $210.2 million in 2017, primarily due to higher other expense related to unrealized mark-to-market losses on warrants issued in connection with the formation of the Truss LP ("Truss") joint venture, negative sales mix and lower volumes, partially offset by higher net pricing.

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- In our Europe segment, our continued portfolio premiumization while defending share of national champion brands positively impacted our performance as we grew volumes in our above premium and core brands. In 2018, we reported income before income taxes of $186.4 million, versus income of $234.9 million in 2017, primarily due to cycling the impact of the indirect tax provision release of approximately $50 million during the first quarter of 2017, adopting recently revised excise-tax guidelines in one of our European markets, investments in our First Choice Agenda, as well as unfavorable foreign currency movements. This was partially offset by favorable sales mix shift from our premiumization efforts, more efficient marketing investments, the addition of Aspall Cider business, as well as a positive impact from cycling a bad debt provision recognized in 2017.
- Our International segment reported a loss before income taxes of $2.7 million in 2018, compared to a loss of $19.7 million in the prior year, primarily driven by lower marketing and integration expenses, shifting to a more profitable business model in Mexico, higher net pricing, along with volume growth in our focus markets, partially offset by negative foreign currency movements and increased special charges as a result of formally exiting our China business.
- Brand highlights:
- Global priority brand volume decreased 3.1% in 2018 versus 2017, due to declines across Canada, the U.S. and International, partially offset by growth in Europe.
- Blue Moon Belgian White global brand volume decreased 0.2% in 2018 versus 2017, due to decline in the U.S., offset by growth in Canada, Europe and International.
- Carling brand volume in Europe decreased by 2.5% versus 2017, due to lower volumes in the U.K., the brand's primary market.
- Coors global brand volume - Coors Light global brand volume declined 5.0% in 2018 versus 2017. The overall volume decrease was due to lower brand volume in the U.S., Canada and International, partially offset by growth in Europe. Volumes in the U.S. were lower than prior year reflective of the U.S. industry premium and premium light segment performance. The declines in Canada are the result of ongoing competitive pressures in Quebec and Ontario and a continued shift in consumer preference to value brands in the West. Coors Banquet global brand volume decreased 4.9% in 2018 versus 2017, driven by the U.S. and Canada.
- Miller global brand volume - Miller Lite global brand volumes decreased 1.3% in 2018 versus 2017, primarily driven by declines in the U.S., partially offset by growth in International. However, Miller Lite gained share of the U.S. premium light segment for the seventeenth consecutive quarter. Miller Genuine Draft global brand volume decreased 3.9% in 2018 versus 2017, due to decreases in the U.S., International and Canada, partially offset by growth in Europe.
- Molson Canadian brand volume in Canada decreased 8.1% during 2018 versus the prior year, primarily driven by competitive pressures in the West.
- Staropramen global brand volume increased 3.7% during 2018 versus 2017, driven by growth outside of the brand's primary market.

Worldwide Brand Volume

Worldwide brand volume (or "brand volume" when discussed by segment) reflects owned brands sold to unrelated external customers within our geographic markets, net of returns and allowances, royalty volume, an adjustment from STWs to STRs and our proportionate share of equity investment brand volume calculated consistently with MCBC owned volume. Contract brewing and wholesaler volume is removed from worldwide brand volume as this is non-owned volume for which we do not directly control performance. We believe this definition of worldwide brand volume more closely aligns with how we measure the performance of our owned brands within the markets in which they are sold. Financial volume represents owned brands sold to unrelated external customers within our geographical markets, net of returns and allowances as well as contract brewing, wholesale non-owned brand volume and company-owned distribution volume. Royalty volume consists of our brands produced and sold by third parties under various license and contract-brewing agreements and because this is owned volume, it is included in worldwide brand volume. The adjustment from STWs to STRs provides the closest indication of the performance of our owned brands in relation to market and competitor sales trends, as it reflects sales volume one step closer to the end consumer and generally means sales from our wholesalers or our company to retailers. Equity investment worldwide brand volume represents our ownership percentage share of volume in our subsidiaries accounted for under the equity method,

consisting of MillerCoors prior to the completion of the Acquisition on October 11, 2016. See Part II—Item 8 Financial Statements and Supplementary Data, Note 4, "Acquisition and Investments" of the Notes for further discussion.

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Effective in the first quarter of 2018, we have revised our net sales per hectoliter performance discussions to include a brand volume basis as defined above (with the exception of the STW to STR adjustment) with the net sales revenue component reflecting owned and actively managed brands as well as royalty revenue consistent with how management views the business. We continue to also discuss net sales per hectoliter performance on a reported basis.

	For the years ended				
	December 31, 2018	Change	December 31, 2017	Change	December 31, 2016
	(In millions, except percentages)				
Volume in hectoliters:					
Financial volume	96.627	(2.9)%	99.563	112.2 %	46.912
Less: Contract brewing and wholesaler volume	(8.182)	(4.9)%	(8.602)	108.6 %	(4.124)
Add: Royalty volume	4.054	10.0 %	3.685	75.3 %	2.102
Add: STW to STR adjustment	(0.358)	(47.9)%	(0.687)	N/M	0.707
Owned volume	92.141	(1.9)%	93.959	106.1 %	45.597
Add: Proportionate share of equity investment worldwide brand volume	—	— %	—	(100.0)%	19.940
Total worldwide brand volume	92.141	(1.9)%	93.959	43.4 %	65.537

N/M = Not meaningful

Our worldwide brand volume decreased in 2018 compared to 2017, due to declines in the U.S. and Canada, partially offset by growth in Europe and International. Worldwide brand volume increased in 2017 compared to 2016, due to the Acquisition as well as strong growth in Europe and International partially as a result of adding the Miller global brands business as well as growth within our existing brand portfolio.

Net Sales Drivers

The following table highlights the drivers of change in net sales for the year ended December 31, 2018, versus December 31, 2017, by segment (in percentages) and excludes Corporate net sales revenue for our water resources and energy operations in the state of Colorado.

	Volume	Price, Product and Geography Mix[(1)]	Currency	Other[(2)]	Total
Consolidated	(2.9)%	0.7 %	0.5 %	(0.4)%	(2.1)%
U.S.	(5.1)%	1.9 %	— %	(0.1)%	(3.3)%
Canada	(2.9)%	(1.6)%	— %	— %	(4.5)%
Europe	2.1 %	0.4 %	3.3 %	(2.6)%	3.2 %
International	(7.5)%	3.5 %	(1.3)%	— %	(5.3)%

(1) Includes the impacts of the adoption of the new accounting pronouncement related to revenue recognition as discussed above. See Part II—Item 8 Financial Statements and Supplementary Data, Note 1, "Basis of Presentation and Summary of Significant Accounting Policies" and Note 2, "New Accounting Pronouncements" for further discussion on the adoption of this revenue recognition guidance.

(2) Europe "Other" column includes the impacts of the release of an indirect tax provision in 2017 as further described in the Results of Operations.

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The following table highlights the drivers of change in net sales on a reported basis for the year ended December 31, 2017, versus December 31, 2016, by segment (in percentages) and excludes Corporate net sales revenue for our water resources and energy operations in the state of Colorado. Consolidated includes the U.S. segment for 2017 as well as the post-Acquisition period of October 11, 2016, through December 31, 2016. Prior to the Acquisition, MillerCoors was accounted for as an equity method investment:

	Volume	Price, Product and Geography Mix	Currency	Other(1)	Total
Consolidated	112.2 %	13.3 %	(0.3)%	— %	125.2 %
Canada	(1.6)%	2.2 %	1.7 %	— %	2.3 %
Europe	3.1 %	2.9 %	(2.1)%	6.4 %	10.3 %
International	60.1 %	1.3 %	— %	— %	61.4 %

(1) Europe "Other" column includes the release of an indirect tax provision further described in the Results of Operations.

Cost Savings Initiatives

Total cost savings in 2018 exceeded our targets and totaled more than $240 million, driven by our U.S., Canada and Europe segments. We have delivered more than $495 million of cost savings collectively for the 2017 - 2019 program.

Depreciation and Amortization

Depreciation and amortization expense was $857.5 million in 2018, an increase of $44.7 million compared to 2017, primarily due to brewery system implementations in the U.S. On a reported basis, depreciation and amortization expense was $812.8 million in 2017, an increase of $424.4 million compared to 2016, primarily due to the incremental depreciation and amortization recorded for the U.S. segment as a result of the Acquisition. On a pro forma basis, depreciation and amortization expense decreased $38.6 million in 2017 compared to 2016, primarily due to lower accelerated depreciation due to brewery closures in 2017 and the impact of foreign exchange rates.

Income Taxes

Effective tax rates have been restated for 2017 and 2016 due to the correction of errors related to income tax accounting. See details at Part II—Item 8 Financial Statements and Supplementary Data, Note 1, "Basis of Presentation and Summary of Significant Accounting Policies."

	For the years ended		
	December 31, 2018	December 31, 2017 As Restated	December 31, 2016 As Restated
Effective tax rate	17 %	(15)%	48 %

The increase in the effective income tax rate for 2018 versus 2017 was primarily driven by the one-time impacts of the enactment of the 2017 Tax Act recognized in 2017, most notably the remeasurement of our deferred taxes for the reduction in the U.S. statutory federal corporate income tax rate. This one-time benefit to our deferred tax positions recognized in 2017 was partially offset by the reduction of the statutory U.S. federal corporate income tax rate from 35% to 21% beginning in 2018.

The decrease in the effective income tax rate for 2017 versus 2016 was primarily driven by the above mentioned impacts of the 2017 Tax Act, as well as the income tax impacts recognized in 2016 associated with our previously held equity interest in MillerCoors which increased our effective tax rate in 2016. Additionally, our 2016 effective tax rate was negatively impacted by the remeasurement of the deferred tax liability on our Molson core brand intangible asset to the Canadian ordinary income tax rate upon reclassification from indefinite-lived to definite-lived subject to amortization.

Our tax rate is volatile and may increase or decrease with changes in, among other things, the amount and source of income or loss, our ability to utilize foreign tax credits, excess tax benefits or deficiencies from share-based compensation, changes in tax laws, and the movement of liabilities established pursuant to accounting guidance for

uncertain tax positions as statutes of limitations expire, positions are effectively settled, or when additional information becomes available. There are proposed or pending tax law changes in various jurisdictions in which we do business that, if enacted, may have an impact on our effective tax rate. Additionally, we continue to monitor the 2017 Tax Act, including proposed regulations which may change upon finalization, as well as yet to be issued regulations and interpretations. If the forthcoming regulations and interpretations change relative to our current understanding and initial assessment of the impacts of the 2017 Tax Act, the resulting impacts could have a material adverse impact on our effective tax rate.

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See Part II—Item 8 Financial Statements and Supplementary Data, Note 6, "Income Tax", for additional details regarding our effective tax rate.

Results of Operations

United States Segment

	For the years ended December 31, 2018	Change	December 31, 2017
	(In millions, except percentages)		
Financial volume in hectoliters[1]	64.272	(5.1)%	67.731
Sales[1]	$8,234.4	(3.6)%	$ 8,541.7
Excise taxes	(974.5)	(5.9)%	(1,036.0)
Net sales[1]	7,259.9	(3.3)%	7,505.7
Cost of goods sold[1]	(4,277.5)	(1.1)%	(4,324.2)
Gross profit	2,982.4	(6.3)%	3,181.5
Marketing, general and administrative expenses	(1,631.3)	(8.5)%	(1,782.7)
Special items, net[2]	(37.8)	147.1 %	(15.3)
Operating income	1,313.3	(5.1)%	1,383.5
Interest income (expense), net	8.8	(32.8)%	13.1
Other income (expense), net	(1.4)	(41.7)%	(2.4)
Income (loss) before income taxes	$1,320.7	(5.3)%	$ 1,394.2

(1) Includes gross inter-segment sales, purchases, and volumes, which are eliminated in the consolidated totals.

(2) See Part II—Item 8 Financial Statements and Supplementary Data, Note 7, "Special Items" of the Notes for detail of special items.

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We have presented unaudited pro forma financial information of the U.S. segment for 2016 to enhance comparability of financial information between periods. Results for the period from January 1, 2016, through October 10, 2016, are actual results of MillerCoors utilized in preparing MCBC's share of MillerCoors earnings when we historically accounted for MillerCoors under the equity method of accounting, and, therefore, its results of operations were reported as equity income within MCBC's consolidated statements of operations. Results for the period from October 11, 2016, through December 31, 2016, are actual results recorded when MillerCoors was fully consolidated within our results of operations. We have aggregated these reported 2016 results and applied pro forma adjustments to arrive at combined U.S. segment pro forma financial information for the full year 2016.

	For the year ended December 31, 2017	For the period January 1 through October 10, 2016	For the period October 11 through December 31, 2016	For the year ended December 31, 2016		
	As Reported by MCBC	As Reported by MillerCoors	As Reported by MCBC	Pro Forma Adjustments[1]	Pro Forma[1]	Pro Forma Change
	(In millions, except percentages)					
Financial volume in hectoliters[2][3]	67.731	55.750	14.436	—	70.186	(3.5)%
Sales[3]	$8,541.7	$ 6,987.2	$1,780.0	$(23.2)	$8,744.0	(2.3)%
Excise taxes	(1,036.0)	(861.8)	(213.4)	12.3	(1,062.9)	(2.5)%
Net sales[3]	7,505.7	6,125.4	1,566.6	(10.9)	7,681.1	(2.3)%
Cost of goods sold[3]	(4,324.2)	(3,426.6)	(1,027.0)	37.8	(4,415.8)	(2.1)%
Gross profit	3,181.5	2,698.8	539.6	26.9	3,265.3	(2.6)%
Marketing, general and administrative expenses	(1,782.7)	(1,403.9)	(432.2)	(27.3)	(1,863.4)	(4.3)%
Special items, net[4]	(15.3)	(111.3)	2,959.1	(2,965.0)	(117.2)	(86.9)%
Operating income	1,383.5	1,183.6	3,066.5	(2,965.4)	1,284.7	7.7 %
Interest income (expense), net	13.1	(1.4)	—	—	(1.4)	N/M
Other pension and postretirement benefits (costs), net	—	(14.4)	—	14.4	—	— %
Other income (expense), net	(2.4)	3.7	0.7	—	4.4	N/M
Income (loss) before income taxes	$1,394.2	$ 1,171.5	$3,067.2	$(2,951.0)	$1,287.7	8.3 %

N/M = Not meaningful

(1) Pro forma amounts give effect to the Acquisition as if it had occurred at the beginning of fiscal year 2016 and have been updated to reflect that effective January 1, 2017, the results of the MillerCoors Puerto Rico business, which were previously included as part of the U.S. segment, are now reported within the International segment. See Part II - Item 7 Management's Discussion and Analysis, "Unaudited Pro Forma Financial Information," for details of pro forma adjustments.

(2) Financial volumes for the year ended December 31, 2016, were recast to reflect the impacts of aligning policies on reporting financial volumes as a result of the Acquisition.

(3) On a reported basis, includes gross inter-segment sales, purchases, and volumes, which are eliminated in the consolidated totals.

(4) See Part II—Item 8 Financial Statements and Supplementary Data, Note 7, "Special Items" of the Notes for detail of special items.

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The following represents our proportionate share of MillerCoors' net income reported under the equity method prior to the Acquisition:

	For the period January 1 through October 10, 2016 (In millions, except percentages)
Income (loss) before income taxes	$ 1,171.5
Income tax expense	(3.3)
Net (income) loss attributable to noncontrolling interest	(11.0)
Net income attributable to MillerCoors	$ 1,157.2
MCBC's economic interest	42 %
MCBC's proportionate share of MillerCoors' net income	486.0
Amortization of the difference between MCBC's contributed cost basis and proportionate share of the underlying equity in net assets of MillerCoors[(1)]	3.3
Share-based compensation adjustment[(1)]	(0.7)
U.S. import tax benefit[(1)]	12.3
Equity income in MillerCoors	$ 500.9

(1) See Part II—Item 8 Financial Statements and Supplementary Data, Note 4, "Acquisition and Investments" of the Notes, for a detailed discussion of these equity method adjustments prior to the Acquisition.

The discussion below highlights the U.S. segment results of operations for the year ended December 31, 2018, versus the year ended December 31, 2017, and for the year ended December 31, 2017, versus the year ended December 31, 2016, on a reported and pro forma basis, where applicable.

Significant events

Throughout 2018, U.S. financial volume, including shipment timing and distributor inventory levels, as well as financial results were impacted by brewery system implementations at our Golden, Colorado, Trenton, Ohio and Fort Worth, Texas breweries. We continue to prepare for future implementations at our remaining breweries expected to occur in 2019, including the implementation at our Milwaukee, Wisconsin brewery, which is currently underway.

In order to align our cost base with our scale of business, during the third quarter of 2018, we initiated restructuring activities in the U.S. and reduced U.S. employment levels by approximately 300 employees in the fourth quarter of 2018. As a result, severance costs related to these restructuring activities were recorded as special charges.

The volatility of aluminum, inclusive of Midwest Premium, and freight and fuel costs continued to significantly impact our results during 2018. To the extent these prices continue to fluctuate, our business and financial results could be materially adversely impacted. We continue to monitor these risks and rely on our risk management hedging program to help mitigate price risk exposure for commodities including aluminum and fuel.

In order to increase overall operating efficiency, during the first quarter of 2018, the U.S. segment announced plans to close the Colfax, California cidery. The cidery closed in January 2019 and cider production has moved to the 10th Street Brewery in Milwaukee, Wisconsin. We recognized special charges in 2018 associated with the cidery closure consisting primarily of accelerated depreciation in excess of normal depreciation.

On October 11, 2016, we completed the Acquisition and as a result, MCBC owns 100% of the outstanding equity and voting interests of MillerCoors. Therefore, beginning October 11, 2016, MillerCoors' results of operations have been prospectively consolidated into MCBC’s consolidated financial statements and included in the U.S. segment. See Part II—Item 8 Financial Statements and Supplementary Data, Note 4, "Acquisition and Investments" for further details. Additionally, effective January 1, 2017, the results of the MillerCoors Puerto Rico business, which were previously included as part of the U.S. segment, are now reported within the International segment. Note, we only present

unaudited pro forma financial information for the consolidated entity and the U.S. segment.

During the third quarter of 2015, the U.S. business announced plans to close its brewery in Eden, North Carolina in an effort to optimize the brewery footprint and streamline operations for greater efficiencies. Products produced in Eden were transitioned to other breweries in the U.S. supply chain network and the Eden brewery is now closed. Total special charges

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associated with the Eden closure of approximately $182 million have been incurred from the decision to close through December 31, 2018, consisting primarily of accelerated depreciation. During the fourth quarter of 2018, the real property associated with the closed Eden brewery was sold.

Additionally, in 2016 MillerCoors acquired craft breweries Revolver Brewing, Terrapin Beer Company and Hop Valley Brewing Company.

Volume and net sales

Brand volume declined 3.9% in 2018 compared to 2017, driven by lower volume in the premium light segment. STWs, excluding contract brewing volume, decreased 4.4% in 2018 compared to 2017, reflective of brand volume performance.

Net sales per hectoliter on a brand volume basis increased 1.5% in 2018 compared to 2017, due to favorable net pricing, partially offset by negative sales mix. Net sales per hectoliter on a reported basis for 2018, increased 1.9% in 2018 compared to 2017.

Brand volume declined 2.9% in 2017 compared to 2016, driven by lower volume in the premium light and below premium segments. STWs, excluding contract brewing volume, decreased 3.3% in 2017 compared to 2016.

Net sales per hectoliter on a brand volume basis for 2017 increased 1.2% compared to 2016 reported net sales and 1.0% compared to 2016 pro forma net sales, due to favorable net pricing. Net sales per hectoliter on a reported basis, increased 1.1% compared to 2016 reported figures and increased 1.3% compared to 2016 pro forma figures.

Cost of goods sold

Cost of goods sold per hectoliter increased 4.2% in 2018 compared to prior year driven by higher transportation costs, aluminum inflation and volume deleverage, partially offset by cost savings. Additionally, in 2018 we recorded $2.8 million of integration costs related to the Acquisition within cost of goods sold.

Cost of goods sold per hectoliter decreased 0.1% in 2017 compared to 2016 reported figures due to the cycling of $82.0 million related to the inventory step up as a result of the Acquisition. Cost of goods sold per hectoliter increased 1.5% in 2017 compared to 2016 pro forma figures driven by higher input costs and volume deleverage, partially offset by cost savings. Additionally, in 2017 we recorded $2.4 million of integration costs related to the Acquisition within cost of goods sold.

Marketing, general and administrative expenses

Marketing, general and administrative expenses decreased 8.5% in 2018 compared to 2017 driven by the amicable resolution of a dispute with a vendor in the third quarter of 2018, spending optimization and efficiencies during the year as well as lower employee-related expenses including incremental cost reductions initiated in the third quarter of 2018 and lower employee incentive expense.

Marketing, general and administrative expenses decreased in 2017 compared to 2016 on a reported basis and decreased in 2017 compared to 2016 on a pro forma basis, due to spending optimization and efficiencies. Marketing, general and administrative expenses also includes integration costs of $5.1 million in 2017.

Interest income (expense), net

Net interest income decreased for 2018 compared to 2017 as a result of lower reductions in mandatorily redeemable noncontrolling interest liabilities in 2018 compared to 2017. Adjustments in the carrying value of the mandatorily redeemable noncontrolling interests are recorded to interest income (expense), net until settled.

Net interest income increased for 2017 compared to 2016, primarily due to a reduction in mandatorily redeemable noncontrolling interest liabilities.

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Canada Segment

	For the years ended				
	December 31, 2018	Change	December 31, 2017	Change	December 31, 2016
	(In millions, except percentages)				
Financial volume in hectoliters[1][2]	8.554	(2.9)%	8.805	(1.6)%	8.950
Sales[2]	$1,850.6	(2.9)%	$ 1,906.2	1.4 %	$1,879.4
Excise taxes	(458.5)	2.3 %	(448.2)	(1.2)%	(453.7)
Net sales[2]	1,392.1	(4.5)%	1,458.0	2.3 %	1,425.7
Cost of goods sold[2]	(847.0)	— %	(847.0)	6.4 %	(796.4)
Gross profit	545.1	(10.8)%	611.0	(2.9)%	629.3
Marketing, general and administrative expenses	(341.9)	(14.0)%	(397.5)	9.5 %	(363.0)
Special items, net[3]	(23.8)	65.3 %	(14.4)	(96.3)%	(393.8)
Operating income (loss)	179.4	(9.9)%	199.1	N/M	(127.5)
Other income (expense), net[4]	(22.4)	N/M	11.1	42.3 %	7.8
Income (loss) before income taxes	$157.0	(25.3)%	$ 210.2	N/M	$(119.7)

N/M = Not meaningful

(1) Financial volumes for the year ended December 31, 2016, were recast to reflect the impacts of aligning policies on reporting financial volumes as a result of the Acquisition.

(2) Includes gross inter-segment sales, purchases, and volumes, which are eliminated in the consolidated totals.

(3) See Part II—Item 8 Financial Statements and Supplementary Data, Note 7, "Special Items" of the Notes for detail of special items.

(4) See Part II—Item 8 Financial Statements and Supplementary Data, Note 5, "Other Income and Expense" of the Notes for detail of other income (expense).

Significant events

As a result of the Acquisition, the Miller brands were added to our Canada segment's portfolio beginning October 11, 2016. Additionally, as part of our ongoing assessment of our Canadian supply chain network, we completed the sale of our Vancouver brewery on March 31, 2016. In conjunction with the sale of the brewery, we agreed to leaseback the existing property to continue operations on an uninterrupted basis while the new brewery is being constructed. We have and continue to incur significant capital expenditures associated with the construction of the new brewery in Chilliwack, British Columbia, most of which we expect to be funded with the proceeds from the sale of the Vancouver brewery. We will also incur additional charges, including estimated accelerated depreciation charges of approximately CAD 7 million, through final closure of the brewery which is currently expected to occur in the third quarter of 2019. The remaining costs of leasing the existing facility through the estimated closure date will be approximately CAD 4 million which are not included within special items.

In further efforts to help optimize the Canada brewery network, in the third quarter of 2017 we announced a plan to build a more efficient and flexible brewery in the greater Montreal area. As a result of this decision, we have begun to develop plans to transition out of our existing Montreal brewery, including the acquisition of land in Longueuil, Quebec. We are also actively negotiating the sale of the existing brewery location and are targeting completion of the sale in the second quarter of 2019. The brewery continues to be operational, and as part of the sale, we anticipate leasing back the property for continued use until the new brewery is operational, which is currently expected to occur in 2021. Accordingly, we incurred accelerated depreciation charges associated with the existing brewery closure starting in the second half of 2017, of which the amount in excess of normal depreciation is recorded within special items. We expect to incur additional charges, including estimated accelerated depreciation charges in excess of normal depreciation of approximately CAD 65 million, through final closure of the brewery. However, due to the uncertainty inherent in our estimates, these estimated future accelerated depreciation charges, as well as the timing of the brewery closure, are subject to change.

During 2016, we recorded an aggregate impairment charge to the Molson core brand intangible asset within special items and subsequently reclassified the brands from indefinite to definite-lived, resulting in increased amortization

expense of intangible assets for 2017 compared to 2016.

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Foreign currency impact on results

During 2018, the CAD depreciated versus the USD on an average basis, resulting in a decrease of $4.3 million to our 2018 USD earnings before income taxes. During 2017, the CAD appreciated versus the USD on an average basis, resulting in an increase of $5.1 million to our 2017 USD earnings before income taxes. Included in these amounts are both translational and transactional impacts of changes in foreign exchange rates. The impact of transactional foreign currency gains and losses is recorded within other income (expense) in our consolidated statements of operations.

Volume and net sales

Our Canada brand volume decreased 2.2% in 2018 compared to 2017, as a result of volume decline in the West and Ontario, partially offset by growth in Quebec. Net sales per hectoliter on a brand volume basis decreased 2.6% in local currency in 2018 compared to 2017, driven by the impacts resulting from the adoption of the new accounting pronouncement related to revenue recognition, which requires certain cash payments to customers to now be recognized as a reduction of revenue versus marketing, general and administrative expense, and unfavorable brand mix. Net sales per hectoliter on a reported basis in local currency decreased 1.6% in 2018 compared to 2017.

Brand volume decreased 0.5% in 2017 compared to 2016, primarily as a result of lower domestic volumes, partially offset by the addition of the Miller brands as a result of the Acquisition. Net sales per hectoliter on a brand volume basis increased 1.6% in local currency in 2017 compared to 2016, driven by positive pricing and sales mix. Net sales per hectoliter on a reported basis in local currency increased 2.2% in 2017 compared to 2016.

Cost of goods sold

Cost of goods sold per hectoliter in local currency increased 2.9% in 2018 compared to 2017, driven by input cost inflation, volume deleverage, and supply chain transformation investments, partially offset by distribution gains and cost savings. Additionally, for 2018 we recorded $0.5 million of integration costs related to the Acquisition within cost of goods sold.

Cost of goods sold per hectoliter in local currency increased 6.2% in 2017 compared to 2016, due to sales mix shift to higher cost products, impacts of volume deleverage, higher inflation and unfavorable transactional foreign currency impacts, partially offset by ongoing cost saving initiatives. Additionally, for 2017 we recorded $4.1 million of integration costs related to the Acquisition within cost of goods sold.

Marketing, general and administrative expenses

Marketing, general and administrative expenses decreased 14.1% in local currency in 2018 compared to 2017, primarily driven by impacts resulting from the adoption of the new accounting pronouncement related to revenue recognition as further discussed above and lower brand investments.

Marketing, general and administrative expenses increased 7.6% in local currency in 2017 compared to 2016, primarily driven by higher brand amortization in 2017, partially offset by lower bad debt expense, and spending reductions.

Other income (expense), net

Other expense of $22.4 million in 2018 was primarily driven by charges related to unrealized mark-to-market losses on warrants issued in connection with the formation of the Truss joint venture, as further detailed in Note 16, "Derivative Instruments and Hedging Activities."

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Europe Segment

	For the years ended				
	December 31, 2018	Change	December 31, 2017	Change	December 31, 2016
	(In millions, except percentages)				
Financial volume in hectoliters(1)(2)(3)	23.772	2.1 %	23.290	3.1 %	22.590
Sales(3)	$3,088.6	6.9 %	$2,888.3	4.0 %	$2,778.1
Excise taxes	(1,086.0)	14.6 %	(947.6)	(6.9)%	(1,017.9)
Net sales(3)	2,002.6	3.2 %	1,940.7	10.3 %	1,760.2
Cost of goods sold	(1,269.4)	8.1 %	(1,174.4)	4.5 %	(1,123.5)
Gross profit	733.2	(4.3)%	766.3	20.4 %	636.7
Marketing, general and administrative expenses	(534.6)	0.8 %	(530.3)	3.7 %	(511.4)
Special items, net(4)	(6.0)	20.0 %	(5.0)	N/M	(0.6)
Operating income (loss)	192.6	(16.6)%	231.0	85.2 %	124.7
Interest income (expense), net	(5.1)	N/M	3.6	— %	3.6
Other income (expense), net	(1.1)	N/M	0.3	(96.8)%	9.3
Income (loss) before income taxes	$186.4	(20.6)%	$234.9	70.7 %	$137.6

N/M = Not meaningful

(1) Financial volumes for the year ended December 31, 2016, were recast to reflect the impacts of aligning policies on reporting financial volumes as a result of the Acquisition.

(2) Excludes royalty volume of 1.787 million hectoliters, 1.694 million hectoliters and 0.194 million hectoliters for 2018, 2017 and 2016, respectively.

(3) Includes gross inter-segment sales and volumes, which are eliminated in the consolidated totals.

(4) See Part II—Item 8 Financial Statements and Supplementary Data, Note 7, "Special Items" of the Notes for detail of special items.

Significant events

The U.K. is expected to leave the European Union on March 29, 2019. However, the proposed withdrawal agreement was rejected by the U.K. Parliament on November 14, 2018, and January 15, 2019. As a result, the terms of the withdrawal remain unknown, which subjects our Europe segment to regulatory and market uncertainty in the U.K. and in the rest of Europe. See Part I—Item 1A Risk Factors under "Risks Specific to the Europe Segment" for further discussion of the risks specific to the U.K.'s proposed exit from the EU.

In January 2018, the Europe segment completed the acquisition of Aspall Cyder Limited, an established premium cider business in the U.K.

As a result of the Acquisition, the Miller brands were added to our Europe segment's portfolio beginning October 11, 2016, and effective January 1, 2017, European markets including Sweden, Spain, Germany, Ukraine and Russia, which were previously reported under our International segment, are reported within our Europe segment.

As part of our continued strategic review of our European supply chain network, during the fourth quarter of 2015, we announced the planned closure of the Burton South brewery in the U.K. Since 2015, we incurred charges consisting primarily of accelerated depreciation in excess of normal depreciation related to the Burton South brewery which closed during the first quarter of 2018. Production has been consolidated within our recently modernized Burton North brewery. We may recognize other charges or benefits related to brewery closures, which cannot currently be estimated and will be recorded within special items.

In the first quarter of 2017, the largest food and retail company in Croatia, Agrokor, announced that it was facing significant financial difficulties that raised doubt about the collectibility of certain of our outstanding receivables with its direct subsidiaries. These subsidiaries are customers of ours within the Europe segment and, therefore, we have closely monitored the situation. As a result, we recorded a provision for an estimate of uncollectible receivables during 2017. We have subsequently reduced this exposure and as of December 31, 2018, our estimated provision of uncollectible receivables from Agrokor totals

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approximately $3 million. The settlement plan related to this matter was approved in October 2018, and did not have a significant impact on our financial statements.

During the first quarter of 2017, we released an indirect tax loss contingency which was initially recorded in the fourth quarter of 2016, for a benefit of approximately $50 million within the excise taxes line item on the consolidated statement of operations. See Part II—Item 8 Financial Statements and Supplementary Data, Note 18, "Commitments and Contingencies" of the Notes for further discussion.

Foreign currency impact on results

Our Europe segment operates in numerous countries within Europe, and each country's operations utilize distinct currencies. During 2018, foreign currency movements unfavorably impacted our Europe USD income before income taxes by $2.8 million. During 2017, foreign currency movements unfavorably impacted our Europe USD income before income taxes by $7.5 million. Included in these amounts are both translational and transactional impacts of changes in foreign exchange rates. The impact of transactional foreign currency gains and losses is recorded within other income (expense) in our consolidated statements of operations.

Volume and net sales

Our Europe brand volume increased 2.2% in 2018 compared to 2017, primarily driven by growth from our above premium and core brand performance.

Net sales per hectoliter on a brand volume basis decreased 3.4% in local currency in 2018 compared to 2017, primarily driven by the negative impact of cycling the release of the approximate $50 million indirect tax provision in the first quarter of 2017, negative pricing due to the impact of adopting recently revised excise-tax guidelines in one of our European markets, and increasing our investment behind our First Choice Agenda this year. Net sales per hectoliter on a reported basis in local currency decreased 2.1% in 2018 compared to 2017.

Brand volume increased 10.3% in 2017 compared to 2016, primarily driven by the transfer of royalty and export brand volume across Europe from our International business and the addition of the Miller brands, along with growth from our above premium brands.

Net sales per hectoliter on a brand volume basis increased 4.9% in local currency in 2017 compared to 2016, primarily driven by the indirect tax provision of approximately $50 million recorded in the fourth quarter of 2016 and subsequently released in the first quarter of 2017 and the addition of royalty and export brand volumes, including the impact of Miller brands. Net sales per hectoliter on a reported basis in local currency increased 9.0% in 2017 compared to 2016.

Cost of goods sold

Cost of goods sold per hectoliter increased 2.3% in local currency in 2018 compared to 2017, primarily due to input inflation and mix shift to higher-cost brands and geographies. Additionally, we recorded $0.6 million of integration costs related to the Acquisition within cost of goods sold in 2018.

Cost of goods sold per hectoliter increased 3.4% in local currency in 2017 compared to 2016, primarily driven by mix shift to higher cost brands and geographies. Additionally, we have recorded $0.6 million of integration costs related to the Acquisition within cost of goods sold in 2017.

Marketing, general and administrative expenses

Marketing, general and administrative expenses decreased 3.3% in local currency in 2018 compared to 2017, driven by more efficient marketing investments and the impacts resulting from the adoption of the new accounting pronouncement related to revenue recognition and a positive impact from cycling a bad debt provision booked in 2017, partially offset by the addition of Aspall brand investments.

Marketing, general and administrative expenses increased 4.9% in local currency in 2017 compared to 2016, driven by higher brand investments and general and administrative costs, including increased amortization related to the Miller brand portfolio, and recognition of the previously mentioned provision for uncollectible receivables.

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International Segment

	For the years ended				
	December 31, 2018	Change	December 31, 2017	Change	December 31, 2016
	(In millions, except percentages)				
Financial volume in hectoliters[(1)(2)]	2.214	(7.5)%	2.394	60.1 %	1.495
Sales	$299.5	(0.5)%	$ 300.9	57.5 %	$ 191.0
Excise taxes	(49.4)	33.9 %	(36.9)	34.7 %	(27.4)
Net sales	250.1	(5.3)%	264.0	61.4 %	163.6
Cost of goods sold[(3)]	(160.4)	(11.1)%	(180.5)	68.5 %	(107.1)
Gross profit	89.7	7.4 %	83.5	47.8 %	56.5
Marketing, general and administrative expenses	(81.6)	(19.8)%	(101.7)	56.0 %	(65.2)
Special items, net[(4)]	(9.3)	N/M	(1.6)	(94.9)%	(31.1)
Operating income (loss)	(1.2)	(93.9)%	(19.8)	(50.3)%	(39.8)
Other income (expense), net	(1.5)	N/M	0.1	(50.0)%	0.2
Income (loss) before income taxes	$(2.7)	(86.3)%	$ (19.7)	(50.3)%	$ (39.6)

N/M = Not meaningful

(1) Financial volumes for the year ended December 31, 2016, were recast to reflect the impacts of aligning policies on reporting financial volumes as a result of the Acquisition.

(2) Excludes royalty volume of 2.267 million hectoliters, 1.991 million hectoliters and 1.908 million hectoliters in 2018, 2017 and 2016, respectively.

(3) Includes gross inter-segment purchases, which are eliminated in the consolidated totals.

(4) See Part II—Item 8 Financial Statements and Supplementary Data, Note 7, "Special Items" of the Notes for detail of special items.

Significant events

During the first half of 2018, we decided to formally exit our business in China and, as such, have incurred special charges. See Part II—Item 8 Financial Statements and Supplementary Data, Note 7, "Special Items" of the Notes for further detail.

As a result of the Acquisition, the Miller brands were added to our International segment's portfolio beginning October 11, 2016. Additionally, as a result of the Acquisition, effective January 1, 2017, European markets including Sweden, Spain, Germany, Ukraine and Russia, which were previously reported as part of our International segment, are reported within our Europe segment while the results of the MillerCoors Puerto Rico business, which were previously included as part of the U.S. segment, are reported within the International segment.

On April 5, 2016, the government of the state of Bihar implemented a complete prohibition of the sale and consumption of all forms of alcohol. As a result of this ban, our Molson Coors Cobra India business is currently not operating. This ban does not impact the rest of our business in India outside of the state of Bihar. As a result, we recorded an aggregate impairment charge of $30.8 million within special items during the second quarter of 2016. We continue to monitor legal proceedings impacting the regulatory environment as it relates to our ability to resume operations in the state.

Foreign currency impact on results

Our International segment operates in numerous countries around the world and each country's operations utilize distinct currencies. Foreign currency movements unfavorably impacted our International USD loss before income taxes by $3.2 million for 2018 and favorably impacted our International USD loss before income taxes by $0.2 million for 2017. Included in these amounts are both translational and transactional impacts of changes in foreign exchange rates. The impact of transactional foreign currency gains and losses is recorded within other income (expense) in our consolidated statements of operations.

Volume and net sales

Our International brand volume increased 2.2% in 2018 compared to 2017, driven by organic volume growth in many of our focus markets, partially offset by lower volumes in Mexico due to higher net pricing and the loss of the Modelo

contract in

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Japan at the end of the second quarter of 2017. Our International financial volume decreased 7.5% in 2018 compared to 2017, driven by shifting to local third party production in Mexico, which increased our royalty volume.
Net sales per hectoliter on a brand volume basis decreased 7.3% in 2018 compared to 2017, primarily driven by sales mix changes and shifting to local production in Mexico, partially offset by positive net pricing. Net sales per hectoliter on a reported basis increased 2.4% in 2018 compared to 2017 due to changes in sales mix.
Brand volume increased 28.9% in 2017 compared to 2016, driven by the change in segment reporting of the Puerto Rico business from the U.S. segment, Coors Light growth primarily in Latin America and the addition of the Miller brands partially offset by the transfer of royalty and export brand volume to Europe.
Net sales per hectoliter on a brand volume basis increased 25.2% in 2017 compared to 2016, primarily due to sales mix changes and positive pricing. Net sales per hectoliter on a reported basis increased 0.8% in 2017 compared to 2016, driven by positive net pricing and favorable sales mix.

Cost of goods sold

Cost of goods sold per hectoliter decreased 3.9% in 2018 compared to 2017, primarily driven by sales mix changes. Additionally, during 2018 we recorded $1.0 million of integration costs related to the Acquisition within cost of goods sold.

Cost of goods sold per hectoliter increased 5.2% in 2017 compared to 2016, primarily driven by sales mix changes. Additionally, during 2017 we recorded $3.6 million of integration costs related to the Acquisition within cost of goods sold.

Marketing, general and administrative expenses

Marketing, general and administrative expenses decreased 19.8% in 2018 compared to 2017, primarily due to lower marketing investments, overhead, and integration costs as well as $2.0 million of settlement proceeds related to our Colombia business in the first quarter of 2018. During 2018, we recorded $1.8 million of integration costs related to the Acquisition within marketing, general and administrative expenses.
Marketing, general and administrative expenses increased 56.0% in 2017 compared to 2016, primarily due to higher organization and integration costs related to the acquisition of the Miller global brands, along with increased brand investments, including higher brand amortization costs. During 2017, we recorded $8.4 million of integration costs related to the Acquisition within marketing, general and administrative expenses.

Corporate Segment

	For the years ended				
	December 31, 2018	Change	December 31, 2017	Change	December 31, 2016
	(In millions, except percentages)				
Financial volume in hectoliters	—	— %	—	— %	—
Sales	$0.8	(11.1)%	$ 0.9	(10.0)%	$ 1.0
Excise taxes	—	— %	—	— %	—
Net sales	0.8	(11.1)%	0.9	(10.0)%	1.0
Cost of goods sold	(166.4)	N/M	122.9	N/M	22.9
Gross profit	(165.6)	N/M	123.8	N/M	23.9
Marketing, general and administrative expenses	(213.3)	(11.1)%	(239.8)	6.4 %	(225.3)
Special items, net[(1)]	326.6	N/M	(0.1)	(85.7)%	(0.7)
Operating income (loss)	(52.3)	(55.0)%	(116.1)	(42.6)%	(202.1)
Interest expense, net	(301.9)	(16.1)%	(360.0)	45.2 %	(248.0)
Other pension and postretirement benefits (costs), net	38.2	(19.4)%	47.4	N/M	8.4
Other income (expense), net	14.4	N/M	(7.7)	(84.8)%	(50.5)
Income (loss) before income taxes	$(301.6)	(30.9)%	$ (436.4)	(11.3)%	$ (492.2)

N/M = Not meaningful

(1) See Part II—Item 8 Financial Statements and Supplementary Data, Note 7, "Special Items" of the Notes for detail of special items.

Significant events

In connection with the Acquisition, we have incurred, and will continue to incur, various transaction and integration costs as further discussed below. See Part II—Item 8 Financial Statements and Supplementary Data, Note 4, "Acquisition and Investments" of the Notes for further details.

Cost of goods sold

The unrealized changes in fair value on our commodity swaps, which are economic hedges, are recorded as cost of goods sold within our Corporate business activities. As the exposure we are managing is realized, we reclassify the gain or loss to the segment in which the underlying exposure resides, allowing our segments to realize the economic effects of the derivative without the resulting unrealized mark-to-market volatility. Cost of goods sold for the year ended December 31, 2018, include unrealized mark-to-market losses of $166.2 million, and cost of goods sold for the years ended December 31, 2017, and December 31, 2016, include unrealized mark-to-market gains of $123.3 million and $23.1 million, respectively, on these commodity swaps. Lower commodity market prices relative to our hedged positions on our commodity swaps drove the total unrealized mark-to-market loss in 2018. The total gain recognized in 2017 was primarily driven by higher commodity prices during the year versus 2016.

Marketing, general and administrative expenses

Marketing, general and administrative expenses decreased in 2018 compared to 2017, primarily due to the timing of corporate general and administrative costs, lower employee-related expenses, and higher integration costs related to the Acquisition recognized in the prior year, partially offset by incremental investment behind global business capabilities including information technology investments. During 2018 we recorded $36.9 million of integration costs related to the Acquisition within marketing, general and administrative expenses.

Marketing, general and administrative expenses increased in 2017 compared to 2016, primarily due to incremental investment behind global business capabilities including higher compensation expense, partially offset by higher acquisition-related costs recognized in 2016. Specifically, during 2017 we recorded $57.1 million within marketing, general and administrative expenses related the Acquisition, compared to $108.4 million in 2016.

Interest expense, net

Net interest expense decreased in 2018 compared to 2017, primarily driven by debt repayments. Net interest expense increased in 2017 compared to 2016, primarily driven by incremental interest incurred on debt issued to partially fund the Acquisition. See Part II—Item 8 Financial Statements and Supplementary Data, Note 16, "Derivative Instruments and Hedging Activities" and Note 11, "Debt" for further details.

Other income (expense), net

Net other income in 2018 compared to net other expense in 2017 was primarily driven by an $11.7 million gain recorded on the sale of a non-operating asset in 2018. Net other expense decreased from 2017 compared to 2016, primarily driven by financing costs incurred in 2016 on our bridge loan of approximately $63 million partially offset by the $20.5 million gain on the sale of non-operating assets as well as unrealized gains on foreign currency forwards which are economic hedges entered into during the second quarter of 2016 in connection with the issuance of debt on July 7, 2016.

See Part II—Item 8 Financial Statements and Supplementary Data, Note 5, "Other Income and Expense" of the Notes for further discussion of other income (expense) amounts and Note 15, "Employee Retirement Plans and Postretirement Benefits" for discussion of changes in pension and postretirement benefits (costs) as all non-service cost components of pension and postretirement benefits (costs) are now reported within Corporate.

Liquidity and Capital Resources

Our primary sources of liquidity include cash provided by operating activities and access to external capital. We believe that cash flows from operations and cash provided by short-term and long-term borrowings, when necessary, will be more than adequate to meet our ongoing operating requirements, scheduled principal and interest payments on debt, anticipated dividend payments and capital expenditures for the next twelve months, and our long-term liquidity requirements.

A significant portion of our trade receivables are concentrated in Europe. While these receivables are not concentrated in any specific customer and our allowance on these receivables factors in collectibility, we may encounter difficulties in our ability to collect due to the impact to our customers of any further economic downturn within Europe.

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A significant portion of our cash flows from operating activities is generated outside the U.S., in currencies other than USD. As of December 31, 2018, approximately 47% of our cash and cash equivalents were located outside the U.S., largely denominated in foreign currencies. We accrue for tax consequences on the earnings of our foreign subsidiaries upon repatriation. When the earnings are considered indefinitely reinvested outside of the U.S., we do not accrue taxes. However, we continue to assess the impact of the 2017 Tax Act on the tax consequences of future repatriations. We utilize a variety of tax planning and financing strategies in an effort to ensure that our worldwide cash is available in the locations in which it is needed. We periodically review and evaluate these strategies, including external committed and non-committed credit agreements accessible by MCBC and each of our operating subsidiaries. We believe these financing arrangements, along with the cash generated from the operations of our U.S. segment, are sufficient to fund our current cash needs in the U.S.

Cash Flows and Use of Cash

Our business generates positive operating cash flow each year, and our debt maturities are of a longer-term nature. However, our liquidity could be impacted significantly by the risk factors described in Part I, Item 1A. Risk Factors.

Cash Flows from Operating activities

Net cash provided by operating activities of approximately $2.3 billion in 2018, increased by $465.0 million compared to 2017. This increase was driven by the proceeds received during the first quarter of $328.0 million related to the Adjustment Amount as defined and further discussed in Part II—Item 8 Financial Statements and Supplementary Data, Note 4, "Acquisition and Investments" of the Notes, lower pension contributions and interest paid, partially offset by unfavorable changes in working capital and lower cash tax receipts.

Net cash provided by operating activities of approximately $1.9 billion in 2017 increased by $739.4 million compared to 2016. This increase is primarily related to the addition of the consolidated U.S. business, lower cash paid for taxes (refund in 2017 as compared to cash tax paid in 2016) and working capital improvements, partially offset by higher pension contributions including the discretionary cash contribution of $200 million to the U.S. pension plan and higher cash paid for interest.

Cash Flows from Investing activities

Net cash used in investing activities of $669.1 million in 2018, increased by $130.9 million compared to 2017 primarily due to higher capital expenditures, increased outflows from other investing activities, including acquisitions, as well as lower proceeds related to asset disposals.

Net cash used in investing activities of $538.2 million in 2017 decreased by approximately $11.7 billion compared to 2016 driven primarily by the completion of the Acquisition in 2016 for $12.0 billion, offset by higher capital expenditures in 2017 resulting from the Acquisition.

Cash Flows from Financing activities

Net cash used in financing activities of approximately $1.0 billion in 2018, decreased by $487.5 million from net cash used in financing activities of approximately $1.5 billion in 2017. This decrease was primarily driven by lower net repayments on debt and borrowings in 2018 compared to 2017, partially offset by the repayment of borrowings under our commercial paper program in 2018 compared to an increase in borrowings under our commercial paper program in the prior year.

Net cash used in financing activities of approximately $1.5 billion in 2017, decreased by approximately $12.8 billion from net cash provided by financing activities of approximately $11.3 billion in 2016. This change was primarily driven by the approximate $2.5 billion of net proceeds received from our February 3, 2016, equity offering of 29.9 million shares of our Class B common stock, the approximate $6.9 billion of net proceeds from the issuance of debt on July 7, 2016, to partially fund the Acquisition in 2016, as well as increased net repayments of debt as we began to deleverage in 2017. See "Borrowings" below for more details on financing activity.

See Part II—Item 8 Financial Statements and Supplementary Data, Note 11, "Debt" of the Notes for a summary of our financing activities and debt position as of December 31, 2018, and December 31, 2017.

Capital Resources

Cash and Cash Equivalents

As of December 31, 2018, we had total cash and cash equivalents of approximately $1.1 billion, compared to $418.6 million as of December 31, 2017. The increase in cash and cash equivalents as of December 31, 2018, from

December 31, 2017, was primarily driven by the net proceeds from operating activities including the proceeds received during the first quarter of $328.0 million related to the Adjustment Amount as defined and further discussed in Part II—Item 8 Financial Statements and Supplementary Data, Note 4, "Acquisition and Investments" of the Notes, partially offset by repayments of borrowings,

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capital expenditures and dividend payments. The majority of our cash and cash equivalents are invested in a variety of highly liquid investments with original maturities of 90 days or less. These investments are viewed by management as low-risk investments on which there are little to no restrictions regarding our ability to access the underlying cash to fund our operations as necessary. While we have some investments in prime money market funds, these are classified as cash and cash equivalents; however, we continually monitor the need for reclassification under the updated SEC requirements for money market funds, and the potential that the shares of such funds could have a net asset value of less than one dollar. We also utilize cash pooling arrangements to facilitate the access to cash across our geographies.

Working Capital

The Company actively manages working capital through inventory management as well as management of accounts payable and accounts receivable to ensure we are able to meet short-term obligations and we are effectively using assets to increase profitability.

Borrowings

During the third quarter of 2018, we repaid our CAD 400 million 2.25% notes which matured in September 2018. Notional amounts are presented in USD based on the applicable exchange rate as of December 31, 2018. Refer to Part II—Item 8 Financial Statements and Supplementary Data, Note 11, "Debt" for details regarding the cross currency swaps on our $500 million 2.25% senior notes due 2020 which economically converted these notes to EUR denominated.

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Based on the credit profile of our lenders that are party to our credit facilities, we are confident in our ability to draw on our revolving credit facility if the need arises. We had no borrowings on our $1.5 billion revolving credit facility as of December 31, 2018. During the third quarter of 2018, we extended the maturity date of our revolving credit facility by one year to July 7, 2023. In addition, we intend to further utilize our cross-border, cross-currency cash pool as well as our commercial paper program for liquidity as needed. We also have JPY overdraft facilities, CAD, GBP and USD lines of credit with several banks should we need additional short-term liquidity.

Under the terms of each of our debt facilities, we must comply with certain restrictions. These include restrictions on priority indebtedness (certain threshold percentages of secured consolidated net tangible assets), leverage thresholds, liens, and restrictions on certain types of sale lease-back transactions and transfers of assets. Additionally, under the $1.5 billion revolving credit facility, the maximum leverage ratio is 4.75x debt to EBITDA, with a decline to 4.00x debt to EBITDA as of the last day of the fiscal quarter ending December 31, 2020. As of December 31, 2018, and December 31, 2017, we were in compliance with all of these restrictions, have met such financial ratios and have met all debt payment obligations. All of our outstanding senior notes as of December 31, 2018, rank pari-passu.

See Part II—Item 8 Financial Statements and Supplementary Data, Note 11, "Debt" of the Notes for a complete discussion and presentation of all borrowings and available sources of borrowing, including lines of credit.

Credit Rating

Our current long-term credit ratings are BBB-/Stable Outlook, Baa3/Stable Outlook and BBB(Low)/Stable Outlook with Standard and Poor's, Moody's and DBRS, respectively. Our short-term credit ratings are A-3, Prime-3 and R-2(low), respectively. A securities rating is not a recommendation to buy, sell or hold securities, and it may be revised or withdrawn at any time by the rating agency.

Foreign Exchange

Foreign exchange risk is inherent in our operations primarily due to the significant operating results that are denominated in currencies other than USD. Our approach is to reduce the volatility of cash flows and reported earnings which result from

currency fluctuations rather than business related factors. Therefore, we closely monitor our operations in each country and seek to adopt appropriate strategies that are responsive to foreign currency fluctuations. Our financial risk management policy is intended to offset a portion of the potentially unfavorable impact of exchange rate changes on net income and earnings per share. See Part II—Item 8 Financial Statements and Supplementary Data, Note 16, "Derivative Instruments and Hedging Activities" of the Notes for additional information on our financial risk management strategies.

Our consolidated financial statements are presented in USD, which is our reporting currency. Assets and liabilities recorded in foreign currencies that are the functional currencies for the respective operations are translated at the prevailing exchange rate at the balance sheet date. Translation adjustments resulting from this process are reported as a separate component of other comprehensive income. Revenue and expenses are translated at the average exchange rates during the period. Gains and losses from foreign currency transactions are included in earnings for the period.

The significant exchange rates to the USD used in the preparation of our consolidated financial results for the primary foreign currencies used in our foreign operations (functional currency) are as follows:

	For the years ended		
	December 31, 2018	December 31, 2017	December 31, 2016
Weighted-Average Exchange Rate (1 USD equals)			
Canadian dollar (CAD)	1.30	1.27	1.32
Euro (EUR)	0.84	0.88	0.90
British pound (GBP)	0.77	0.77	0.75
Czech Koruna (CZK)	21.93	23.43	24.61
Croatian Kuna (HRK)	6.32	6.59	6.78
Serbian Dinar (RSD)	99.74	112.49	110.81
Romanian Leu (RON)	4.00	4.01	4.05
Bulgarian Lev (BGN)	1.67	1.72	1.77
Hungarian Forint (HUF)	267.65	276.49	258.13

	As of December 31, 2018	December 31, 2017
Closing Exchange Rate (1 USD equals)		
Canadian dollar (CAD)	1.36	1.26
Euro (EUR)	0.87	0.83
British pound (GBP)	0.78	0.74
Czech Koruna (CZK)	22.43	21.29
Croatian Kuna (HRK)	6.46	6.19
Serbian Dinar (RSD)	103.20	98.52
Romanian Leu (RON)	4.06	3.89
Bulgarian Lev (BGN)	1.71	1.63
	279.94	258.91

Hungarian
Forint (HUF)

The weighted-average exchange rates in the above table have been calculated based on the average of the foreign exchange rates during the relevant period and have been weighted according to the foreign denominated earnings from operations of the USD equivalent. If foreign currencies in the countries in which we operate devalue significantly in future periods, most significantly the CAD and European operating currencies included in the above table, then the impact on USD reported earnings may be material.

Capital Expenditures

In 2018, we incurred $643.2 million, and have paid $651.7 million, for capital improvement projects worldwide, excluding capital spending by equity method joint ventures, representing an approximate 2% increase versus 2017 capital expenditures incurred of $628.4 million. This increase is primarily due to capital expenditures associated with the construction of our new Chilliwack, British Columbia brewery, expected to be finalized in the third quarter of 2019, and Longueuil, Quebec brewery.

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We continue to focus on where and how we employ our planned capital expenditures, specifically strengthening our focus on required returns on invested capital as we determine how to best allocate cash within the business.

Contractual Obligations and Commercial Commitments

Contractual Obligations

A summary of our consolidated contractual obligations as of December 31, 2018, based on foreign exchange rates as of December 31, 2018, is as follows:

	Payments due by period				
	Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
	(In millions)				
Debt obligations	$10,540.0	$1,595.2	$1,866.6	$866.6	$6,211.6
Interest payments on debt obligations	4,284.5	297.1	542.9	458.9	2,985.6
Retirement plan expenditures(1)	447.8	51.4	90.6	89.5	216.3
Operating leases	184.8	49.4	72.8	41.6	21.0
Capital leases	124.1	6.1	42.1	11.7	64.2
Other long-term obligations(2)	2,592.6	694.4	1,081.8	657.0	159.4
Total obligations	$18,173.8	$2,693.6	$3,696.8	$2,125.3	$9,658.1

See Part II - Item 8 Financial Statements and Supplementary Data, Note 11, "Debt", Note 15, "Employee Retirement Plans and Postretirement Benefits," Note 16, "Derivative Instruments and Hedging Activities" and Note 18, "Commitments and Contingencies" of the Notes for additional information.

(1) Represents expected contributions under our defined benefit pension plans in the next twelve months and our benefit payments under postretirement benefit plans for all periods presented. The net underfunded liability as of December 31, 2018, of our defined benefit pension plans (excluding our overfunded plans) and postretirement benefit plans is $104.1 million and $672.1 million, respectively. Defined benefit pension plan contributions in future years will vary based on a number of factors, including actual plan asset returns and interest rates, and as such, have been excluded from the above table. We fund pension plans to meet the requirements set forth in applicable employee benefits laws. We may also voluntarily increase funding levels to meet financial goals. Excluding BRI and BDL, in 2019, we expect to make contributions to our defined benefit pension plans of approximately $6 million and benefit payments under our OPEB plans of approximately $45 million, based on foreign exchange rates as of December 31, 2018.

Our U.K. pension plan is subject to a statutory valuation for funding purposes every three years. The most recent valuation as of June 30, 2016, resulted in a long-term funding commitment plan consisting of MCBC contributions to the plan of a GBP 60 million lump-sum contribution in early 2020 and incremental GBP 25.7 million annual contributions from 2020 through 2026, which are excluded from the above table.

We have taken numerous steps to reduce our exposure to these long-term pension obligations, including the closure of the U.K. pension plan in early 2009 to future earning of service credit, benefit modifications in several of our Canada plans and entering into partial buy-out contracts for some of our plans. However, given the net liability of our underfunded plans and their dependence upon the global financial markets for their financial health, the plans may continue to periodically require potentially significant amounts of cash funding.

(2) Primarily includes non-cancelable purchase commitments as of December 31, 2018, that are enforceable and legally binding. Approximately $1.7 billion of the total other long-term obligations relate to long-term supply contracts with third parties to purchase raw material, packaging material and energy used in production. Our aggregate commitments for advertising and promotions, including sports sponsorship, total approximately $486 million. The remaining amounts relate to derivative payments, sales and marketing, distribution, information technology services, open purchase orders and other commitments. Included in other long-term obligations are $6.1 million of unrecognized tax benefits, excluding positions we would expect to settle using deferred tax assets, and $10.5 million of indemnities provided to FEMSA for which we cannot reasonably estimate the timing of future cash flows, and we have therefore included these amounts in the more than 5 years column.

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Guarantees

We guarantee indebtedness and other obligations to banks and other third parties for some of our equity method investments and consolidated subsidiaries. See Part II—Item 8 Financial Statements and Supplementary Data, Note 18, "Commitments and Contingencies" of the Notes for further discussion.

Other Commercial Commitments

Based on foreign exchange rates as of December 31, 2018, future commercial commitments are as follows:

	Amount of commitment expiration per period				
	Total amounts committed	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
	(In millions)				
Standby letters of credit	$64.5	$48.8	$15.7	$ —	$ —

Contingencies

We are party to various legal proceedings arising in the ordinary course of business, environmental litigation and indemnities associated with our sale of Kaiser to FEMSA. See Part II—Item 8 Financial Statements and Supplementary Data, Note 18, "Commitments and Contingencies" of the Notes for further discussion.

Off-Balance Sheet Arrangements

In accordance with U.S. GAAP, our operating leases are not reflected in our consolidated balance sheets. See Part II—Item 8 Financial Statements, Note 18, "Commitments and Contingencies" of the Notes for further discussion of these off-balance sheet arrangements. As of December 31, 2018, we did not have any other material off-balance sheet arrangements (as defined in Item 303(a)(4)(ii) of Regulation S-K).

Outlook for 2019

In the U.S., Miller Lite continues its strong segment trend while Coors Light's relative performance improved with the brand holding share of segment in the fourth quarter of 2018. In 2019, we have plans to accelerate our above premium portfolio through higher investment. We plan to double our media spend on Blue Moon, the number one national craft brand, air national advertising for Peroni for the first time, build on a very successful year-one for both Arnold Palmer Spiked Half and Half and Sol, increase the presence of Henry's Hard in the fast growing hard seltzer category, focusing on the brand's clear product differentiators of zero sugar and only 88 calories and introduce a number of innovations, including Cape Line, Saint Archer Gold, Crispin extensions and Sol Chelada - all before this summer. Our U.S. business enters 2019 having further strengthened its position as the trusted category captain across chain accounts in both the off- and on-premise channels and more broadly our customer excellence performance is market leading and improving further, as evidenced by the Advantage Survey results. Additionally, allied to this we have ramped up our e-commerce approach within joint business plans and continue to build competitive advantage through our technology enabled field sales teams with tools such as BeerMate, which we are rolling out globally. Our new Coors Light advertising is now on air, and we believe we are moving in the right direction with the brand, allowing us to take even more share in premium lights. We anticipate Coors Light will continue to emphasize its cold, Rocky Mountain positioning as the World's Most Refreshing Beer. We expect it will also invest more than ever on digital and social channels to engage and recruit 21-34 year olds. Miller Lite, the original light beer with less carbs and calories, plans to further enhance its competitive messaging to drive greater consumer affinity and brand switching from its major competitor.

In Canada, our First Choice Commercial excellence approach and capability is building. In terms of commercial performance, there are multiple highlights. Our total share trend has improved three quarters in a row and Coors Light's segment share also improved three quarters in a row, improving to flat in the fourth quarter. Craft volume grew driven by Belgian Moon and Creemore and our non-alcoholic portfolio of Coors Edge and Heineken 0.0 is delivering strong volume and segment share growth. In the value segment, we delivered strong share growth in 2018 driven by

our simplified portfolio strategy and the launch of Miller High Life. As we look at 2019 and beyond, we believe there is growth potential from our innovation pipeline. Coors Slice, for example, is an innovation that strengthens the Coors trademark, and we are encouraged by the tests behind our pending introduction of Aqua-Relle, our hard sparkling water. Our commitment to customer excellence includes the adoption of BeerMate to strengthen field sales management and promising joint business plan pilots with key customers. For example, a pilot with Ontario's LCBO is producing beer category growth well in excess of the total industry performance. Our two largest brands will benefit from new advertising, brand redesign, and innovation in 2019. For Coors Light, we launch our new "The Mountains Are Calling" campaign and introduce new packages, including a new chill pack in

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time for summer and the Molson trademark enters 2019 with a new brand redesign and communication platform which we expect will unlock latent passion for the brand. The Miller brand trademark returned to our portfolio in 2016, and we plan to build on a very successful 2018: building awareness and distribution of Miller High Life since its launch early last year, rolling out Miller Lite nationally after a successful trial in Newfoundland, and adding to the success of Miller Genuine Draft in other non-U.S. markets by expanding the brand's availability and above premium positioning.

In Europe, our brand volumes are growing and premiumizing. Our national champion portfolio inflected to positive volume growth last year, our global brands continued to grow well in excess of the industry, and our above premium and craft portfolio also contributed to growth and mix. Our First Choice for Customer focus is also strengthening our customer relationships. For example, according to the Advantage survey of U.K. retailers, we rate number one in the Multiple On-Trade across all beverage suppliers. Our national champion brands in Europe had a solid year, and we still aim for more. Our largest brand, Carling, has just begun a major new 360 campaign, "Made Local," which started this month, and we anticipate it will continue throughout 2019 and we believe it will strengthen the brand's market leading position. Finally, in Europe, we are exporting and licensing our brands to multiple new markets. We are generating increasing profit from this business and are excited about its future because it is low capital intensity and we believe it offers considerable room for growth.

In International, last year was year-one of our new International strategy, targeting focus markets and implementing the many actions that have improved profitability. These include our shift to local production in Mexico, favorable changes in the pricing of Coors Light, Miller Genuine Draft, and Miller Lite, accelerated growth of Blue Moon and Miller High Life, and improved performance at retail. International's recent wins include Miller Genuine Draft capturing leadership of Paraguay's premium segment, our new Blue Moon Tap House in Panama which we expect to be the first of many, and strong growth across our portfolio in Latin America and India. Looking forward, our International business will remain committed to top- and bottom-line growth driven by continued focus on portfolio mix improvements, building capabilities to expand within our priority markets and potential strategic entry into new markets.

Cost Savings

We intend to deliver cost savings on our three-year cost savings program for 2017 to 2019 of approximately $700 million, including approximately $205 million in 2019. Delivering on these savings commitments will be particularly important given recent increases in input costs such as aluminum and fuel as well as impacts of inflation. Our next generation cost savings program, for 2020 through 2022, is currently expected to deliver approximately $450 million over the three-year program term and is focused around many of the same functions of the business as the current program.

Capital Expenditures

We currently expect to incur total capital expenditures of approximately $700 million in 2019, based on foreign exchange rates as of December 31, 2018, including capital expenditures associated with the construction of our new British Columbia and Montreal breweries and excluding capital spending by equity method joint ventures.

Interest

We anticipate 2019 consolidated net interest expense of approximately $300 million, based on foreign exchange and interest rates as of December 31, 2018.

Tax

We expect our effective tax rate to be in the range of 18 to 22 percent for 2019, which remains subject to additional definitive guidance from the U.S. government regarding the implementation of the 2017 Tax Act. Our preliminary view of our long-term effective tax rate (after 2019) is in the range of 20 to 24 percent.

Dividends and Stock Repurchases

We currently plan to maintain our current quarterly dividend of $0.41 per share until we achieve a leverage ratio of approximately 3.75x debt to EBITDA on a rating agency basis, which we expect to achieve around the middle of 2019. Upon achieving approximately 3.75x leverage, our board's intention is to reinstitute a dividend payout-ratio

target in the range of 20-25% of annual trailing EBITDA for the second half of 2019 and ongoing thereafter. We have suspended our share repurchase program as we continue to pay down debt which we plan to revisit as we deleverage.

Critical Accounting Estimates

Our consolidated financial statements are prepared in accordance with U.S. GAAP. In connection with the preparation of our consolidated financial statements, we are required to make judgments and estimates that significantly affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures. Our estimates are based on historical experience,

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current trends and various other assumptions we believe to be relevant under the circumstances. We review the underlying factors used in our estimates regularly, including reviewing the significant accounting policies impacting the estimates, to ensure compliance with U.S. GAAP. However, due to the uncertainty inherent in our estimates, actual results may be materially different. We have identified the accounting estimates below as critical to understanding and evaluating the financial results reported in our consolidated financial statements.

For a complete description of our significant accounting policies, see Part II—Item 8 Financial Statements and Supplementary Data, Note 1, "Basis of Presentation and Summary of Significant Accounting Policies" of the Notes.

Pension and Other Postretirement Benefits

Our defined benefit pension plans cover certain current and former employees in the U.S., Canada, the U.K. (within our Europe segment) and Japan (within our International segment). Benefit accruals for the majority of employees in our U.S. plan have been frozen and the plans are closed to new entrants. In the U.S., we also participate in, and make contributions to, multi-employer pension plans. Our OPEB plans provide medical benefits for retirees and their eligible dependents as well as life insurance and, in some cases, dental and vision coverage, for certain retirees in Canada, the U.S., Corporate, and Europe. The U.S., Canada and U.K. defined benefit pension plans are primarily funded, but the Japan plan and all OPEB plans are unfunded. We also offer defined contribution plans in each of our segments.

Accounting for pension and OPEB plans requires that we make assumptions that involve considerable judgment which are significant inputs in the actuarial models that measure our net pension and OPEB obligations and ultimately impact our earnings. These include the discount rate, long-term expected rate of return on assets, compensation trends, inflation considerations, health care cost trends and other assumptions, as well as determining the fair value of assets in our funded plans. Specifically, the discount rates, as well as the expected rates of return on assets and plan asset fair value determination, are important assumptions used in determining the plans' funded status and annual net periodic pension and OPEB benefit costs. We evaluate these critical assumptions at least annually on a plan and country-specific basis. We also, with the help of actuaries, periodically evaluate other assumptions involving demographic factors, such as retirement age, mortality and turnover, and update them to reflect our experience and expectations for the future. While we believe that our assumptions are appropriate, significant differences in our actual experience or significant changes in our assumptions may materially affect our net pension and postretirement benefit obligations and related expense.

Discount Rates

The assumed discount rates are used to present-value future benefit obligations based on each plan's respective estimated duration. Our pension and postretirement discount rates are based on our annual evaluation of high quality corporate bonds in the various markets based on appropriate indices and actuarial guidance. We believe that our discount rate assumptions are appropriate; however, significant changes in our assumptions may materially affect our pension and OPEB obligations and related expense.

As of December 31, 2018, on a weighted-average basis, the discount rates used were 3.44% for our defined benefit pension plans and 3.92% for our OPEB plans. The change from the weighted-average discount rates of 3.01% for our defined benefit pension plans and 3.34% for our postretirement plans as of December 31, 2017, is primarily the result of overall market changes during 2018.

A 50 basis point change in our discount rate assumptions would have had the following effects on the projected benefit obligation balances as of December 31, 2018, for our pension and OPEB plans:

	Impact to projected benefit obligation as of December 31, 2018 - 50 basis points	
	Decrease	Increase
	(In millions)	
Projected benefit obligation - unfavorable (favorable)		

Pension obligation	$350.0	$(313.1)
OPEB obligation	35.4	(33.2)
Total impact to the projected benefit obligation	$385.4	$(346.3)

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Our U.K. pension plan includes benefits linked to inflation. The above sensitivity analysis does not consider the implications to inflation resulting from the above contemplated discount rate changes. This sensitivity holds all other assumptions constant.

Long-Term Expected Rates of Return on Assets

The assumed long-term expected return on assets is used to estimate the actual return that will occur on each individual funded plan's respective plan assets in the upcoming year. We determine each plan's EROA with substantial input from independent investment specialists, including our actuaries and other consultants. In developing each plan's EROA, we consider current and expected asset allocations, historical market rates as well as historical and expected returns on each plan's individual asset classes. In developing future return expectations for each of our plan's assets, we evaluate general market trends as well as key elements of asset class returns such as expected earnings growth, yields and spreads. The calculation includes inputs for interest, inflation, credit, and risk premium (active investment management) rates and fees paid to service providers. Based on the above factors and expected asset allocations, we have assumed, on a weighted-average basis, an EROA of 4.38% for our defined benefit pension plan assets for cost recognition in 2019. This is an increase from the weighted-average rate of 4.10% we had assumed in 2018. We believe that our EROA assumptions are appropriate; however, significant changes in our assumptions or actual returns that differ significantly from estimated returns may materially affect our net periodic pension costs.

To compute the expected return on plan assets, we apply the EROA to the market-related value of the pension plan assets adjusted for projected benefit payments to be made from the plan assets and projected contributions to the plan assets. We use the fair value approach to calculate the market-related value of pension plan assets used to determine net periodic pension cost, which includes measuring the market-related value of plan assets at fair value for purposes of determining the expected return on plan assets and amount of gain or loss subject to amortization.

A 50 basis point change in our discount rate and expected return on assets assumptions made at the beginning of 2018 would have had the following effects on 2018 net periodic pension and postretirement benefit costs:

	Impact to 2018 pension and postretirement benefit costs - 50 basis points (unfavorable) favorable	
	Decrease	Increase
	(In millions)	
Description of pension and postretirement plan sensitivity item		
Expected return on pension plan assets	$(28.4)	$ 28.4
Discount rate on pension plans	$2.7	$ (7.5)
Discount rate on postretirement plans	$1.8	$ (1.6)

Fair Value of Plan Assets

We recognize our defined benefit pension plans as assets or liabilities in the consolidated balance sheets based on their underfunded or overfunded status as of our year end and recognize changes in the funded status due to changes in actuarial assumptions in the year in which the changes occur within other comprehensive income. Our funded status of our defined benefit pension plans is measured as the difference between each plan's projected benefit obligation and its assets' fair values. The fair value of plan assets is determined by us using available market information and appropriate valuation methodologies. However, considerable judgment is required in selecting an appropriate methodology and interpreting market data to develop the estimates of fair value, especially in the absence of quoted market values in an active market. Changes in these assumptions or the use of different market inputs may have a material impact on the estimated fair values or the ultimate amount at which the plan assets are available to satisfy our plan obligations.

Equity assets are diversified between domestic and other international investments. Relative allocations reflect the demographics of the respective plan participants. See Part II—Item 8 Financial Statements and Supplementary Data,

Note 15, "Employee Retirement Plans and Postretirement Benefits" of the Notes for a comparison of target asset allocation percentages to actual asset allocations as of December 31, 2018.

Other Considerations

Our net periodic pension and postretirement benefit costs are also influenced by the potential amortization (or non-amortization) from accumulated other comprehensive income (loss) of deferred gains and losses, which occur when actual experience differs from estimates. We employ the corridor approach for determining each plan's amortization. This approach defines the “corridor” as the greater of 10% of the PBO or 10% of the market-related value of plan assets (as discussed above)

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and requires amortization of the excess net gain or loss that exceeds the corridor over the average remaining service periods of active plan participants. For our closed plans or plans that are primarily inactive, the average remaining life expectancy of all plan participants (including retirees) is used. If our actuarial losses significantly exceed this corridor in the future, significant incremental pension and postretirement costs could result. As of year-end 2018, the deferred losses of several of our Canadian plans, as well as those in our U.K. plan, and the deferred gains of our U.S. plan, exceeded the 10% corridor.

The assumed health care cost trend rates represent the rates at which health care costs are assumed to increase and are based on actuarial input and consideration of historical and expected experience. We use these trends as a significant assumption in determining our postretirement benefit obligation and related costs. Changes in our projections of future health care costs due to general economic conditions and those specific to health care will impact this trend rate. An increase in the trend rate would increase our obligation and expense of our postretirement health care plan. We believe that our health care cost trend rate assumptions are appropriate; however, significant changes in our assumptions may materially affect our postretirement benefit obligations and related costs. As of December 31, 2018, the health care trend rates used were ranging ratably from 6.5% in 2019 to 4.5% in 2037, consistent with our health care trend rates ranging ratably from 6.8% in 2018 to 4.5% in 2037 used as of December 31, 2017. See Part II—Item 8 Financial Statements and Supplementary Data, Note 15, "Employee Retirement Plans and Postretirement Benefits" of the Notes for further information.

Contingencies, Environmental and Litigation Reserves

Contingencies, environmental and litigation reserves are recorded, when probable, using our best estimate of loss. This estimate, involving significant judgment, is based on an evaluation of the range of loss related to such matters and where the amount and range can be reasonably estimated. These matters are generally resolved over a number of years and only when one or more future events occur or fail to occur. Following our initial determination, we regularly reassess and revise the potential liability related to any pending matters as new information becomes available. Unless capitalization is allowed or required by U.S. GAAP, environmental and legal costs are expensed when incurred. We disclose pending loss contingencies when the loss is deemed reasonably possible, which requires significant judgment. As a result of the inherent uncertainty of these matters, the ultimate conclusion and actual cost of settlement may materially differ from our estimates. We recognize contingent gains upon the determination that realization is assured beyond a reasonable doubt, regardless of the perceived probability of a favorable outcome prior to achieving that assurance. In the instance of gain contingencies resulting from favorable litigation, due to the numerous uncertainties inherent in a legal proceeding, gain contingencies resulting from legal settlements are not recognized in income until cash or other forms of payment are received. If significant and probable, we disclose as appropriate.

See Part I—Item 3 Legal Proceedings and Part II—Item 8 Financial Statements and Supplementary Data, Note 18, "Commitments and Contingencies" of the Notes for a discussion of our contingencies, environmental and litigation reserves as of December 31, 2018.

Goodwill and Intangible Asset Valuation

Goodwill is allocated to the reporting unit in which the business that created the goodwill resides. A reporting unit is an operating segment, or a business unit one level below that operating segment, for which discrete financial information is prepared and regularly reviewed by segment management. As of the date of our annual impairment test, performed as of October 1, the operations in each of the specific regions within our U.S., Canada, Europe and International segments are components based on the availability of discrete financial information and the regular review by segment management. Therefore, the components within each respective segment must be evaluated for aggregation to determine if the components have similar economic characteristics. As a result, in certain cases, we have aggregated business units, within an operating segment, into one reporting unit if the specific aggregation criteria under U.S. GAAP is met. Specifically, we have concluded that the components within the U.S., Canada and Europe segment each meet the criteria as having similar economic characteristics and therefore have aggregated these components into the U.S., Canada and Europe reporting units, respectively. Therefore, the U.S., Canada and Europe reporting units are consistent with our operating segments. However, for our India business, the reporting unit is one level below the International operating segment. Any change to the conclusion of our reporting units or the aggregation of components within our reporting units could result in a different outcome to our annual impairment

test. As of the date of our annual impairment test, our significant indefinite-lived intangible assets included the Coors and Miller brand families in the U.S., the Coors Light distribution rights in Canada, and the Carling and Staropramen brands in Europe.

We evaluate the carrying value of our goodwill and indefinite-lived intangible assets for impairment at least annually or when an interim triggering event occurs that would indicate that impairment may have taken place. Our annual impairment test was performed as of October 1, the first day of the last fiscal quarter. We evaluate our other definite-lived intangible assets for impairment when evidence exists that certain events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. Significant judgments and assumptions are required in such impairment evaluations.

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Our annual evaluation involves comparing each reporting unit's fair value to its respective carrying value, including goodwill. If the fair value exceeds carrying value, then we conclude that no goodwill impairment has occurred. If a reporting unit's carrying value exceeds its fair value, we would recognize an impairment loss in an amount equal to the excess up to the total amount of goodwill allocated to that reporting unit.

We use a combination of discounted cash flow analyses and market approaches to determine the fair value of each of our reporting units, and an excess earnings approach to determine the fair values of our Coors and Miller brand families in the U.S. and Staropramen brand in Europe. We utilized a qualitative assessment of the Coors Light distribution rights in Canada and the Carling brand in Europe, in order to determine whether the fair value of these indefinite-lived intangible assets is in excess of its carrying value. The decision to utilize a qualitative assessment in the current year for these brands was the result of taking several factors into consideration, including the excess of the respective brands' fair value over its carrying value in the prior year quantitative impairment analysis. Our discounted cash flow projections include assumptions for growth rates for sales, costs and profits, which are based on various long-range financial and operational plans of each reporting unit or each indefinite-lived intangible asset. Additionally, discount rates used in our goodwill analysis are based on weighted-average cost of capital, driven by the prevailing interest rates in geographies where these businesses operate, as well as the credit ratings, financing abilities and opportunities of each reporting unit, among other factors. Discount rates for the indefinite-lived intangible analysis by brand largely reflect the rates supporting the overall reporting unit valuation but may differ slightly to adjust for country or market specific risk associated with a particular brand. Our market-based valuations utilize earnings multiples of comparable public companies, which are reflective of the market in which each respective reporting unit operates, and recent comparable market transactions.

Changes in the factors used in our fair value estimates, including declines in industry or company-specific beer volume sales, margin erosion, termination of brewing and/or distribution agreements with other brewers, and discount rates used, could have a significant impact on the fair values of the reporting units and indefinite-lived intangible assets.

Reporting Units and Goodwill

The fair value of the U.S., Europe and Canada reporting units were estimated at approximately 19%, 11% and 6% in excess of carrying value, respectively, as of the October 1, 2018, testing date. In the current year testing, it was determined that the fair value of each of the reporting units declined from the prior year, resulting in our Europe and Canada reporting units now being considered at risk of impairment. The decline in fair value across all reporting units in the current year is largely due to the recent interest rate environment which has resulted in an increase to the risk-free rate included in our current year discount rate calculations. This fact, coupled with the recent changes in market conditions resulting in lower earnings multiples of comparable public companies within our market-based valuations, adversely impacted the results of our impairment testing. In the U.S. reporting unit, market driven declines from the prior year were partially offset by a decrease in the tax rate driven by the enactment of the 2017 Tax Act within the U.S., as well as inclusion of incremental cost saving initiatives included in the current year forecast. In the Europe reporting unit, declines from the prior year were partially offset by continued volume and revenue growth throughout 2018 benefiting management's forecasts and positively impacting the forecasted future cash flows of the reporting unit. The market-driven decline in the excess of the fair value over the carrying value of the Canada reporting unit was coupled with continued challenging industry dynamics during the year, including continued performance declines within the Molson and Coors Light core brands, resulting in a reduction of forecasted results in comparison to the prior year. These declines were slightly offset by incremental cost saving initiatives included in the current year forecast. The fair value of the India reporting unit declined slightly from the prior year, as a result of shifts in business strategy; however, fair value of the India reporting unit continues to remain in excess of its carrying value as of our annual testing date.

Intangible Assets

The Coors and Miller indefinite-lived brands in the U.S. continue to be sufficiently in excess of their respective carrying values as of the annual testing date.

The fair value of the Coors Light brand distribution rights in Canada continues to be sufficiently in excess of its carrying value as of the testing date. During 2016, we recorded an aggregate impairment charge to the Molson core

indefinite-lived brand asset of $495.2 million. The impairment charge was the result of a continued decline in performance of the Molson core brand asset throughout 2016, which drove a downward shift in management's forecast, along with a challenging market dynamic and competitive conditions that were not expected to subside in the near-term. At that time, we also reassessed the brand's indefinite-life classification and determined that the Molson core brands had characteristics that indicated a definite-life assignment was more appropriate, including prolonged weakness in consumer demand driven by increased economic and competitive pressures. Given these factors resulted in sustained declines in brand performance, and it was unclear when these ongoing pressures on the brands would subside, these brands were reclassified as definite-lived intangible assets as of October 1, 2016, and are being amortized over their remaining useful lives ranging from 30 to 50 years.

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Our Europe indefinite-lived intangibles' fair values, including the Staropramen and Carling brands, continue to be sufficiently in excess of their respective carrying values as of the annual testing date.
We utilized Level 3 fair value measurements in our impairment analysis of certain indefinite-lived intangible brand assets, including the Coors and Miller brands in the U.S., and the Staropramen brand in Europe, which utilizes an excess earnings approach to determine the fair values of these assets as of the testing date. The future cash flows used in the analysis are based on internal cash flow projections based on our long range plans and include significant assumptions by management as noted below. Separately, we performed qualitative assessments of certain indefinite-lived intangible assets, including the Coors Light brand distribution rights in Canada, Carling brand in Europe and water rights in the U.S., to determine whether it was more likely than not that the fair values of these assets were greater than their respective carrying amounts. Based on the qualitative assessments, we determined that a full quantitative analysis was not necessary.
Key Assumptions
As of the date of our annual impairment test, performed as of October 1, the Europe and Canada reporting unit goodwill balances are at risk of future impairment in the event of significant unfavorable changes in the forecasted cash flows (including prolonged weakening of economic conditions, or significant unfavorable changes in tax, environmental or other regulations, including interpretations thereof), terminal growth rates, market multiples and/or weighted-average cost of capital utilized in the discounted cash flow analyses. For testing purposes of our reporting units, management's best estimates of the expected future results are the primary driver in determining the fair value. Current projections used for our Canada reporting unit testing reflect continued challenges within the beer industry in Canada adversely impacting the projected cash flows of the business, offset by growth resulting from the benefit of anticipated cost savings and specific brand-building and innovation activities. Current projections used for our Europe reporting unit incorporate ongoing anticipated cost savings, coupled with continued volume and revenue growth. Positive assumptions included in management's forecast for both the Europe and Canada reporting units are being offset by adverse market conditions negatively impacting discount rate and market multiple assumptions applied to our fair valuation models in the current year.
Fair value determinations require considerable judgment and are sensitive to changes in underlying assumptions and factors. As a result, there can be no assurance that the estimates and assumptions made for purposes of the annual goodwill and indefinite-lived intangible impairment tests will prove to be an accurate prediction of the future. Examples of events or circumstances that could reasonably be expected to negatively affect the underlying key assumptions and ultimately impact the estimated fair value of our reporting units and indefinite-lived intangibles may include such items as: (i) a decrease in expected future cash flows, specifically, a decrease in sales volume and increase in costs that could significantly impact our immediate and long-range results, a decrease in sales volume driven by a prolonged weakness in consumer demand or other competitive pressures adversely affecting our long-term volume trends, a continuation of the trend away from core brands in certain of our markets, especially in markets where our core brands represent a significant portion of the market, unfavorable working capital changes and an inability to successfully achieve our cost savings targets, (ii) adverse changes in macroeconomic conditions or an economic recovery that significantly differs from our assumptions in timing and/or degree (such as a recession), (iii) volatility in the equity and debt markets or other country specific factors which could result in a higher weighted-average cost of capital, (iv) sensitivity to market multiples; and (v) regulation limiting or banning the manufacturing, distribution or sale of alcoholic beverages.
Based on known facts and circumstances, we evaluate and consider recent events and uncertain items, as well as related potential implications, as part of our annual assessment and incorporate into the analyses as appropriate. These facts and circumstances are subject to change and may impact future analyses.
In 2018, the discount rates used in developing our fair value estimates for each of our reporting units were 9.00%, 9.25% and 9.50% for our U.S, Canada and Europe reporting units, respectively. The rates used for our reporting unit testing increased for each of the reporting units in the current year. In 2018, discount rates used for testing of indefinite-lived intangibles ranged from 9.25% to 10.50% considering the market or country specific risk premium for each geography in which our brands are based. The discount rates for the Coors and Miller brands in the U.S., and the Staropramen brand in Europe, increased compared to the discount rates used in the prior year analysis, primarily due

to an increase in the risk-free rates included in our current year discount rate calculations.

While historical performance and current expectations have resulted in fair values of our reporting units in excess of carrying values, if our assumptions are not realized, it is possible that an impairment charge may need to be recorded in the future. For example, a 50 basis point increase in our discount rate assumptions, which is within a reasonable range of historical discount rate fluctuations between test dates, would have had the following effects on the fair value cushion in excess of carrying value for the U.S., Europe and Canada reporting units as of the October 1, 2018, test date:

	Impact to the fair value cushion as of October 1, 2018 - 50 basis points increase	
	Cushion (as reported)	Cushion (post-sensitivity)
	% of fair value in excess of carrying value	
Reporting units:		
United States	19%	16%
Europe	11%	8%
Canada	6%	3%

Post sensitivity, the fair values of the U.S., Europe and Canada reporting units remain in excess of the their carrying values. The discount rate sensitivity holds all other assumptions and inputs constant.

Regarding definite-lived intangibles, we continuously monitor the performance of the underlying asset for potential triggering events suggesting an impairment review should be performed. Excluding the definite-lived intangible asset impairment charge associated with the triggering event that occurred in Bihar, India, which resulted in an impairment of tangible assets of $11.0 million and impairment of goodwill and definite-lived intangibles of $19.8 million in 2016, no such triggering events resulting in an impairment charge were identified in 2018, 2017 or 2016. See Part II—Item 8 Financial Statements and Supplementary Data, Note 10, "Goodwill and Intangible Assets" of the Notes for further discussion.

As of December 31, 2018, the carrying values of goodwill and intangible assets were approximately $8.3 billion and $13.8 billion, respectively. If actual performance results differ significantly from our projections or we experience significant fluctuations in our other assumptions, a material impairment charge may occur in the future. See Part II—Item 8 Financial Statements and Supplementary Data, Note 10, "Goodwill and Intangible Assets" of the Notes for further discussion and presentation of these amounts.

Income Taxes

Income taxes are accounted for in accordance with U.S. GAAP. Judgment is required in determining our consolidated provision for income taxes. In the ordinary course of our global business, there are many transactions for which the ultimate tax outcome is uncertain. Additionally, our income tax provision is based on calculations and assumptions that are subject to examination by many different tax authorities. See Part II—Item 8 Financial Statements and Supplementary Data, Note 6, "Income Tax" of the Notes for further discussion on the implications of the 2017 Tax Act in the U.S. on our financial statements.

We are periodically subject to tax return audits by both foreign and domestic tax authorities, which can involve questions regarding our tax positions. Settlement of any challenge resulting from these audits can result in no change, a complete disallowance, or some partial adjustment reached through negotiations or litigation. We recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained based on its technical merits. We measure and record the tax benefits from such a position based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Our estimated liabilities related to these matters are adjusted in the period in which the uncertain tax position is effectively settled, the statute of limitations for examination expires or when additional information becomes available. Our liability for unrecognized tax benefits requires the use of assumptions and significant judgment to estimate the exposures associated with our various filing positions. Although we believe that the judgments and estimates made are reasonable, actual results could differ and resulting adjustments could materially affect our effective income tax rate and income tax provision.

We provide for taxes that may be payable if undistributed earnings of overseas subsidiaries were to be remitted to the U.S., except for those earnings that we consider to be permanently reinvested. However, we continue to monitor the

impacts of the 2017 Tax Act, as defined in Part II—Item 8 Financial Statements and Supplementary Data, Note 6, "Income Tax," including yet to be issued regulations and interpretations, on the tax consequences of future repatriations. Future sales of foreign subsidiaries are not exempt from capital gains tax in the U.S. under the 2017 Tax Act. We have no plans to dispose of any of our foreign subsidiaries and are not recording deferred taxes on outside basis differences in foreign subsidiaries for the sale of a foreign subsidiary.

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We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. We evaluate our ability to realize the tax benefits associated with deferred tax assets by assessing the adequacy of future expected taxable income, including the reversal of existing temporary differences, historical and projected operating results, and the availability of prudent and feasible tax planning strategies. The realization of tax benefits is evaluated by jurisdiction and the realizability of these assets can vary based on the character of the tax attribute and the carryforward periods specific to each jurisdiction. In the event we were to determine that we would be able to realize our deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax asset would decrease income tax expense in the period a determination was made. Likewise, should we determine that we would not be able to realize all or part of our net deferred tax asset in the future, an adjustment to the deferred tax asset would be recorded to income tax expense in the period such determination was made.

New Accounting Pronouncements

New Accounting Pronouncements Not Yet Adopted

Leases

In February 2016, the FASB issued authoritative guidance intended to increase transparency and comparability among organizations by requiring the recognition of lease assets and liabilities on the balance sheet and disclosure of key information about leasing arrangements. We will adopt this guidance and all related amendments applying the modified retrospective transition approach to all lease arrangements as of the effective date of adoption, January 1, 2019. Additionally, for existing leases as of the effective date, we will elect the package of practical expedients available at transition to not reassess the historical lease determination, lease classification and initial direct costs.

For operating leases, the adoption of this new guidance is currently expected to result in the recognition of right-of-use ("ROU") assets of between approximately $150 million and $160 million, and aggregate current and non-current lease liabilities of between approximately $160 million and $170 million, as of the effective date of adoption, including immaterial reclassifications of prepaid and deferred rent balances into ROU assets. Additionally, as a result of the cumulative impact of adopting the new guidance, we expect to record a net increase to opening retained earnings of between $30 million and $35 million as of January 1, 2019, with the offsetting impact within other assets, related to our share of the accelerated recognition of deferred gains on non-qualifying and other sale-leaseback transactions by an equity method investment within our Canada segment. We are in the process of finalizing this transition adjustment calculation, which will be completed during the first quarter of 2019. Additionally, while our accounting for finance leases will remain unchanged at adoption, we will prospectively change the presentation of finance lease liabilities within the consolidated balance sheets to be presented within current portion of long-term debt and short-term borrowings and long-term debt, as appropriate. The adoption of this guidance is not expected to impact our cash flows from operating, investing, or financing activities.

Other than the items noted above, there have been no new accounting pronouncements not yet effective that we believe have a significant impact, or potential significant impact, to our consolidated financial statements.

See Part II-Item 8 Financial Statements and Supplementary Data, Note 2, "New Accounting Pronouncements" of the Notes for a description of new accounting pronouncements.

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Unaudited Pro Forma Financial Information

The following unaudited pro forma financial information gives effect to the Acquisition and the related financing as if they were completed on January 1, 2016, the first day of our 2016 fiscal year, and the pro forma adjustments are based on items that are factually supportable, are directly attributable to the Acquisition, and are expected to have a continuing impact on our results of operations. The unaudited pro forma financial information has been calculated after applying MCBC's accounting policies and adjusting the results of MillerCoors to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment, and intangible assets had been applied from January 1, 2016, together with the consequential tax effects. Pro forma adjustments have been made to remove non-recurring transaction-related costs included in historical results as well as to reflect the incremental interest expense to be prospectively incurred on the debt and term loans issued to finance the Acquisition, in addition to other pro forma adjustments. See below table for significant non-recurring costs.

Additionally, the following unaudited pro forma financial information does not reflect the impact of the acquisition of the Miller global brand portfolio and other assets primarily related to the Miller International Business as we are not able to estimate the historical results of operations from this business and have concluded, based on the limited information available to MCBC, that it is insignificant to the overall Acquisition. The purchase price allocation reflects the estimated value allocated to the Miller global brand portfolio reported within identifiable intangible assets subject to amortization.

The unaudited pro forma financial information below does not reflect the realization of any expected ongoing synergies related to integration. Further, the unaudited pro forma financial information should not be considered indicative of the results that would have occurred if the Acquisition and related financing had been completed on January 1, 2016, nor are they indicative of future results.

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MOLSON COORS BREWING COMPANY AND SUBSIDIARIES
UNAUDITED PRO FORMA CONDENSED COMBINED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2016
(IN MILLIONS, EXCEPT PER SHARE DATA)

	MCBC Historical[1] As Restated	MillerCoors Historical[2]	Pro Forma Adjustments[1] As Restated	Note	Pro Forma Combined
Financial volume in hectoliters	46.912	55.750	(0.728)	(1)	101.934
Sales	$ 6,597.4	$ 6,987.2	$ (39.5)	(1)	$ 13,545.1
Excise taxes	(1,712.4)	(861.8)	12.3	(1)	(2,561.9)
Net sales	4,885.0	6,125.4	(27.2)		10,983.2
Cost of goods sold	(2,999.0)	(3,426.6)	77.3	(2)	(6,348.3)
Gross profit	1,886.0	2,698.8	50.1		4,634.9
Marketing, general and administrative expenses	(1,597.2)	(1,403.9)	40.2	(3)	(2,960.9)
Special items, net	2,532.9	(111.3)	(2,965.0)	(4)	(543.4)
Equity income in MillerCoors	500.9	—	(500.9)		—
Operating income (loss)	3,322.6	1,183.6	(3,375.6)		1,130.6
Interest income (expense), net	(244.4)	(1.4)	(123.0)	(5)	(368.8)
Other pension and postretirement benefits (costs), net	8.4	(14.4)	—		(6.0)
Other income (expense), net	(32.5)	3.7	58.9	(6)	30.1
Income (loss) before income taxes	3,054.1	1,171.5	(3,439.7)		785.9
Income tax benefit (expense)[2]	(1,454.3)	(3.3)	980.4	(7)	(477.2)
Net income (loss) including noncontrolling interests[2]	1,599.8	1,168.2	(2,459.3)		308.7
Net income (loss) attributable to noncontrolling interests	(5.9)	(11.0)	—		(16.9)
Net income (loss) attributable to MCBC[2]	$ 1,593.9	$ 1,157.2	$ (2,459.3)		$ 291.8
Basic net income (loss) attributable to Molson Coors Brewing Company per share[2]	$ 7.52				$ 1.36
Diluted net income (loss) attributable to Molson Coors Brewing Company per share[2]	$ 7.47				$ 1.35
Weighted-average shares—basic	212.0		2.7	(8)	214.7
Weighted-average shares—diluted	213.4		2.7	(8)	216.1

(1) The MCBC historical results and pro forma adjustments columns reflect the impact of the correction of errors in the accounting for income taxes related to the deferred tax liabilities for our partnership in MillerCoors as discussed in Part II—Item 8 Financial Statements and Supplementary Data, Note 1, "Basis of Presentation and Summary of Significant Accounting Policies." The correction of these errors had no impact on our pro forma combined results.

(2) Represents MillerCoors' activity for the pre-Acquisition periods of January 1, 2016, through October 10, 2016.

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(1) Sales

The following pro forma adjustments eliminate beer sales between MCBC and MillerCoors for the year ended December 31, 2016, that were previously recorded as affiliate sales and became intercompany transactions after the Acquisition was completed and thus eliminate in consolidation.

	For the year ended December 31, 2016 (In millions)
Hectoliters of beer and other beverages sold	(0.728)
MCBC's beer sales to MillerCoors	$ 7.5
MillerCoors' beer sales to MCBC	32.0
Total pro forma adjustment to sales	$ 39.5
Excise tax adjustment[(1)]	$ 12.3

(1) Represents a benefit associated with an anticipated refund to Coors Brewing Company ("CBC"), a wholly-owned subsidiary of MCBC, of U.S. federal excise tax paid on products imported by CBC based on qualifying volumes exported by CBC from the U.S.

(2) Cost of Goods Sold

The following pro forma adjustments (increase)/decrease cost of goods sold for the year ended December 31, 2016:

	For the year ended December 31, 2016 (In millions)
MillerCoors' beer purchases from MCBC [(1)]	$ 7.5
MCBC's beer purchases from MillerCoors [(1)]	32.0
Depreciation [(2)]	(46.1)
MillerCoors' royalties paid to SABMiller [(3)]	13.2
Policy reclassification [(4)]	(18.6)
Historical charges recorded for pallets [(5)]	7.3
Historical charges recorded for inventory step-up [(6)]	82.0
Total pro forma adjustment to cost of goods sold	$ 77.3

(1) Reflects beer purchases between MCBC and MillerCoors that were previously recorded as affiliate purchases and became intercompany transactions after the Acquisition was completed and thus eliminate in consolidation.

(2) Reflects the pro forma adjustment to depreciation expense associated with the estimated fair value of MillerCoors' property, plant and equipment over the estimated remaining useful life.

(3) Reflects royalties paid by MillerCoors to SABMiller plc for sales of certain of its licensed brands in the U.S. Upon completion of the Acquisition, royalties are no longer paid related to these licensed brands. See the purchase agreement for additional details.

(4) Reflects the reclassification of certain MillerCoors overhead costs from marketing, general and administrative expenses to cost of goods sold to align to MCBC policy related to profit and loss classification of such costs.

(5) Reflects the amortization of MillerCoors' pallet costs which were historically recorded as a non-current asset and amortized into cost of goods sold, separate from depreciation expense. As part of our policy alignment, the pallets are now classified as depreciable fixed assets within Properties, net and the related depreciation is included as part

of depreciation expense that is recognized in cost of goods sold. This adjustment reflects the removal of historical pallet amortization expense recorded within cost of goods sold and the depreciation pro forma adjustment above reflects the updated amount to be recorded as cost of goods sold depreciation going forward.

(6) Reflects the step-up in fair value of inventory related to the Acquisition which was sold in the fourth quarter of 2016 and

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therefore increased our historical cost of goods sold. Given this cost does not have a continuing impact, we have accordingly adjusted the pro forma financial information.

(3) Marketing, General and Administrative

Based on the estimated fair values of identifiable amortizable intangible assets and depreciable property, plant and equipment, and the estimated useful lives assigned, the following pro forma adjustments to amortization and depreciation expenses have been made to marketing, general and administrative expenses for the year ended December 31, 2016. Additionally, a pro forma adjustment has been made to eliminate MillerCoors' service agreement income related to charges to SABMiller for the year ended December 31, 2016, that were previously recorded as a reduction to MillerCoors' marketing, general and administrative expenses as this activity with SABMiller ceased upon completion of the Acquisition. We have also removed transaction related costs included in the historical MCBC statements of operations as they will not have a continuing impact. The pro forma adjustments to increase/(decrease) marketing, general and administrative expense are as follows:

	For the year ended December 31, 2016 (In millions)
Marketing, general and administrative pro forma adjustment for depreciation and amortization	$ 56.5
MillerCoors' service agreement charges to SABMiller	1.6
Policy reclassification - See cost of goods sold note 4 above	(18.6)
Historical transaction costs	(79.7)
Total pro forma adjustment to marketing, general and administrative expenses	$ (40.2)

(4) Special Items, Net

	For the year ended December 31, 2016 (In millions)
Pro forma adjustment to special items, net[1]	$ (2,965.0)

(1) Reflects the net gain of approximately $3.0 billion recorded within special items, net, during the fourth quarter of 2016, representing the excess of the approximate $6.1 billion estimated fair value of our pre-existing 42% equity interest in MillerCoors over its estimated transaction date carrying value of approximately $2.7 billion, as well as the reclassification of the loss related to MCBC's historical AOCI on our 42% interest in MillerCoors of $458.3 million. Refer to Part II—Item 8 Financial Statements and Supplementary Data, Note 4, "Acquisition and Investments" of the Notes for further details regarding the inputs used to determine revaluation.

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(5) Interest Income (Expense)

Represents the pro forma adjustments for the incremental interest expense, including the amortization of debt issuance costs, as if the Acquisition and related financing had occurred on January 1, 2016. The Acquisition was funded through cash on hand, including proceeds received from our February 3, 2016, equity issuance, the issuance of debt on July 7, 2016, as well as borrowings on our term loan, which occurred concurrent with the close of the Acquisition. We incurred costs related to the issuance of debt, committed financing we had in place prior to the completion of the Acquisition and earned interest income on the cash proceeds from the equity issuance and debt issuance prior to the completion of the Acquisition. We have therefore removed these amounts for pro forma purposes as they would not have been incurred or earned had the Acquisition and related financing been completed on January 1, 2016. Additionally, we incurred losses on the swaption derivative instruments that we entered into to economically hedge a portion of our long-term debt issuance with which we partially funded the Acquisition. These swaptions were not designated in hedge accounting relationships as the hedges were entered into in association with the Acquisition and, accordingly, all mark-to-market fair value adjustments were reflected within interest expense. As the losses on the swaptions are non-recurring and do not have a continuing impact on the business, we have removed them from our pro forma financial information. The debt issued on July 7, 2016, consists of fixed rate notes. The term loans, which had monthly interest at the rate of 1.50% plus one-month LIBOR, were fully repaid as of July 19, 2017.

	For the year ended December 31, 2016 (In millions)
Term loan interest expense adjustments	$ 52.7
Interest expense adjustments from debt issued on July 7, 2016	204.1
Historical net interest on other items discussed above	(133.8)
Total pro forma adjustment to interest expense	$ 123.0

(6) Other Income (Expense)

Represents the elimination of historical financing costs that do not have a continuing impact related to the bridge loan and other derivative and foreign exchange net gains recorded on cash received from the debt issued on July 7, 2016, which have been included in the historical financial statements within other income (expense).

	For the year ended December 31, 2016 (In millions)
Historical financing costs on the bridge loan	$ 63.4
Historical derivative and foreign exchange net gains related to debt issued on July 7, 2016	(4.5)
Total pro forma adjustment to other income (expense)	$ 58.9

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(7) Income Tax Benefit (Expense)

MillerCoors elected to be taxed as a partnership for U.S. federal and state income tax purposes. As a result, the related tax attributes of MillerCoors are passed through to its shareholders and income taxes are payable by its shareholders. Therefore, income tax expense within MCBC's historical results includes the tax effect of our 42% equity income from MillerCoors. The pro forma adjustment to income tax expense is inclusive of both the tax effect of the assumption of the incremental 58% of MillerCoors' pretax income, as well as the tax effect of the other pro forma adjustments impacting pretax income discussed above, based on the estimated blended U.S. federal and state statutory income tax rate and other pro forma tax considerations.

	For the year ended December 31, 2016 (In millions)
Total pro forma adjustment to income tax benefit (expense)[1]	$ 980.4

(1) Includes the impact of the restatement to correct errors related to income tax accounting. See details at Part II—Item 8 Financial Statements and Supplementary Data, Note 1, "Basis of Presentation and Accounting Policies" as previously discussed.

(8) Weighted-Average Shares Outstanding

Weighted-average shares outstanding have been calculated to include the impact of the shares that were issued in the first quarter of 2016 in conjunction with the February 3, 2016, equity offering, which was completed to fund a portion of the Acquisition. As such, the below adjustment assumes such shares were outstanding on January 1, 2016.

	For the year ended December 31, 2016 (In millions)
Impact of shares issued in February 3, 2016, equity offering	
Weighted-average shares—basic	2.7
Weighted-average shares—diluted	2.7

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

In the normal course of business, we actively manage our exposure to various market risks by entering into various supplier-based and market-based hedging transactions, authorized under established risk management policies that place clear controls on these activities. Our objective in managing these exposures is to decrease the volatility of our earnings and cash flows due to changes in underlying rates and costs.

The counterparties to our market-based transactions are generally highly rated institutions. We perform assessments of their credit risk regularly. Our market-based transactions include a variety of derivative financial instruments, none of which are used for trading or speculative purposes.

Interest Rate Risk

We are exposed to volatility in interest rates with regard to current and future debt offerings. Primary exposures include U.S. Treasury rates, Canadian government rates and LIBOR. To mitigate this exposure as it pertains to future debt offerings and to achieve our desired fixed-to-floating rate debt profile, we may enter into interest rate swaps from time to time.

Foreign Exchange Risk

Foreign currency fluctuations affect our net investments in foreign subsidiaries and foreign currency-denominated cash flows. We manage our foreign currency exposures through foreign currency forward contracts and foreign-denominated debt. We may also enter into cross currency swaps from time to time.

Commodity Price Risk

We use commodities in the production and distribution of our products. To manage the related price risk for these costs, we utilize market-based derivatives and long-term supplier-based contracts. Our primary objective when entering into these transactions is to achieve price certainty for commodities used in our supply chain. We manage our exposures through a combination of purchase orders, long-term supply contracts and over-the-counter financial instruments.

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Equity Price Risk

We currently hold warrants allowing us the option to purchase common shares of HEXO Corp. ("HEXO"), our Truss LP ("Truss") joint venture partner in Canada. These warrants are subject to equity price risk, representative of the potential future loss of value that would result from a decline in the market price of HEXO's underlying common shares.

Details of market-risk sensitive debt, derivative and other financial instruments are included in the table below. Notional amounts and fair values are presented in USD based on the applicable exchange rate as of December 31, 2018. See Part II—Item 8 Financial Statements and Supplementary Data, Note 11, "Debt" and Note 16, "Derivative Instruments and Hedging Activities" of the Notes for further discussion.

	Notional amounts by expected maturity date							December 31, 2018
	Year end							
	2019	2020	2021	2022	2023	Thereafter	Total	Fair value Asset/ (Liability)
	(In millions)							
Long-term debt:								
CAD 500 million 2.75% notes due 2020	$—	$366.6	$—	$—	$—	$—	$366.6	$(368.4)
CAD 500 million 2.84% notes due 2023	$—	$—	$—	$—	$366.6	$—	$366.6	$(357.4)
CAD 500 million 3.44% notes due 2026	$—	$—	$—	$—	$—	$366.6	$366.6	$(352.3)
$500 million 1.45% notes due 2019	$500.0	$—	$—	$—	$—	$—	$500.0	$(498.1)
$500 million 1.90% notes due 2019	$500.0	$—	$—	$—	$—	$—	$500.0	$(501.6)
$500 million 2.25% notes due 2020	$—	$500.0	$—	$—	$—	$—	$500.0	$(502.8)
$1.0 billion 2.10% notes due 2021	$—	$—	$1,000.0	$—	$—	$—	$1,000.0	$(968.7)
$500 million 3.5% notes due 2022	$—	$—	$—	$500.0	$—	$—	$500.0	$(496.7)
$2.0 billion 3.0% notes due 2026	$—	$—	$—	$—	$—	$2,000.0	$2,000.0	$(1,813.2