KANSAS CITY SOUTHERN
Form 10-K
February 04, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

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

For the fiscal year ended December 31, 2012
or

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

For the transition period from to
Commission file number: 1-4717

KANSAS CITY SOUTHERN
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	44-0663509 (I.R.S. Employer Identification No.)
427 West 12th Street, Kansas City, Missouri (Address of principal executive offices)	64105 (Zip Code)

816.983.1303
(Registrant's telephone number, including area code)
None
(Former name, former address and former fiscal year, if changed since last report)

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

Title of Each Class	Name of Each Exchange on Which Registered
Preferred Stock, Par Value $25 Per Share, 4%, Noncumulative	New York Stock Exchange
Common Stock, $.01 Per Share Par Value	New York Stock Exchange

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ý	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No ý

The aggregate market value of common stock held by non-affiliates of the registrant was $7.51 billion at June 30, 2012. There were 110,154,639 shares of $.01 par common stock outstanding at January 28, 2013.

DOCUMENTS INCORPORATED BY REFERENCE

Kansas City Southern’s Definitive Proxy Statement for the 2013 Annual Meeting of Stockholders which will be filed no later than 120 days after December 31, 2012, is incorporated by reference in Parts III.

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Item 1. Business

COMPANY OVERVIEW

Kansas City Southern, a Delaware corporation, is a holding company with domestic and international rail operations in North America that are strategically focused on the growing north/south freight corridor connecting key commercial and industrial markets in the central United States with major industrial cities in Mexico. As used herein, "KCS" or the "Company" may refer to Kansas City Southern or, as the context requires, to one or more subsidiaries of Kansas City Southern. KCS and its subsidiaries had approximately 6,110 employees on December 31, 2012.

The Kansas City Southern Railway Company ("KCSR"), which was founded in 1887, is a U.S. Class I railroad. KCSR serves a ten-state region in the midwest and southeast regions of the United States and has the shortest north/south rail route between Kansas City, Missouri and several key ports along the Gulf of Mexico in Alabama, Louisiana, Mississippi, and Texas.

KCS controls and owns all of the stock of Kansas City Southern de México, S.A. de C.V. ("KCSM"). Through its 50-year concession from the Mexican government (the "Concession"), which could expire in 2047 unless extended, KCSM operates a key commercial corridor of the Mexican railroad system and has as its core route the most strategic portion of the shortest, most direct rail passageway between Mexico City and Laredo, Texas and serves most of Mexico's principal industrial cities and three of its major seaports. Laredo is a principal international gateway through which more than half of all rail and truck traffic between the United States and Mexico crosses the border. KCSM's rail lines provide exclusive rail access to the United States and Mexico border crossing at Nuevo Laredo, Tamaulipas, the largest rail freight interchange point between the United States and Mexico. Under the Concession, KCSM has the right to control and operate the southern half of the rail bridge at Laredo, Texas, which spans the Rio Grande River between the United States and Mexico. The Company also controls the northern half of this bridge through its ownership of Mexrail, Inc., ("Mexrail").

KCSM provides exclusive rail access to the Port of Lazaro Cardenas on the Pacific Ocean. The Mexican government is developing the port at Lazaro Cardenas principally to serve Mexican markets and as an alternative to the U.S. west coast ports. KCSM is the sole provider of rail service to this port, which provides an alternate route for Asian and South American traffic bound for North America.

The Company wholly owns Mexrail which, in turn, wholly owns The Texas Mexican Railway Company ("Tex-Mex"). Tex-Mex owns a 157-mile rail line extending from Laredo, Texas to the port city of Corpus Christi, Texas, which connects the operations of KCSR with KCSM. Through its ownership of Mexrail, the Company owns the northern half of the rail bridge at Laredo, Texas.

The KCS coordinated rail network (KCSR, KCSM and Tex-Mex) comprises approximately 6,300 route miles extending from the midwest and southeast portions of the United States south into Mexico and connects with all other Class I railroads, providing shippers with an effective alternative to other railroad routes and giving direct access to Mexico and the southeast and southwest United States through alternate interchange hubs.

Panama Canal Railway Company ("PCRC"), an unconsolidated joint venture company owned equally by KCS and Mi-Jack Products, Inc. ("Mi-Jack"), was awarded a concession from the Republic of Panama to reconstruct and operate the Panama Canal Railway, a 47-mile railroad located adjacent to the Panama Canal that provides international container shipping companies with a railway transportation option in lieu of the Panama Canal. The concession was awarded in 1998 for an initial term of 25 years with an automatic renewal for an additional 25 year term. The Panama Canal Railway is a north-south railroad traversing the Isthmus of Panama between the Atlantic and Pacific Oceans. PCRC's wholly-owned subsidiary, Panarail Tourism Company ("Panarail"), operates and promotes commuter and tourist passenger service over the Panama Canal Railway.

Other subsidiaries and affiliates of KCS include the following:

- Meridian Speedway, LLC ("MSLLC"), a seventy percent-owned consolidated affiliate that owns the former KCSR rail line between Meridian, Mississippi and Shreveport, Louisiana, which is the portion of the KCSR rail line between Dallas, Texas and Meridian known as the "Meridian Speedway." Norfolk Southern Corporation ("NS") through its wholly-owned subsidiary, The Alabama Great Southern Railroad Company, owns the remaining thirty percent of MSLLC.
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Pabtex, Inc., a wholly-owned and consolidated owner of a bulk materials handling facility with deep-water access to the Gulf of Mexico at Port Arthur, Texas that stores and transfers petroleum coke from rail cars to ships, primarily for export;

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- Trans-Serve, Inc. (doing business as Superior Tie and Timber), a wholly-owned and consolidated operator of a railroad wood-tie treatment facility;
- TransFin Insurance, Ltd., a wholly-owned and consolidated captive insurance company providing property, general liability and certain other insurance coverage to KCS and its subsidiaries and affiliates;
- KCSM Servicios, S.A. de C.V. ("KCSM Servicios"), a wholly-owned and consolidated provider of employee services to KCSM.
- Southern Capital Corporation, LLC ("Southern Capital"), a fifty percent-owned unconsolidated affiliate that leases locomotives and other equipment;
- Ferrocarril y Terminal del Valle de México, S.A. de C.V. ("FTVM"), a twenty-five percent-owned unconsolidated affiliate that provides railroad services as well as ancillary services in the greater Mexico City area; and
- PTC-220, LLC ("PTC-220"), a fourteen percent-owned unconsolidated affiliate that holds the licenses to large blocks of radio spectrum and other assets for the deployment of positive train control.

MARKETS SERVED

2012 Revenues
Business Mix

Chemical and petroleum. This sector includes products such as plastics, other petroleum refined products and miscellaneous chemicals. KCS transports these products to markets in the midwest, southeast and northeast United States and throughout Mexico through interchanges with other rail carriers. The products within the chemicals and plastics channels are used in the automotive, housing and packaging industries as well as in the production of other chemicals and plastic products. KCS hauls petroleum products across its network and as petroleum refineries have continued to increase their refining capacity, they have coordinated with KCS to develop additional long-term storage opportunities which complement a fluid freight railroad operation.

Industrial and consumer products. This sector includes metals and ores such as iron, steel, zinc and copper. The majority of metals, minerals and ores mined, and steel produced in Mexico are consumed within Mexico. The volume of Mexican steel exports fluctuates based on global market prices. Higher-end finished products such as steel coils are used by Mexican manufacturers in automobiles, household appliances, the oil and gas industry, and other consumer goods which are imported to the United States through Nuevo Laredo and through the seaports served by KCS's rail network. KCS also transports steel coils from U.S. based mini-mills in Mississippi and Alabama to Texas and Mexico for appliance and automotive applications.

This sector also serves paper mills directly and indirectly through its various short-line connections. KCS's rail lines run through the heart of the southeast United States timber-producing region. Additionally, KCS is uniquely positioned to serve many important paper mills in the southeast United States whose products are increasing in demand due to a general growth of consumer goods and industrial production in central Mexico.

Agriculture and minerals. The agriculture and minerals sector consists primarily of grain and food products. Shipper demand for agriculture products is affected by competition among sources of grain and grain products, as well as price fluctuations in international markets for key commodities. In the United States, KCS's rail lines receive and originate shipments of grain and grain products for delivery to feed mills serving the poultry industry. KCS currently serves feed mills along its rail lines throughout the midwest and southeast United States, and through its marketing agreements, KCS has access to sources of corn and other grain in the Midwest. United States export grain shipments and Mexico import grain shipments include primarily corn, wheat, and soybeans transported to Mexico via Laredo and to the Gulf of Mexico. Over the long term, export grain shipments to Mexico are expected to increase as a result of Mexico's reliance on grain imports and KCS's coordinated

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rail network is well positioned to meet these increases in demand. Food products consist mainly of soybean meal, grain meal, oils, canned goods, distillers dried grains, corn syrup and sugar. Other shipments consist of a variety of products including ores, minerals, clay and glass used across North America.

Energy. The energy business includes coal, frac sand, petroleum coke and crude oil. KCS hauls unit trains (trains transporting a single commodity from one source to one destination) of coal for nine electric generating plants in the central United States. The coal originates from the Powder River Basin in Wyoming and is interchanged to KCS at Kansas City, Missouri. Coal mined in the midwest United States is transported in non-unit trains to industrial consumers such as paper mills, steel mills, and cement companies. KCS transports petroleum coke from refineries in the United States to cement companies in Mexico as well as to vessels for international distribution through the Pabtex export terminal located in Port Arthur, Texas. Frac sand originating primarily in Wisconsin, Illinois or Iowa is delivered to transloads located in northeast Texas, northern Louisiana, and south Texas for distribution to gas and oil wells in the region. Crude oil originating in Canada, North Dakota, Colorado, and west Texas is delivered to U.S. Gulf Coast refineries and tank farms in Texas and Louisiana.

Intermodal. The intermodal freight business consists primarily of hauling freight containers or truck trailers on behalf of steamship lines, motor carriers, and intermodal marketing companies with rail carriers serving as long-distance haulers. KCS serves and supports the U.S. and Mexican markets, as well as cross border traffic between the U.S. and Mexico. In light of the importance of trade between Asia and North America, the Company believes the Port of Lazaro Cardenas continues to be a strategically beneficial location for ocean carriers, manufacturers and retailers. Equally important, the increase in foreign direct investment in Mexico has pushed the KCS Mexico/U.S. cross border corridor to emerge as an increasingly important tool for NAFTA freight flow. The Company also provides premium service to customers over its line from Dallas through the Meridian Speedway — a critical link in creating the most direct route between the southwest and southeast/northeast U.S.

Automotive. KCS provides rail transportation to every facet of the automotive industry supply chain, including automotive manufacturers, assembly plants and distribution centers throughout North America. Several U.S. automakers have moved assembly plants into central Mexico to take advantage of access to lower costs, which has driven a shift in production and distribution patterns from the U.S. to Mexico. In addition, KCS transports finished vehicles imported and exported to and from Asia through a distribution facility at the Port of Lazaro Cardenas. As the automotive industry shifts production and distribution patterns, KCS is poised to serve the automotive industry’s evolving transportation requirements.

GOVERNMENT REGULATION

The Company’s United States operations are subject to federal, state and local laws and regulations generally applicable to all businesses. Rail operations are also subject to the regulatory jurisdiction of the Surface Transportation Board (“STB”) of the U.S. Department of Transportation (“DOT”), the Federal Railroad Administration of the DOT, the Occupational Safety and Health Administration (“OSHA”), as well as other federal and state regulatory agencies. The STB has jurisdiction over disputes and complaints involving certain rates, routes and services, the sale or abandonment of rail lines, applications for line extensions and construction, and consolidation or merger with, or acquisition of control of, rail common carriers. DOT and OSHA each has jurisdiction under several federal statutes over a number of safety and health aspects of rail operations, including the transportation of hazardous materials. In 2008, the President of the United States signed the Rail Safety Improvement Act of 2008 into law, which, among other things, revises hours of service for train and certain other employees and mandates implementation of positive train control at certain locations by the end of 2015. Positive train control is a technology designed to help prevent train-to-train collisions, overspeed derailments, incursions into rail work zones, and entry into main line track if a switch is misaligned at certain locations, including main line track where toxic inhalation hazard or poison inhalation hazard movements occur or where passenger operations occur. In addition, the Rail Safety Improvement Act of 2008 addresses safety at rail crossings, increases the number of safety related employees of the Federal Railroad Administration, and increases fines that may be levied against railroads for safety violations. State agencies regulate some aspects of rail operations with respect to health and safety in areas not otherwise regulated by federal law.

KCS’s subsidiaries are subject to extensive federal, state and local environmental regulations. These laws cover discharges to water, air emissions, toxic substances, and the generation, handling, storage, transportation and disposal

of waste and hazardous materials. These regulations have the effect of increasing the costs, risks and liabilities associated with rail operations. Environmental risks are also inherent in rail operations, which frequently involve transporting chemicals and other hazardous materials.

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Primary regulatory jurisdiction for the Company's Mexican operations is overseen by the Mexican Secretaría de Comunicaciones y Transportes ("Secretary of Communications and Transportation" or "SCT"). The SCT establishes regulations concerning railway safety and operations, and is responsible for resolving disputes between railways and between railways and customers. In addition, KCSM must register its maximum rates with the SCT and make regular reports to the SCT on investment and traffic volumes. See Note 1 to the Consolidated Financial Statements in Item 8 of this Form 10-K "Description of the Business — The KCSM Concession."

The Mexican operations are subject to Mexican federal and state laws and regulations relating to the protection of the environment through the establishment of standards for water discharge, water supply, emissions, noise pollution, hazardous substances and transportation and handling of hazardous and solid waste. The Mexican government may bring administrative and criminal proceedings and impose economic sanctions against companies that violate environmental laws, and temporarily or even permanently close non-complying facilities.

Noncompliance with applicable legal provisions may result in the imposition of fines, temporary or permanent shutdown of operations or other injunctive relief, criminal prosecution or, with respect to KCSM, the termination of the Concession. KCS maintains environmental provisions which are believed by management to be appropriate with respect to known and existing environmental contamination of its properties which KCS may be responsible to remedy. In addition, KCS's subsidiaries are party to contracts and other legally binding obligations by which previous owners of certain facilities now owned by KCS are responsible to remedy contamination of such sites remaining from their previous ownership. There are currently no material legal or administrative proceedings pending against the Company with respect to any environmental matters and management does not believe that continued compliance with environmental laws will have any material adverse effect on the Company's consolidated financial statements. KCS cannot predict the effect, if any, that unidentified environmental matters or the adoption of additional or more stringent environmental laws and regulations would have on the Company's consolidated financial statements.

COMPETITION

The Company competes against other railroads, many of which are much larger and have significantly greater financial and other resources. The railroad industry is dominated by a few very large carriers. The larger western railroads (BNSF Railway Company and Union Pacific Railroad Company), in particular, are significant competitors of KCS because of their substantial resources and competitive routes.

In November 2005, Ferrocarril Mexicano, S.A. de C.V. ("Ferromex") acquired control of and merged with Ferrosur S.A. de C.V. ("Ferrosur"). In March 2011, the Comisión Federal de Competencia (Mexican Antitrust Commission or "COFECO") approved the merger between Ferromex and Ferrosur. These merged operations are much larger than KCSM, serving most of the major ports and cities in Mexico and together own fifty percent of FTVM, which serves industries located within Mexico City.

The ongoing impact of past and future rail consolidation is uncertain. However, KCS believes that its investments and strategic alliances continue to competitively position the Company to attract additional rail traffic throughout its rail network.

The Company is subject to competition from motor carriers, barge lines and other maritime shipping, which compete across certain routes in KCS's operating areas. In the past, truck carriers have generally eroded the railroad industry's share of total transportation revenues. Intermodal traffic and certain other traffic face highly price sensitive competition, particularly from motor carriers. However, rail carriers, including KCS, have placed an emphasis on competing in the intermodal marketplace and working with motor carriers to provide end-to-end transportation of products.

While deregulation of U.S. freight rates has enhanced the ability of railroads to compete with each other and with alternative modes of transportation, this increased competition has generally resulted in downward pressure on freight rates since deregulation. Competition with other railroads and other modes of transportation is generally based on the rates charged, the quality and reliability of the service provided and the quality of the carrier's equipment for certain commodities.

RAIL SECURITY

The Company and its rail subsidiaries have made ongoing, multi-disciplinary efforts since the terrorist attacks on the United States on September 11, 2001, to continue securing the Company's assets and personnel against the risk of

terrorism and other security risks. Many of the specific measures the Company utilizes for these efforts are required to be kept confidential through arrangements with government agencies, such as the Department of Homeland Security ("DHS"), or through jointly-

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developed and implemented strategies and plans with connecting carriers. To protect the confidentiality and sensitivity of the efforts the Company has made to safeguard against terrorism and other security incidents, the following paragraphs will provide only a general overview of some of these efforts. KCSR and KCSM utilize a security plan based on an industry wide security plan developed by Association of American Railroads ("AAR") members which focuses on comprehensive risk assessments in five areas — hazardous materials; train operations; critical physical assets; military traffic; and information technology and communications. The security plan is kept confidential, with access to the plan tightly limited to members of management with direct security and anti-terrorism implementation responsibilities. KCSR and KCSM participate with other AAR members in periodic drills under the industry plan to test and refine its various provisions.

The Company's security activities range from periodically mailing each employee a security awareness brochure (which is also posted under the "Employees" tab on the Company's internet website, www.kcsouthern.com) to its ongoing implementation of security plans for rail facilities in areas labeled by the DHS as High Threat Urban Areas ("HTUAs"). The Company's other activities to bolster security against terrorism include, but are not limited to, the following:

- Conferring regularly with other railroads' security personnel and with industry experts on security issues;
- Routing shipments of certain chemicals, which might be toxic if inhaled, pursuant to federal regulations;
- Initiating a series of over 20 voluntary action items agreed to between AAR and DHS as enhancing security in the rail industry;
- Conducting constant and targeted security training as part of the scheduled training for operating employees and managers;
- Developing a multi-layered security model using high-speed digital imaging, system velocity, covert and overt security filters to mitigate the risk of illicit activity;
- Measuring key security metrics to ensure positive risk mitigation and product integrity trends;
- Implementation of a Tactical Intelligence Center by KCSM, training core members in new technology helping to prevent, detect, deter and respond to illicit activities; and
- Deployment of an array of non-intrusive technologies including, but not limited to, digital video surveillance and analytics as part of an intelligent video security solution, including a Closed Circuit Television platform with geo-fencing for intrusion detection, to allow for remote viewing access to monitor ports of entry, intermodal and rail yards.

In addition, the Company utilizes dedicated security personnel with extensive law enforcement backgrounds to oversee the ongoing and increasingly complex security efforts of the Company in both the United States and Mexico. Some members of this security force are also members of the Federal Bureau of Investigation's Joint Terrorism Task Force, providing added value to the Company in developing and implementing anti-terrorism and other security initiatives.

While the risk of theft and vandalism is higher in Mexico, KCSM remains among the safest methods of transportation for freight shipments in Mexico. KCSM's record in rail safety is due in large part to the implementation of a multi-layered, safety and security process throughout the KCSM network. In addition to having its own internal system, the process is connected to, and supported by a high level of federal, state and local law enforcement. A primary focus of this effort involves maintaining constant due diligence, active vigilance and train velocity, which reduces the likelihood for incidents to occur.

RAILWAY LABOR ACT

Labor relations in the U.S. railroad industry are subject to extensive governmental regulation under the Railway Labor Act ("RLA"). Under the RLA, national labor agreements are renegotiated on an industry-wide scale when they become open for modification, but their terms remain in effect until new agreements are reached or the RLA's procedures (which include mediation, cooling-off periods, and the possibility of presidential intervention) are exhausted. Contract negotiations with the various unions generally take place over an extended period of time and the Company rarely experiences work stoppages during negotiations. Wages, health and welfare benefits, work rules and other issues have traditionally been addressed during these negotiations.

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COLLECTIVE BARGAINING

Approximately 80% of KCSR employees are covered by collective bargaining agreements. KCSR participates in industry-wide bargaining as a member of the National Carriers' Conference Committee. Long-term settlement agreements were reached and ratified during 2011 and the first half of 2012 covering all of the participating unions. These agreements will be in effect through December 2015.

KCSM Servicios union employees are covered by one labor agreement, which was signed on June 23, 1997, between KCSM and the Sindicato de Trabajadores Ferrocarrileros de la República Mexicana ("Mexican Railroad Union"), for a term of fifty years, for the purpose of regulating the relationship between the parties. Approximately 80% of KCSM Servicios employees are covered by this labor agreement. The compensation terms under this labor agreement are subject to renegotiation on an annual basis and all other benefits are subject to negotiation every two years. As a result of the labor agreement signed on April 19, 2012, compensation terms for the period from July 1, 2012 through June 30, 2013, were finalized. Additionally, this labor agreement enabled KCS to complete an organizational restructuring whereby employees of KCSM became employees of KCSM Servicios. KCSM Servicios provides employee services to KCSM, and KCSM pays KCSM Servicios market-based rates for these services. The union labor negotiation with the Mexican Railroad Union has not historically resulted in any strike, boycott or other disruption in KCSM's business operations.

EXECUTIVE OFFICERS OF KCS AND SUBSIDIARIES

All executive officers are elected annually and serve at the discretion of the Board of Directors. All of the executive officers have employment agreements with KCS and/or its subsidiaries. The mailing address of the principal executive officers other than Mr. Zozaya is P.O. Box 219335, Kansas City, Missouri 64121. Mr. Zozaya's mailing address is Montes Urales No. 625, Col. Lomas de Chapultepec, C.P. 11000, Mexico D.F.

Michael R. Haverty — Executive Chairman of the Board — 68 — Served in this capacity since August 1, 2010. Mr. Haverty has been a director of KCS since May 1995 and has served as Chairman of the Board of KCS since January 1, 2001. From July 12, 2000 until July 31, 2010, Mr. Haverty served as Chief Executive Officer of KCS. Mr. Haverty served as President of KCS from July 2000 to June 2006. Mr. Haverty served as Executive Vice President of KCS from May 1995 until July 2000, and as President and Chief Executive Officer of KCSR from 1995 to 2005 and as a director of KCSR since 1995. He has served as Chairman of the Board of KCSR since 1999. Since April 1, 2005, Mr. Haverty has served as Chairman of the Board of KCSM. Mr. Haverty has served as a director of the PCRC since 1996 and as Co-Chairman of the Board of Directors of that company since 1999. Mr. Haverty has served as Co-Chairman of Panarail since 2000.

David L. Starling — President and Chief Executive Officer — 63 — Served in this capacity since August 1, 2010. Mr. Starling has been a director of KCS since May 6, 2010. He served as President and Chief Operating Officer of KCS from July 1, 2008 through August 1, 2010. Mr. Starling has also served as a Director, President and Chief Executive Officer of KCSR since July 1, 2008. He has also served as Vice Chairman of the Board of Directors of KCSM since September 2009. Mr. Starling has served as Vice Chairman of the Board of Directors of PCRC and Panarail since July 2008. Prior to joining KCS, Mr. Starling served as President and Director General of PCRC from 1999 through June 2008.

David R. Ebbrecht — Executive Vice President and Chief Operating Officer — 46 — Served in this capacity since August 2012. He served as Executive Vice President of Operations from March 2011 until August 2012. Mr. Ebbrecht served as Senior Vice President of Operations of KCSR from August 2009 until March 2011. He served as Vice President of Transportation of KCSR from March 2008 until August 2009. From January 2007 until March 2008, Mr. Ebbrecht served as Assistant Vice President in various departments for KCSR including logistics, business development and operations. He joined KCSR in January 2001. Prior to joining KCSR, Mr. Ebbrecht served in various leadership positions at CSX Corporation, Inc.

Warren K. Erdman — Executive Vice President — Administration and Corporate Affairs — 54 — Served in this capacity sinc April 2010. Mr. Erdman served as Executive Vice President — Corporate Affairs from October 2007 until April 2010. He served as Senior Vice President — Corporate Affairs of KCS and KCSR from January 2006 to September 2007. Mr. Erdman served as Vice President — Corporate Affairs of KCS from April 15, 1997 to December 31, 2005 and as Vice President — Corporate Affairs of KCSR from May 1997 to December 31, 2005. Prior to joining KCS, Mr. Erdman

served as Chief of Staff to United States Senator Kit Bond of Missouri from 1987 to 1997.

Patrick J. Ottensmeyer — Executive Vice President Sales and Marketing — 55 — Served in this capacity since October 16, 2008. Mr. Ottensmeyer joined KCS in May 2006 as Executive Vice President and Chief Financial Officer. Prior to

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joining KCS, Mr. Ottensmeyer served as Chief Financial Officer of Intranasal Therapeutics, Inc. from 2001 to May 2006. From 2000 to 2001, he served as Corporate Vice President Finance and Treasurer for Dade-Behring Holdings, Inc. From 1993 to 1999, Mr. Ottensmeyer served as Vice President Finance and Treasurer at Burlington Northern Santa Fe Corporation and BNSF Railway and their predecessor companies.

Michael W. Upchurch — Executive Vice President and Chief Financial Officer — 52 — Served in this capacity since October 16, 2008. Mr. Upchurch joined KCS in March 2008 as Senior Vice President Purchasing and Financial Management. Prior to joining KCS, Mr. Upchurch served as Senior Vice President Finance of Red Development LLC, from December 2007 through February 2008. From September 2006 through December 2007, Mr. Upchurch worked as an independent consultant providing financial consulting services. From 1990 through September 2006, Mr. Upchurch served in various senior financial leadership positions at Sprint Nextel Corporation and its predecessor, Sprint Corporation, including Senior Vice President Financial Operations, Senior Vice President Finance Sprint Business Solutions and Senior Vice President Finance Long Distance Division.

José Guillermo Zozaya Delano — President and Executive Representative — KCSM — 60 — Served in this position since April 20, 2006. Mr. Zozaya has 35 years of experience in law and government relations, most recently as the legal and government relations director for ExxonMobil México, S.A. de C.V., where he spent nine years prior to joining KCSM.

John E. Derry — Senior Vice President Human Resources — 45 — Served in this capacity since July 2008. He served as Vice President of Human Resources from February 2008 until July 2008. Mr. Derry joined KCS from YRC Worldwide, Inc. where he served in various Human Resource functions from January 2004 to February 2008. From September 2006 to February 2008, Mr. Derry served as Vice President of Human Resources for Yellow Transportation. Prior to joining YRC Worldwide, Inc. Mr. Derry spent 17 years with General Mills Inc. in various operations, labor relations and human resource roles.

Michael J. Naatz — Senior Vice President and Chief Information Officer — 47 — Served in this capacity since May 7, 2012. Prior to joining KCS, Mr. Naatz served as President of USF Holland, a YRC Worldwide, Inc. (“YRCW”) company, from 2011 to May 2012. From 2010 to 2011, Mr. Naatz served as President and Chief Customer Officer - Customer Care Division at YRCW. From 2008 to 2010, he served as Executive Vice President and Chief Information & Service Officer at YRCW. From 2005 to 2007, he served as President-Enterprise Services Division at YRCW. From 1994 to 2005, he held various leadership positions with USF Corporation.

Mary K. Stadler — Senior Vice President and Chief Accounting Officer — 53 — Served in this capacity since March 2, 2009. From April 1990 through August 2008, Ms. Stadler served in various finance leadership positions at Sprint Nextel Corporation and its predecessor, Sprint Corporation, including Vice President — Finance Operations and most recently served as its Vice President — Assistant Controller.

William J. Wochner — Senior Vice President and Chief Legal Officer — 65 — Served in this capacity since February 2007. He served as Vice President and Interim General Counsel from December 2006 to January 2007. From September 2006 to December 2006, Mr. Wochner served as Vice President and Associate General Counsel. From March 2005 to September 2006, Mr. Wochner served as Vice President Sales and Marketing/Contracts for KCSR. From February 1993 to March 2005, Mr. Wochner served as Vice President and General Solicitor of KCSR.

There are no arrangements or understandings between the executive officers and any other person pursuant to which the executive officer was or is to be selected as an officer of KCS, except with respect to the executive officers who have entered into employment agreements designating the position(s) to be held by the executive officer.

None of the above officers is related to another, or to any of the directors of KCS, by family.

AVAILABLE INFORMATION

KCS’s website (www.kcsouthern.com) provides at no cost KCS’s Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K, and amendments to those reports, as soon as reasonably practicable after the electronic filing of these reports is made with the Securities and Exchange Commission. In addition, KCS’s corporate governance guidelines, ethics and legal compliance policy, and the charters of the Audit Committee, the Finance Committee, the Nominating and Corporate Governance Committee and the Compensation and Organization Committee of the Board of Directors are available on KCS’s website. These guidelines, policies and charters are available in print without charge to any stockholder requesting them. Written requests for these materials may be

made to the Corporate Secretary, P.O. Box 219335,

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Kansas City, Missouri 64121-9335 (or if by express delivery to 427 West 12th Street, Kansas City, Missouri 64105). From time to time, KCS publicly designates material information by posting it on the website, kcsouthern.com/investors, in lieu of press releases.

See Item 8, Financial Statements and Supplementary Data — Note 1 “Description of the Business” and Note 17 “Geographic Information” for more information on the description and general development of the Company’s business and financial information about geographic areas.

Item 1A. Risk Factors

The price of KCS’s common stock may fluctuate significantly, which may make it difficult for investors to resell common stock when they choose to or at prices they find attractive.

The price of KCS’s common stock on the New York Stock Exchange (“NYSE”), listed under the ticker symbol “KSU”, constantly changes. The Company expects that the market price of its common stock will continue to fluctuate.

The Company’s stock price may fluctuate as a result of a variety of factors, many of which are beyond KCS’s control. These factors include, but are not limited to:

- quarterly variations in operating results;
- operating results that vary from the expectations of management, securities analysts, ratings agencies and investors;
- changes in expectations as to future financial performance, including financial estimates by management, securities analysts, ratings agencies and investors;
- developments generally affecting the railroad industry;
- announcements by KCS or its competitors of significant contracts, acquisitions, joint marketing relationships, joint ventures or capital commitments;
- the assertion or resolution of significant claims or proceedings involving KCS;
- KCS’s dividend policy and limitations on the payment of dividends;
- future sales of KCS’s equity or equity-linked securities;
- the issuance of common stock in payment of dividends on preferred stock or upon conversion of preferred stock or convertible debt; and
- general domestic and international economic conditions including the availability of short- and long-term financing.

In addition, from time to time the stock market in general has experienced extreme volatility that has often been unrelated to the operating performance of a particular company. These broad market fluctuations may adversely affect the market price of KCS’s common stock.

KCS’s ability to pay cash dividends on its common stock may be limited.

KCS has agreed in the past, and may agree in the future, to limitations on its ability to pay cash dividends on its common stock. In addition, to maintain its credit ratings, the Company may be limited in its ability to pay cash dividends on its common stock so that it can maintain an appropriate level of liquidity or debt.

Sales of substantial amounts of KCS's common stock in the public market could adversely affect the prevailing market price of the common stock.

As of December 31, 2012, there were 6,038,091 shares of common stock issued or reserved for issuance under the 1991 Amended and Restated Stock Option and Performance Award Plan, the 2008 Stock Option and Performance Award Plan and the 2009 Employee Stock Purchase Plan, and 1,909,898 shares of common stock held by executive officers and directors outside those plans. Sales of common stock by employees upon exercise of their options, sales by executive officers and directors subject to compliance with Rule 144 under the Securities Act, and sales of common stock that may be issued upon conversion of the outstanding preferred stock, or the perception that such sales could occur, may adversely affect the market price of KCS' common stock.

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KCS has provisions in its charter and bylaws that could deter, delay or prevent a third party from acquiring a controlling interest in KCS and that could deprive an investor of an opportunity to obtain a takeover premium for shares of KCS’s common stock.

KCS has provisions in its charter and bylaws that may delay or prevent unsolicited takeover bids from third parties, including provisions providing for a classified board. The bylaws provide that a stockholder must give the Company advance written notice of its intent to nominate a director or raise a matter at an annual meeting. These provisions may deprive KCS’s stockholders of an opportunity to sell their shares at a premium over prevailing market prices.

KCS competes against other railroads and other transportation providers.

The Company’s domestic and international operations are subject to competition from other railroads, particularly Union Pacific Railroad Company (“UP”) and BNSF Railway Company (“BNSF”) in the United States and Ferromex and Ferrosur in Mexico, as well as from truck carriers, barge lines, and other maritime shippers. Many of KCS’s rail competitors are much larger and have significantly greater financial and other resources than KCS, which may enable rail competitors to reduce rates and make KCS’s freight services less competitive. KCS’s ability to respond to competitive pressures by matching rate reductions and decreasing rates without adversely affecting gross margins and operating results will depend on, among other things, the ability to reduce operating costs. KCS’s failure to respond to competitive pressures, and particularly rate competition, in a timely manner could have a material adverse effect on the Company’s consolidated financial statements.

The railroad industry is dominated by a few large carriers. These larger railroads could attempt to use their size and pricing power to block other railroads’ access to efficient gateways and routing options that are currently and have historically been available. In addition, if there is future consolidation in the railroad industry in the United States or Mexico, there can be no assurance that it will not have an adverse effect on the Company’s consolidated financial statements.

Trucking, maritime, and barge competitors, while able to provide rate and service competition to the railroad industry, are able to use public rights-of-way, require substantially smaller capital investment and maintenance expenditures than railroads and allow for more frequent and flexible scheduling. Continuing competitive pressures, any reduction in margins due to competitive pressures, future improvements that increase the quality of alternative modes of transportation in the locations in which the Company operates, or legislation or regulations that provide motor carriers with additional advantages, such as increased size of vehicles and reduced weight restrictions, could result in downward pressure on freight rates, which in turn could have a material adverse effect on the Company’s consolidated financial statements.

A central part of KCS’s growth strategy is based upon the conversion of truck traffic to rail. There can be no assurance the Company will succeed in its efforts to convert traffic from truck to rail transport or that the customers already converted will be retained. If the railroad industry in general is unable to preserve its competitive advantages vis-à-vis the trucking industry, revenue growth could be adversely affected. Additionally, revenue growth could be affected by, among other factors, an expansion in the availability, or an improvement in the quality, of the trucking services offered by carriers resulting from regulatory and administrative interpretations and implementation of certain provisions of the North American Free Trade Agreement (“NAFTA”), and KCS’s inability to grow its existing customer base and capture additional cargo transport market share because of competition from the shipping industry and other railroads.

KCSM’s Mexican Concession is subject to revocation or termination in certain circumstances which would prevent KCSM from operating its railroad and would have a material adverse effect on the Company’s consolidated financial statements.

KCSM operates under the Concession granted by the Mexican government in June 1997, which is renewable for an additional period of up to 50 years, subject to certain conditions. The Concession gives KCSM exclusive rights to provide freight transportation services over its rail lines for the first 30 years of the 50-year Concession, subject to certain trackage and haulage rights granted to other concessionaires. The SCT, which is principally responsible for regulating railroad services in Mexico, has broad powers to monitor KCSM’s compliance with the Concession, anont-size:10pt;">523.0

460.2

880.4

741.1

Income tax benefit (expense)
(92.2
)

(125.2
)

(167.1
)

(191.1
)
Net income (loss)
430.8

335.0

713.3

550.0

Net (income) loss attributable to noncontrolling interests
(6.7
)

(5.1
)

(11.1
)

(11.6
)
Net income (loss) attributable to Molson Coors Brewing Company
$
424.1

$

329.9

$
702.2

$
538.4

Net income (loss) attributable to Molson Coors Brewing Company per share:

Basic
$
1.96

$
1.53

$
3.25

$
2.50

Diluted
$
1.96

$
1.52

$
3.24

$
2.49

Weighted-average shares outstanding:

Basic
216.0

215.4

215.9

215.3

Dilutive effect of share-based awards
0.5

1.0

0.7

1.1

Diluted
216.5

216.4

216.6

216.4

Anti-dilutive securities excluded from the computation of diluted EPS
1.2

0.3

0.7

0.3

Dividends declared and paid per share
$
0.41

$
0.41

$
0.82

$
0.82

See notes to unaudited condensed consolidated financial statements.

MOLSON COORS BREWING COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(IN MILLIONS)
(UNAUDITED)

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Net income (loss) including noncontrolling interests	$430.8	$335.0	$713.3	$550.0
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments	(255.0)	310.9	(180.9)	392.5
Unrealized gain (loss) on derivative instruments	36.2	(68.6)	10.4	(77.2)
Reclassification of derivative (gain) loss to income	0.7	(0.4)	1.8	(0.4)
Amortization of net prior service (benefit) cost and net actuarial (gain) loss to income	1.3	4.7	3.0	3.7
Ownership share of unconsolidated subsidiaries' other comprehensive income (loss)	0.7	0.9	(0.5)	2.0
Total other comprehensive income (loss), net of tax	(216.1)	247.5	(166.2)	320.6
Comprehensive income (loss)	214.7	582.5	547.1	870.6
Comprehensive (income) loss attributable to noncontrolling interests	(5.1)	(6.3)	(10.3)	(13.2)
Comprehensive income (loss) attributable to Molson Coors Brewing Company	$209.6	$576.2	$536.8	$857.4

See notes to unaudited condensed consolidated financial statements.

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MOLSON COORS BREWING COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN MILLIONS, EXCEPT PAR VALUE)
(UNAUDITED)

	As of June 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$792.9	$ 418.6
Accounts receivable, net	984.9	733.8
Other receivables, net	131.1	168.2
Inventories, net	637.5	591.5
Other current assets, net	341.1	277.6
Total current assets	2,887.5	2,189.7
Properties, net	4,599.4	4,673.7
Goodwill	8,332.6	8,405.5
Other intangibles, net	14,018.4	14,296.5
Other assets	723.0	681.5
Total assets	$30,560.9	$ 30,246.9
Liabilities and equity		
Current liabilities:		
Accounts payable and other current liabilities	$2,971.0	$ 2,684.5
Current portion of long-term debt and short-term borrowings	1,411.0	714.8
Total current liabilities	4,382.0	3,399.3
Long-term debt	9,455.1	10,598.7
Pension and postretirement benefits	828.1	848.5
Deferred tax liabilities	1,771.0	1,648.6
Other liabilities	328.1	316.8
Total liabilities	16,764.3	16,811.9
Commitments and contingencies (Note 14)		
Molson Coors Brewing Company stockholders' equity		
Capital stock:		
Preferred stock, $0.01 par value (authorized: 25.0 shares; none issued)	—	—
Class A common stock, $0.01 par value per share (authorized: 500.0 shares; issued and outstanding: 2.6 shares and 2.6 shares, respectively)	—	—
Class B common stock, $0.01 par value per share (authorized: 500.0 shares; issued: 205.1 shares and 204.7 shares, respectively)	2.0	2.0
Class A exchangeable shares, no par value (issued and outstanding: 2.9 shares and 2.9 shares, respectively)	107.7	107.7
Class B exchangeable shares, no par value (issued and outstanding: 14.7 shares and 14.7 shares, respectively)	553.2	553.2
Paid-in capital	6,707.0	6,688.5
Retained earnings	7,703.5	7,206.1
Accumulated other comprehensive income (loss)	(1,025.4)	(860.0)
Class B common stock held in treasury at cost (9.5 shares and 9.5 shares, respectively)	(471.4)	(471.4)
Total Molson Coors Brewing Company stockholders' equity	13,576.6	13,226.1
Noncontrolling interests	220.0	208.9
Total equity	13,796.6	13,435.0
Total liabilities and equity	$30,560.9	$ 30,246.9

See notes to unaudited condensed consolidated financial statements.

MOLSON COORS BREWING COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN MILLIONS)
(UNAUDITED)

	Six Months Ended	
	June 30, 2018	June 30, 2017
Cash flows from operating activities:		
Net income (loss) including noncontrolling interests	$713.3	$550.0
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	429.6	396.0
Amortization of debt issuance costs and discounts	7.2	11.2
Share-based compensation	25.1	31.6
(Gain) loss on sale or impairment of properties and other assets, net	—	(4.3)
Unrealized (gain) loss on foreign currency fluctuations and derivative instruments, net	38.4	(41.5)
Income tax (benefit) expense	167.1	191.1
Income tax (paid) received	20.0	23.5
Interest expense, excluding interest amortization	155.8	177.6
Interest paid	(152.5)	(175.4)
Pension expense (benefit)	(29.5)	(31.4)
Pension contributions paid	(5.0)	(72.1)
Change in current assets and liabilities and other	(71.7)	(237.8)
Net cash provided by (used in) operating activities	1,297.8	818.5
Cash flows from investing activities:		
Additions to properties	(351.1)	(354.0)
Proceeds from sales of properties and other assets	4.4	46.1
Other	(50.5)	6.0
Net cash provided by (used in) investing activities	(397.2)	(301.9)
Cash flows from financing activities:		
Exercise of stock options under equity compensation plans	6.3	1.1
Dividends paid	(177.0)	(176.6)
Payments on debt and borrowings	(2.4)	(2,201.5)
Proceeds on debt and borrowings	—	1,536.0
Net proceeds from (payments on) revolving credit facilities and commercial paper	(376.1)	282.0
Change in overdraft balances and other	24.5	(34.2)
Net cash provided by (used in) financing activities	(524.7)	(593.2)
Cash and cash equivalents:		
Net increase (decrease) in cash and cash equivalents	375.9	(76.6)
Effect of foreign exchange rate changes on cash and cash equivalents	(1.6)	18.6
Balance at beginning of year	418.6	560.9
Balance at end of period	$792.9	$502.9

See notes to unaudited condensed consolidated financial statements.

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MOLSON COORS BREWING COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
AND NONCONTROLLING INTERESTS
(IN MILLIONS)
(UNAUDITED)

		MCBC Stockholders' Equity								
		Common stock issued		Exchangeable shares issued		Paid-in-	Retained	Accumulated other comprehensive income (loss)	Common Stock held in treasury	Non controlling
	Total	Class A	Class B	Class A	Class B	capital	earnings		Class B	interests
As of December 31, 2016	$11,621.7	$—	$ 2.0	$108.1	$571.2	$6,635.3	$6,145.3	$ (1,571.8)	$(471.4)	$ 203.0
Exchange of shares	—	—	—	(0.4)	(16.8)	17.2	—	—	—	—
Shares issued under equity compensation plan	(24.7)	—	—	—	—	(24.7)	—	—	—	—
Amortization of share-based compensation	30.7	—	—	—	—	30.7	—	—	—	—
Acquisition of business and purchase of noncontrolling interest	1.6	—	—	—	—	—	—	—	—	1.6
Net income (loss) including noncontrolling interests	550.0	—	—	—	—	—	538.4	—	—	11.6
Other comprehensive income (loss), net of tax	320.6	—	—	—	—	—	—	319.0	—	1.6
Dividends declared and paid	(184.5)	—	—	—	—	—	(176.6)	—	—	(7.9)
As of June 30, 2017	$12,315.4	$—	$ 2.0	$107.7	$554.4	$6,658.5	$6,507.1	$ (1,252.8)	$(471.4)	$ 209.9

		MCBC Stockholders' Equity								
		Common stock issued		Exchangeable shares issued		Paid-in-	Retained	Accumulated other comprehensive income (loss)	Common Stock held in treasury	Non controlling
	Total	Class A	Class B	Class A	Class B	capital	earnings		Class B	interests
As of December 31, 2017	$13,435.0	$—	$ 2.0	$107.7	$553.2	$6,688.5	$7,206.1	$ (860.0)	$(471.4)	$ 208.9
Shares issued under equity compensation	(6.4)	—	—	—	—	(6.4)	—	—	—	—

plan										
Amortization of share-based compensation	24.9	—	—	—	—	24.9	—	—	—	—
Purchase of noncontrolling interest	(0.1)	—	—	—	—	—	—	—	—	(0.1)
Net income (loss) including noncontrolling interests	713.3	—	—	—	—	—	702.2	—	—	11.1
Other comprehensive income (loss), net of tax	(166.2)	—	—	—	—	—	—	(165.4)	—	(0.8)
Adoption of new accounting pronouncement (see Note 2)	(27.8)	—	—	—	—	—	(27.8)	—	—	—
Contributions from noncontrolling interests	6.4	—	—	—	—	—	—	—	—	6.4
Dividends declared and paid	(182.5)	—	—	—	—	—	(177.0)	—	—	(5.5)
As of June 30, 2018	$13,796.6	$—	$ 2.0	$107.7	$553.2	$6,707.0	$7,703.5	$ (1,025.4)	$(471.4)	$ 220.0

See notes to unaudited condensed consolidated financial statements.

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MOLSON COORS BREWING COMPANY AND SUBSIDIARIES
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation and Summary of Significant Accounting Policies

Unless otherwise noted in this report, any description of "we," "us" or "our" includes Molson Coors Brewing Company ("MCBC" or the "Company"), principally a holding company, and its operating and non-operating subsidiaries included within our reporting segments and Corporate. Our reporting segments include: MillerCoors LLC ("MillerCoors" or U.S. segment), operating in the United States; Molson Coors Canada ("MCC" or Canada segment), operating in Canada; Molson Coors Europe (Europe segment), operating in Bulgaria, Croatia, Czech Republic, Hungary, Montenegro, Republic of Ireland, Romania, Serbia, the United Kingdom and various other European countries; and Molson Coors International ("MCI" or International segment), operating in various other countries.

Unless otherwise indicated, information in this report is presented in USD and comparisons are to comparable prior periods. Our primary operating currencies, other than USD, include the CAD, the GBP, and our Central European operating currencies such as the EUR, CZK, HRK and RSD.

The accompanying unaudited condensed consolidated interim financial statements reflect all adjustments which are necessary for a fair statement of the financial position, results of operations and cash flows for the periods presented in accordance with U.S. GAAP. Such unaudited interim condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q pursuant to the rules and regulations of the SEC. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules and regulations.

These unaudited condensed consolidated interim financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2017 ("Annual Report"), and have been prepared on a consistent basis with the accounting policies described in Note 1 of the Notes to the Audited Consolidated Financial Statements included in our Annual Report, except as noted below and in Note 2, "New Accounting Pronouncements".

We adopted the FASB's new revenue recognition standard and the presentation of net periodic pension and other postretirement benefit cost standard during the first quarter of 2018. We also adopted the updated hedge accounting standard during the second quarter of 2018. The adoption of each of these accounting standards was effective January 1, 2018.

Our historical unaudited condensed consolidated financial statements have been revised to reflect the retrospective application of our change in accounting policy for calculating the market-related value of pension plan assets used to determine net periodic pension cost as discussed in our Annual Report.

The results of operations for the three and six months ended June 30, 2018, are not necessarily indicative of the results that may be achieved for the full year.

Non-Cash Activity

Non-cash activity includes non-cash issuances of share-based awards, as well as non-cash investing activities related to movements in our guarantee of indebtedness of certain equity method investments. See Note 4, "Investments" and Note 5, "Share-Based Payments" for further discussion. We also had non-cash activities related to capital expenditures incurred but not yet paid, and the recognition of capital leases. These non-cash activities are excluded from our unaudited condensed consolidated statements of cash flows and were $153.0 million and $163.1 million for the six months ended June 30, 2018, and June 30, 2017, respectively.

Discontinued Operations

We no longer present the activity related to foreign exchange movements nor the liabilities associated with our indemnities resulting from the historical sale of the Kaiser business (as discussed in Note 19 of the Notes included in our Annual Report) within discontinued operations and have accordingly reclassified the activity into other income within continuing operations of the unaudited condensed consolidated statements of operations, and the liabilities into other current and long-term liabilities within the unaudited condensed consolidated balance sheets. This change has been applied retrospectively and prospectively. As a result, we reclassified a foreign exchange gain from discontinued operations to other income (expense), net of $1.6 million and $1.0 million for the three and six months ended June 30, 2017.

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Revenue Recognition
We account for revenue in accordance with Accounting Standards Codification (“ASC”) Topic 606, Revenue from Contracts with Customers, which we adopted on January 1, 2018, using the modified retrospective transition approach (see Note 2, "New Accounting Pronouncements" for impacts of adoption).
Our net sales represent the sale of beer and other malt beverages (including adjacencies, such as cider and hard soda), net of excise tax. Sales are stated net of incentives, discounts and returns. Sales of products are for cash or otherwise agreed upon credit terms. Our payment terms vary by location and customer, however, the time period between when revenue is recognized and when payment is due is not significant. Our revenue generating activities have a single performance obligation and are recognized at the point in time when control transfers and our obligation has been fulfilled, which is when the related goods are shipped or delivered to the customer, depending upon the method of distribution and shipping terms. Where our products are sold under consignment arrangements, revenue is not recognized until control has transferred, which is when the product is sold to the end customer. Revenue is measured as the amount of consideration we expect to receive in exchange for the sale of our product. The cost of various programs, such as price promotions, rebates and coupons are treated as a reduction of sales. In certain of our markets, we make cash payments to customers such as slotting or listing fees, or payments for other marketing or promotional activities. These cash payments are recorded as a reduction of revenue unless we receive a distinct good or service as defined under ASC 606. Specifically, a good or service is considered distinct when it is separately identifiable from other promises in the contract, we receive a benefit from the good or service, and the benefit is separable from the sale of our product to the customer.
Certain payments made to customers are conditional on the achievement of volume targets, marketing commitments, or both. If paid in advance, we record such payments as prepayments and amortize them over the relevant period to which the customer commitment is made (generally up to five years). When the payment is not for a distinct good or service, or fair value cannot be reasonably estimated, the amortization of the prepayment or the cost as incurred is recorded as a reduction of revenue. Where a distinct good or service is received and fair value can be reasonably estimated, the cost is included as marketing, general and administrative expenses. The amounts deferred are reassessed regularly for recoverability over the contract period and are impaired where there is objective evidence that the benefits will not be realized or the asset is otherwise not recoverable. Separately, as discussed below, we analyze whether these advance payments contain a significant financing component for potential adjustment to the transaction price.
Our primary revenue generating activity represents the sale of beer and other malt beverages to customers, including both domestic and exported product sales. Our customer could be a distributor, retail or on-premise outlet, depending on the market. The majority of our revenues are generated from brands that we own and brew ourselves, however, we also import or brew and sell certain non-owned partner brands under licensing and related arrangements. In addition, primarily in the U.K., as well as certain other countries in our Europe segment, we sell other beverage companies' products to on-premise customers to provide them with a full range of products for their retail outlets. We refer to this as the "factored brand business." Sales from this business are included in our net sales and cost of goods sold when ultimately sold. In the factored brand business, we normally purchase inventory, which includes excise taxes charged by the vendor, take orders from customers for such brands, negotiate with the customers on pricing and invoice customers for the product and related costs of delivery. In addition, we incur the risk of loss at times we are in possession of the inventory and for the receivables due from the customers. Revenues for owned brands, partner and imported brands, as well as factored brands are recognized at the point in time when control is transferred to the customer as discussed above.
Other Revenue Generating Activities
We contract manufacture for other brewers in some of our markets. These contractual agreements require us to brew, package and ship certain brands to these brewers, who then sell the products to their own customers in their respective markets. Revenues under contract brewing arrangements are recognized when our obligation related to the finished product is fulfilled and control of the product transfers to these other brewers.
We also have licensing agreements with third party partners who brew and distribute our products in various markets across our segments. Under these agreements, we are compensated based on the amount of products sold by our partners in these markets at an agreed upon royalty rate or profit percentage. We apply the sales-based royalty

practical expedient to these licensing arrangements and recognize revenue as product is sold by our partners at the agreed upon rate.

We have evaluated these other revenue generating activities under the disaggregation disclosure criteria outlined within the guidance and concluded that these other revenue generating activities are immaterial for separate disclosure. See Note 3, "Segment Reporting", for disclosure of revenues by geographic segment.

Variable Consideration

Our revenue generating activities include variable consideration which is recorded as a reduction of the transaction price based upon expected amounts at the time revenue for the corresponding product sale is recognized. For example, customer promotional discount programs are entered into with certain distributors for certain periods of time. The amount ultimately reimbursed to distributors is determined based upon agreed-upon promotional discounts which are applied to distributors' sales to retailers. Other common forms of variable consideration include volume rebates for meeting established sales targets, and coupons and mail-in rebates offered to the end consumer. The determination of the reduction of the transaction price for variable consideration requires that we make certain estimates and assumptions that affect the timing and amounts of revenue and liabilities recorded. We estimate this variable consideration, including analyzing for a potential constraint on variable consideration, by taking into account factors such as the nature of the promotional activity, historical information and current trends, availability of actual results, and expectations of customer and consumer behavior.

We do not have standard terms that permit return of product; however, in certain markets where returns occur we estimate the amount of returns as variable consideration based on historical return experience and adjust our revenue accordingly. Products that do not meet our high quality standards are returned by the customer or recalled and destroyed and are recorded as a reduction of revenue. The reversal of revenue is recorded upon determination that the product will be recalled and destroyed. We estimate the costs required to facilitate product returns and record them in cost of goods sold as required.

During the three and six months ended June 30, 2018, adjustments to revenue from performance obligations satisfied in the prior period due to changes in estimates in variable consideration were immaterial.

Significant Financing Component and Costs to Obtain Contracts

In certain of our businesses where such practices are legally permitted, we make loans or advanced payments to retail outlets that sell our brands. For arrangements that do not span greater than one year, we apply the practical expedient available under ASC 606 and do not adjust the transaction price for the effects of a potential significant financing component. We further analyze arrangements that span greater than one year on an ongoing basis to determine whether a significant financing component exists. No such arrangements existed during the six months ended June 30, 2018.

Advance payments to customers, where legally permitted, are deferred and amortized as a reduction to revenue over the expected period of benefit and tested for recoverability as appropriate. All other costs to obtain contracts and fulfill are expensed as incurred based on the nature, significance and expected benefit of these costs relative to the contract.

Contract Assets and Liabilities

We continually evaluate whether our revenue generating activities and advanced payment arrangements with customers result in the recognition of contract assets or liabilities. No such assets or liabilities existed as of June 30, 2018, or December 31, 2017. Separately, trade accounts receivable, including affiliate receivables, approximates receivables from contracts with customers.

Shipping and Handling

Freight costs billed to customers for shipping and handling are recorded as revenue. Shipping and handling expense related to costs incurred to deliver product are recognized within cost of goods sold. We account for shipping and handling activities that occur after control has transferred as a fulfillment cost as opposed to a separate performance obligation, and the costs of shipping and handling are recognized concurrently with the related revenue.

Excise Tax

Excise tax remitted to tax authorities are government-imposed excise taxes on beer. Excise taxes are shown in a separate line item in the unaudited condensed consolidated statements of operations as a reduction of sales. Excise taxes are recognized as a current liability within accounts payable and other current liabilities on the unaudited condensed consolidated balance sheets, with the liability subsequently reduced when the taxes are remitted to the tax authority.

Net Periodic Pension Cost Revised Accounting Policy

The following table presents the impacts to our quarterly information resulting from the retrospective application of our change in accounting policy for calculating the market-related value of pension plan assets used to determine net periodic pension cost effective in the fourth quarter of 2017 as discussed in Note 1 of the Notes of our Annual Report. The below "As Adjusted" amounts have been further adjusted to reflect the adoption of the accounting standard on the presentation of net periodic pension and postretirement benefit cost. See Note 2, "New Accounting Pronouncements".

	Three Months Ended March 31, 2017		Three Months Ended June 30, 2017		Three Months Ended September 30, 2017		Three Months Ended December 31, 2017	
	As Reported	As Adjusted	As Reported	As Adjusted	As Reported	As Adjusted	Under Prior Method	As Adjusted
	(In millions)							
Unaudited Condensed Consolidated Statements of Operations:								
Cost of goods sold	$(1,372.9)	$(1,367.7)	$(1,756.1)	$(1,750.7)	$(1,589.6)	$(1,584.1)	$(1,520.3)	$(1,514.7)
Marketing, general and administrative expenses	$(702.8)	$(699.5)	$(781.2)	$(777.8)	$(782.8)	$(779.2)	$(779.4)	$(775.9)
Special items, net	$(3.8)	$(3.8)	$(16.5)	$(16.5)	$(4.1)	$(4.1)	$(3.7)	$(3.7)
Income tax benefit (expense)	$(64.6)	$(65.9)	$(123.0)	$(125.2)	$(145.3)	$(147.4)	$392.4	$391.7
Net income (loss) attributable to MCBC	$201.3	$208.5	$323.3	$329.9	$280.0	$287.0	$580.4	$588.8
Basic net income (loss) attributable to MCBC per share	$0.94	$0.97	$1.50	$1.53	$1.30	$1.33	$2.69	$2.73
Diluted net income (loss) attributable to MCBC per share	$0.93	$0.96	$1.49	$1.52	$1.29	$1.33	$2.68	$2.72

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2. New Accounting Pronouncements

New Accounting Pronouncements Recently Adopted

Pension and Other Postretirement Benefit Plans

In March 2017, the FASB issued authoritative guidance intended to improve the consistency, transparency and usefulness of financial information related to defined benefit pension or other postretirement plans. Under the new guidance, an employer must disaggregate the service cost component from the other components of net benefit cost within the statements of operations. 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 unaudited condensed 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. We adopted this guidance as of January 1, 2018, which was a classification adjustment only and had no impact to our consolidated net income. The adoption of this guidance resulted in the following retrospective adjustments within our unaudited condensed consolidated results of operations:

	Three Months Ended June 30, 2017	
	As Adjusted - Pension Methodology[1]	As Adjusted - Accounting Standard Update
	(In millions)	
Unaudited Condensed Consolidated Statement of Operations:		
Cost of goods sold	$(1,750.7)	$(1,755.5)
Marketing, general and administrative expenses	$(777.8)	$(782.4)
Operating income (loss)	$546.3	$536.9
Other pension and postretirement benefits (costs), net	$—	$9.4

	Six Months Ended June 30, 2017	
	As Adjusted - Pension Methodology[1]	As Adjusted - Accounting Standard Update
	(In millions)	
Unaudited Condensed Consolidated Statement of Operations:		
Cost of goods sold	$(3,118.4)	$(3,127.8)
Marketing, general and administrative expenses	$(1,477.3)	$(1,487.7)
Special items, net	$(20.3)	$(23.2)
Operating income (loss)	$924.0	$901.3
Other pension and postretirement benefits (costs), net	$—	$22.7

(1) As discussed in detail within Note 1, "Basis of Presentation and Summary of Significant Accounting Policies", our historical unaudited condensed consolidated financial statements have been revised to reflect the retrospective application of our change in accounting policy for calculating the market-related value of pension plan assets used to determine net periodic pension cost. The change was effective in the fourth quarter of 2017.

The following table shows the (increase) decrease for the respective line item within the unaudited condensed consolidated statement of operations for segment reporting for the three months ended June 30, 2017:

	Corporate	Europe	U.S.	Canada
Cost of goods sold	$ —	$(6.7)	$1.8	$ 0.1
Marketing, general and administrative expenses	—	(4.6)	—	—
Other pension and postretirement benefits (costs), net	9.4	—	—	—
Total	$ 9.4	$(11.3)	$1.8	$ 0.1

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The following table shows the (increase) decrease for the respective line item within the unaudited condensed consolidated statement of operations for segment reporting for the six months ended June 30, 2017:

	Corporate	Europe	U.S.	Canada
Cost of goods sold	$ —	$(13.3)	$3.6	$0.3
Marketing, general and administrative expenses	—	(9.3)	(0.8)	(0.3)
Special items, net	—	—	—	(2.9)
Other pension and postretirement benefits (costs), net	22.7	—	—	—
Total	$ 22.7	$(22.6)	$2.8	$(2.9)

Revenue Recognition

In May 2014, the FASB issued authoritative guidance related to new accounting requirements for the recognition of revenue from contracts with customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for the goods or services.

We adopted this guidance and related amendments as of January 1, 2018, applying the modified retrospective transition approach to all contracts. Based on our comprehensive assessment of the new guidance, including our evaluation of the five-step approach outlined within the guidance, we concluded that the adoption did not have a significant impact to our core revenue generating activities. However, the adoption resulted in a change in presentation of certain cash payments made to customers as well as the timing of recognition of certain promotional discounts. Specifically, certain cash payments to customers were previously recorded within marketing, general and administrative expenses in the unaudited condensed consolidated statements of operations. Upon the adoption of the new guidance, many of these cash payments did not meet the specific criteria within the new guidance of providing a “distinct” good or service, and therefore, were required to be presented as a reduction of revenue. Based on foreign exchange rates as of June 30, 2018, we currently anticipate that the impact of this change will result in a reduction of both revenue and marketing, general and administrative expenses by approximately $60 million to $70 million during 2018, primarily within our Canada segment, with no impact to full year net income. However, actual results may differ from these estimates. Furthermore, upon adoption of the new guidance, certain of our promotional discounts which are deemed variable consideration under the new guidance, are now recognized at the time of the related shipment of product, which is earlier than recognized under historical guidance. We anticipate that this change in recognition timing will shift financial statement recognition primarily amongst quarters, however, do not anticipate that the full-year impact will be significant to our financial results. We also evaluated the requirements of the new guidance on our other revenue generating activities such as contract brewing and license arrangements, and concluded that no changes to our historical accounting treatment was required.

As a result of the cumulative impact of adopting the new guidance, we recorded a reduction to opening retained earnings of $27.8 million as of January 1, 2018, with an offsetting increase primarily within accounts payable and other current liabilities and the related tax effects, related primarily to the accelerated recognition of certain promotional discounts. Results for reporting periods beginning after January 1, 2018, are presented under the new guidance, while prior period amounts have not been adjusted and continue to be reported in accordance with historical accounting guidance. The following tables provide a comparison of our current period results of operations and financial position under the new guidance, versus our financial statements if the historical guidance had continued to be applied:

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	Under Historical Guidance	As Reported Under New Guidance	Effect of Change	Under Historical Guidance	As Reported Under New Guidance	Effect of Change
	(In millions, except per share data)					
Unaudited Condensed Consolidated Statement of Operations:						
Sales	$3,845.2	$3,820.5	$(24.7)	$6,729.3	$6,688.5	$(40.8)
Excise taxes	(735.3)	(735.3)	—	(1,271.8)	(1,271.8)	—
Net sales	3,109.9	3,085.2	(24.7)	5,457.5	5,416.7	(40.8)
Cost of goods sold	(1,739.1)	(1,739.1)	—	(3,274.8)	(3,274.8)	—
Gross profit	1,370.8	1,346.1	(24.7)	2,182.7	2,141.9	(40.8)
Marketing, general and administrative expenses	(757.7)	(744.7)	13.0	(1,451.9)	(1,425.8)	26.1
Special items, net	(10.5)	(10.5)	—	304.3	304.3	—
Operating income (loss)	602.6	590.9	(11.7)	1,035.1	1,020.4	(14.7)
Interest income (expense), net	(75.8)	(76.7)	(0.9)	(158.2)	(159.9)	(1.7)
Other pension and postretirement benefits (costs), net	9.9	9.9	—	19.9	19.9	—
Other income (expense), net	(1.1)	(1.1)	—	—	—	—
Income (loss) before income taxes	535.6	523.0	(12.6)	896.8	880.4	(16.4)
Income tax benefit (expense)	(94.4)	(92.2)	2.2	(170.1)	(167.1)	3.0
Net income (loss)	441.2	430.8	(10.4)	726.7	713.3	(13.4)
Net (income) loss attributable to noncontrolling interests	(6.7)	(6.7)	—	(11.1)	(11.1)	—
Net income (loss) attributable to MCBC	$434.5	$424.1	$(10.4)	$715.6	$702.2	$(13.4)
Basic net income (loss) attributable to MCBC per share	$2.01	$1.96	$(0.05)	$3.31	$3.25	$(0.06)
Diluted net income (loss) attributable to MCBC per share	$2.01	$1.96	$(0.05)	$3.30	$3.24	$(0.06)

	As of June 30, 2018		
	Under Historical Guidance	As Reported Under New Guidance	Effect of Change
	(In millions)		
Unaudited Condensed Consolidated Balance Sheet:			
Assets			
Accounts receivable, net	$984.7	$984.9	$0.2
Other current assets, net	$336.8	$341.1	$4.3
Liabilities and equity			
Accounts payable and other current liabilities	$2,913.5	$2,971.0	$57.5

Deferred tax liabilities	$1,783.0	$1,771.0	$(12.0)
Retained earnings	$7,744.7	$7,703.5	$(41.2)
AOCI	$(1,025.6)	$(1,025.4)	$0.2

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These changes 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 the change in the timing of recognition of certain promotional discounts and cash payments to customers. This adoption had no impact to our cash flows from operating, investing or financing activities. See Note 1, "Basis of Presentation and Summary of Significant Accounting Policies" for further details on our significant accounting policies for revenue recognition pursuant to the new guidance.

Financial and Commodity Risks

In August 2017, the FASB issued authoritative guidance intended to refine and expand hedge accounting for both financial and commodity risks. The revised guidance will create more transparency around how economic results are presented, both on the face of the financial statements and in the footnotes. In addition, this guidance makes certain targeted improvements to simplify the application of hedge accounting guidance. This guidance is effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods, with early adoption permitted. We have elected to early adopt this guidance during the second quarter of 2018. All transition requirements have been applied to hedging relationships existing on the date of adoption and the effect of the adoption is reflected as of January 1, 2018. The adoption of this guidance did not result in a cumulative adjustment to the opening balance of retained earnings as of January 1, 2018, and did not have any other material effect on our results of operations, financial position or cash flows. All required disclosures under the new guidance have been made in Note 12, "Derivative Instruments and Hedging Activities".

New Accounting Pronouncements Not Yet Adopted

In February 2018, the FASB issued authoritative guidance intended to improve the usefulness of financial information related to the enactment of the 2017 U.S. Tax Cuts and Jobs Act (the "2017 Tax Act"). This guidance provides an option to reclassify from accumulated other comprehensive income to retained earnings the stranded tax effects resulting from the change in the U.S. federal corporate income tax rate as a result of the 2017 Tax Act. This guidance is effective for annual periods beginning after December 15, 2018, including interim periods within those annual periods, with early adoption permitted. We are currently evaluating the potential impact on our financial statements in order to determine whether to elect to make this reclassification upon adoption of this guidance.

In February 2016, the FASB issued authoritative guidance intended to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information about leasing arrangements. Under the new guidance, lessees will be required to recognize a right-of-use asset and a lease liability, measured on a discounted basis, at the commencement date for all leases with terms greater than twelve months. Additionally, this guidance will require disclosures to help investors and other financial statement users to better understand the amount, timing, and uncertainty of cash flows arising from leases, including qualitative and quantitative requirements. This guidance is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those annual periods, with early adoption permitted. The guidance should be applied under a modified retrospective transition approach, with an option to apply the guidance either at the beginning of the earliest comparative period presented in the adoption-period financial statements, or to apply the new guidance at the adoption date. We currently anticipate that we will apply the guidance at the beginning of the period of adoption; however, this expectation may change following the completion of our evaluation of the impact of this guidance on our financial statements. We are currently evaluating the potential impact on our financial position and results of operations upon adoption of this guidance. This guidance will result in our existing operating leases, for certain real estate and equipment, to be recognized on our balance sheet. We will further analyze our lease arrangements as we complete our assessment and implementation of this new guidance.

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

3. Segment Reporting

Our reporting segments are based on the key geographic regions in which we operate, which are the basis on which our chief operating decision maker evaluates the performance of the business. Our reporting segments consist of the U.S., Canada, Europe and International. Corporate is not a segment and primarily includes interest and certain other

general and administrative costs that are not allocated to any of the operating segments 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. Additionally, only the service cost component of net periodic pension and OPEB cost are now reported within each operating segment, as discussed in Note 2, "New Accounting Pronouncements", and all other components are reported, retrospectively and prospectively, within the Corporate segment in accordance with how our chief operating decision maker evaluates the performance of our business.

No single customer accounted for more than 10% of our consolidated sales for the three and six months ended June 30, 2018, or June 30, 2017. Consolidated net sales represent sales to third-party external customers less excise taxes. Inter-segment transactions impacting net sales revenues and income (loss) before income taxes eliminate in consolidation and are primarily related to U.S. segment sales to the other segments.

The following tables present net sales, income (loss) before income taxes and total assets by segment:

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	(In millions)			
U.S.	$2,072.5	$2,138.9	$3,720.3	$3,888.8
Canada	397.4	407.6	681.2	698.7
Europe	586.1	524.7	960.4	906.3
International	67.9	65.1	125.4	126.9
Corporate	0.3	0.3	0.5	0.6
Inter-segment net sales eliminations	(39.0)	(45.3)	(71.1)	(81.3)
Consolidated net sales	$3,085.2	$3,091.3	$5,416.7	$5,540.0

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017[(1)]	June 30, 2018	June 30, 2017[(1)]
	(In millions)			
U.S.	$445.5	$486.5	$707.2	$803.1
Canada[(2)]	61.3	69.7	70.4	90.6
Europe[(3)]	86.8	69.9	56.9	96.9
International	1.3	(7.7)	5.0	(6.2)
Corporate[(4)]	(71.9)	(158.2)	40.9	(243.3)
Consolidated income (loss) before income taxes	$523.0	$460.2	$880.4	$741.1

(1) Segment results for the three and six months ended June 30, 2017, have been adjusted to reflect the adoption of the new accounting pronouncement for pension and other postretirement benefit costs as well as the reclassification of all non-service cost components of pension and other postretirement costs to Corporate. See Note 2, "New Accounting Pronouncements" for further details.

(2) During the first quarter of 2017, we received payment and recorded a gain of CAD 10.6 million, or $8.1 million, resulting from a purchase price adjustment related to the historical sale of Molson Inc.'s ownership interest in the Montreal Canadiens, which is considered an affiliate of MCBC.

(3) During the three months ended March 31, 2017, we recorded a provision for an estimate of uncollectible receivables of approximately $11 million related to Agrokor, a large customer in Croatia. We have subsequently reduced this exposure and as of June 30, 2018, our estimated provision of uncollectible receivables from Agrokor totals approximately $4 million. The settlement plan related to this matter was announced in July 2018. We are currently evaluating the implications of the settlement plan, and do not expect it to have a significant impact on our financial statements upon finalization. Separately, 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. See Note 14, "Commitments and Contingencies" for details.

(4) During the three months ended March 31, 2018, we recorded a gain of $328.0 million related to the Adjustment Amount as defined and further discussed in Note 6, "Special Items". Additionally, related to the unrealized mark-to-market valuation on our commodity hedge positions, we recorded an unrealized gain of $45.1 million and an unrealized loss of $39.6 million during the three and six months ended June 30, 2018, respectively, compared to an unrealized loss of $23.4 million and an unrealized gain of $39.7 million during the three and six months ended June 30, 2017, respectively.

Income (loss) before income taxes includes the impact of special items. Refer to Note 6, "Special Items" for further discussion.

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	As of	
	June 30, 2018	December 31, 2017
	(In millions)	
U.S.	$19,318.7	$ 19,353.6
Canada	4,731.5	4,835.7
Europe	5,619.5	5,522.0
International	279.4	294.8
Corporate	611.8	240.8
Consolidated total assets	$30,560.9	$ 30,246.9

4. Investments

Our investments include both equity method and consolidated investments. Those entities identified as VIEs have been evaluated to determine whether we are the primary beneficiary. The VIEs included under "Consolidated VIEs" below are those for which we have concluded that we are the primary beneficiary and accordingly, consolidate these entities. None of our consolidated VIEs held debt as of June 30, 2018, or December 31, 2017. We have not provided any financial support to any of our VIEs during the year that we were not previously contractually obligated to provide. Amounts due to and due from our equity method investments are recorded as affiliate accounts payable and affiliate accounts receivable.

Authoritative guidance related to the consolidation of VIEs requires that we continually reassess whether we are the primary beneficiary of VIEs in which we have an interest. As such, the conclusion regarding the primary beneficiary status is subject to change and we continually evaluate circumstances that could require consolidation or deconsolidation. As of June 30, 2018, and December 31, 2017, our consolidated VIEs were Cobra Beer Partnership, Ltd. ("Cobra U.K."), Grolsch U.K. Ltd. ("Grolsch"), Rocky Mountain Metal Container ("RMMC") and Rocky Mountain Bottle Company ("RMBC"). Our unconsolidated VIEs are Brewers Retail Inc. ("BRI") and Brewers' Distributor Ltd. ("BDL").

Both BRI and BDL have outstanding third party debt which is guaranteed by their respective shareholders. As a result, we have a guarantee liability of $55.4 million and $38.1 million recorded as of June 30, 2018, and December 31, 2017, respectively, which is presented within accounts payable and other current liabilities on the unaudited condensed consolidated balance sheets and represents our proportionate share of the outstanding balance of these debt instruments. The carrying value of the guarantee liability equals fair value, which considers an adjustment for our own non-performance risk and is considered a Level 2 measurement. The offset to the guarantee liability was recorded as an adjustment to our respective equity method investment within the unaudited condensed consolidated balance sheets. The resulting change in our equity method investments during the year due to movements in the guarantee represents a non-cash investing activity.

Consolidated VIEs

The following summarizes the assets and liabilities of our consolidated VIEs (including noncontrolling interests):

	As of			
	June 30, 2018		December 31, 2017	
	Total Assets	Total Liabilities	Total Assets	Total Liabilities
	(In millions)			
Grolsch	$4.7	$ 0.3	$ 4.8	$ 0.2
Cobra U.K.	$17.1	$ 0.8	$ 20.2	$ 2.1
RMMC	$78.2	$ 5.0	$ 74.4	$ 4.4
RMBC	$71.3	$ 4.2	$ 56.2	$ 4.6

5. Share-Based Payments

We have one share-based compensation plan, the MCBC Incentive Compensation Plan (the "Incentive Compensation Plan"), as of June 30, 2018, and all outstanding awards fall under this plan. During the three and six months ended

June 30, 2018, and June 30, 2017, we recognized share-based compensation expense related to the following Class B common stock awards to certain directors, officers and other eligible employees, pursuant to the Incentive Compensation Plan: RSUs, DSUs, PSUs and stock options.

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	(In millions)			
Pretax compensation expense	$ 10.3	$ 16.1	$ 25.1	$ 31.6
Tax benefit	(2.1)	(5.5)	(3.7)	(10.8)
After-tax compensation expense	$ 8.2	$ 10.6	$ 21.4	$ 20.8

As of June 30, 2018, there was $73.3 million of total unrecognized compensation expense from all share-based compensation arrangements granted under the Incentive Compensation Plan, related to unvested awards. This total compensation expense is expected to be recognized over a weighted-average period of 2.1 years.

	RSUs and DSUs		PSUs	
	Units	Weighted-average grant date fair value per unit	Units	Weighted-average grant date fair value per unit
	(In millions, except per unit amounts)			
Non-vested as of December 31, 2017	1.0	$95.80	0.4	$89.57
Granted	0.4	$73.00	0.2	$78.30
Vested	(0.3)	$90.30	(0.1)	$75.15
Forfeited	—	$—	—	$—
Non-vested as of June 30, 2018	1.1	$89.16	0.5	$86.91

The weighted-average fair value per unit for the non-vested PSUs is $86.31 as of June 30, 2018.

	Stock options and SOSARs			
	Awards	Weighted-average exercise price per share	Weighted-average remaining contractual life (years)	Aggregate intrinsic value
	(In millions, except per share amounts and years)			
Outstanding as of December 31, 2017	1.5	$63.60	4.6	$ 31.3
Granted	0.2	$78.79		
Exercised	(0.2)	$50.28		
Forfeited	—	$—		
Outstanding as of June 30, 2018	1.5	$67.04	4.9	$ 14.2
Expected to vest as of June 30, 2018	0.3	$85.32	8.8	$ —
Exercisable as of June 30, 2018	1.2	$61.35	3.7	$ 14.2

The total intrinsic values of stock options and SOSARs exercised during the six months ended June 30, 2018, and June 30, 2017, were $5.1 million and $5.3 million, respectively. During the six months ended June 30, 2018, and June 30, 2017, cash received from stock option exercises was $6.3 million and $1.1 million, respectively, and total tax benefits realized, including excess tax benefits, from share-based awards vested or exercised was $5.9 million and $19.2 million, respectively.

The fair value of each option granted in the first half of 2018 and 2017 was determined on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Six Months Ended	
	June 30, 2018	June 30, 2017
Risk-free interest rate	2.65%	2.04%
Dividend yield	2.08%	1.64%
Volatility range	22.36%-24.14%	22.40%-22.88%
Weighted-average volatility	22.81%	22.52%
Expected term (years)	5.3	5.1
Weighted-average fair market value	$15.44	$18.66

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The risk-free interest rates utilized for periods throughout the contractual life of the stock options are based on a zero-coupon U.S. Treasury security yield at the time of grant. Expected volatility is based on a combination of historical and implied volatility of our stock. The expected term of stock options is estimated based upon observations of historical employee option exercise patterns and trends of those employees granted options in the respective year.
The fair value of the market metric for each PSU granted in the first half of 2018 and 2017 was determined on the date of grant using a Monte Carlo model to simulate total stockholder return for MCBC and peer companies with the following weighted-average assumptions:

	Six Months Ended	
	June 30, 2018	June 30, 2017
Risk-free interest rate	2.34%	1.59%
Dividend yield	2.08%	1.64%
Volatility range	13.03%-81.87%	13.71%-80.59%
Weighted-average volatility	22.76%	24.24%
Expected term (years)	2.8	2.8
Weighted-average fair market value	$78.30	$97.13

The risk-free interest rates utilized for periods throughout the expected term of the PSUs are based on a zero-coupon U.S. Treasury security yield at the time of grant. Expected volatility is based on historical volatility of our stock as well as the stock of our peer firms, as shown within the volatility range above, for a period from the grant date consistent with the expected term. The expected term of PSUs is calculated based on the grant date to the end of the performance period.
As of June 30, 2018, there were 3.4 million shares of the Company's Class B common stock available for issuance as awards under the Incentive Compensation Plan.

6. Special Items

We have incurred charges or realized benefits that either we do not believe to be indicative of our core operations, or we believe are significant to our current operating results warranting separate classification. As such, we have separately classified these charges (benefits) as special items.

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	(In millions)			
Employee-related charges				
Restructuring	$1.0	$ 0.4	$4.9	$ 1.3
Impairments or asset abandonment charges				
U.S. - Asset abandonment[1]	1.3	12.4	2.8	14.4
Canada - Asset abandonment[2]	6.0	1.1	12.1	2.3
Europe - Asset abandonment[3]	1.0	2.6	2.7	5.2
Termination fees and other (gains) losses				
International[4]	1.2	—	1.2	—
Acquisition purchase price adjustment settlement gain[5]	—	—	(328.0)	—
Total Special items, net	$10.5	$ 16.5	$(304.3)	$ 23.2

(1) Charges for the three and six months ended June 30, 2018, relate to the planned closure of the Colfax, California cidery, and consist primarily of accelerated depreciation in excess of normal depreciation. Charges for the three and six months ended June 30, 2017, relate to the closure of the Eden, North Carolina, brewery.

(2) For the three and six months ended June 30, 2018, we incurred charges consisting primarily of accelerated depreciation in excess of normal depreciation related to the planned closures of the Vancouver and Montreal breweries, which are currently expected to occur in 2019 and 2021, respectively. Charges for the three and six months ended June 30, 2017, relate primarily to accelerated depreciation in excess of normal depreciation related to the above mentioned planned closure of the Vancouver brewery.

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(3) For the three and six months ended June 30, 2018, we incurred charges primarily related to the closure of the Burton South brewery, which closed during the first quarter of 2018. For the three and six months ended June 30, 2017, we incurred charges consisting primarily of accelerated depreciation in excess of normal depreciation related to the Burton South brewery closure.

(4) For the three and six months ended June 30, 2018, we incurred charges related to the exit of our China business.

(5) On October 11, 2016, we completed the Acquisition for $12.0 billion in cash, subject to a downward 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.

Throughout the process outlined in the purchase agreement, significant uncertainty remained on the ultimate outcome of the Adjustment Amount. As a result, no adjustment to purchase accounting was made through the completion of the measurement period in October 2017. Subsequently, 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 unaudited condensed consolidated statement of operations in our Corporate segment and within cash provided by operating activities within our unaudited condensed consolidated statement of cash flows for the six months ended June 30, 2018. MCBC and ABI also agreed to certain mutual releases as further described in the settlement agreement which was filed as an exhibit to a Current Report on Form 8-K filed January 22, 2018.

Restructuring Activities

Beginning in 2016, restructuring initiatives related to the integration of MillerCoors after the completion of the Acquisition were implemented in order to operate a more efficient business and achieve cost saving targets which to-date resulted in reduced employment levels by approximately 106 employees. Total restructuring costs related to integration initiatives represent the majority of the charges within the table below by segment. Severance costs related to these restructuring activities were recorded as special items within our unaudited condensed consolidated statements of operations. As we continually evaluate our cost structure and seek opportunities for further efficiencies and cost savings as part of these initiatives, we may incur additional restructuring related charges in the future, however, we are unable to estimate the amount of charges at this time.

We have continued our ongoing assessment of our supply chain strategies across our segments in order to align with our cost saving objectives. As part of this strategic review, which began in 2014, we have had restructuring activities related to the closure or planned closure of breweries, as well as activities related to business efficiencies. As a result, we have reduced employment levels by a total of 450 employees. Consequently, we recognized severance and other employee-related charges, which we have recorded as special items within our unaudited condensed consolidated statements of operations. We will continue to evaluate our supply chain network and seek opportunities for further efficiencies and cost savings, and we therefore may incur additional restructuring related charges or adjustments to previously recorded charges in the future, however, we are unable to estimate the amount of charges at this time.

The accrued restructuring balances represent expected future cash payments required to satisfy the remaining severance obligations to terminated employees, the majority of which we expect to be paid in the next 12 months.

	U.S.	Canada	Europe	International	Corporate	Total
	(In millions)					
As of December 31, 2017	$0.6	$ 4.3	$ 1.8	$ 0.2	$ —	$6.9
Charges incurred and changes in estimates	2.0	(0.8)	2.1	1.6	—	4.9
Payments made	(0.6)	(1.5)	(2.3)	(0.2)	—	(4.6)
Foreign currency and other adjustments	—	(0.1)	—	—	—	(0.1)
As of June 30, 2018	$2.0	$ 1.9	$ 1.6	$ 1.6	$ —	$7.1

	U.S.	Canada	Europe	International	Corporate	Total
	(In millions)					
As of December 31, 2016	$5.1	$ 5.9	$ 2.8	$ 0.2	$ 0.7	$14.7
Charges incurred and changes in estimates	0.7	(0.1)	—	0.6	0.1	1.3
Payments made	(4.6)	(0.8)	(0.5)	(0.2)	(0.6)	(6.7)
Foreign currency and other adjustments	—	0.1	0.1	—	—	0.2
As of June 30, 2017	$1.2	$ 5.1	$ 2.4	$ 0.6	$ 0.2	$9.5

7. Income Tax

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Effective tax rate	18%	27 %	19%	26 %

The decrease in the effective tax rate during the second quarter and first half of 2018 versus 2017, is primarily driven by the reduction of the statutory U.S. federal corporate income tax rate from 35% to 21% as a result of the 2017 Tax Act. Our effective tax rates were also affected by the impact of discrete items. Specifically, we recognized a net discrete tax benefit of $1.2 million during the second quarter of 2018, and net discrete tax expense of $4.3 million during the first half of 2018. During the second quarter and first half of 2017, we recognized a net discrete tax benefit of $1.3 million and $9.7 million, respectively.

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 and other changes to regulatory environments in countries in which we do business that, if enacted, may have an impact on our effective tax rate.

Additionally, we continue to evaluate the impacts of the 2017 Tax Act. As we further understand its implications, as well as the related, and yet to be issued, regulations and interpretations, our effective tax rate could be impacted. For example, subsequent to the enactment, the FASB staff concluded that companies should make an accounting policy election to account for the tax effects of the global intangible low-taxed income (“GILTI”) either as a component of income tax expense in the future period the tax arises, or as a component of deferred taxes on the related investments in foreign subsidiaries. We are currently evaluating the GILTI provisions of the 2017 Tax Act and the related implications and have not finalized our accounting policy election, however, have preliminarily concluded that we will record as a periodic expense as incurred, and therefore, have not recorded deferred taxes for GILTI. We will continue to evaluate in future periods and will finalize our accounting policy election at that time.

We did not make any material adjustments to the amounts recorded as of December 31, 2017, as a result of the 2017 Tax Act, however, we continue to consider these amounts provisional for the reasons discussed above. Additional impacts from the 2017 Tax Act will be recorded as they are identified during the measurement period pursuant to SEC Staff Accounting Bulletin No. 118 ("SAB 118"). Our determination of the tax effects of the 2017 Tax Act will be completed no later than one year from the enactment date as permitted under SAB 118. Any adjustments to provisional amounts that are identified during the measurement period will be recorded and disclosed in the reporting period in which the adjustment is determined. The complexity of the 2017 Tax Act could necessitate the need to use the full one year measurement period to adequately interpret, analyze and conclude upon the tax effects of the 2017 Tax Act as of the enactment date.

8. Goodwill and Intangible Assets

	U.S.	Canada	Europe	International	Consolidated
Changes in Goodwill:		(In millions)			
As of December 31, 2017	$5,928.5	$932.1	$1,538.0	$ 6.9	$ 8,405.5
Business acquisition[1]	—	—	9.8	—	9.8
Adjustments to preliminary purchase price allocation[2]	—	(2.9)	—	—	(2.9)
Foreign currency translation	—	(39.7)	(39.6)	(0.5)	(79.8)
As of June 30, 2018	$5,928.5	$889.5	$1,508.2	$ 6.4	$ 8,332.6

(1) During the first quarter of 2018, we completed the acquisition of Aspall Cyder Limited, an established premium cider business in the U.K. As part of the preliminary purchase price accounting in the first quarter of 2018, goodwill generated in conjunction with this acquisition has been recorded within our Europe segment, subject to normal purchase accounting adjustments.

(2) During the second quarter of 2018, we recorded adjustments to the preliminary purchase price allocation related to our acquisition of Le Trou du Diable, which was completed in the fourth quarter of 2017.

The following table presents details of our intangible assets, other than goodwill, as of June 30, 2018:

	Useful life	Gross	Accumulated amortization	Net
	(Years)	(In millions)		
Intangible assets subject to amortization:				
Brands	10 - 50	$5,089.2	$ (595.1)	$4,494.1
License agreements and distribution rights	15 - 28	222.8	(95.0)	127.8
Other	2 - 40	132.5	(28.8)	103.7
Intangible assets not subject to amortization:				
Brands	Indefinite	8,184.9	—	8,184.9
Distribution networks	Indefinite	770.3	—	770.3
Other	Indefinite	337.6	—	337.6
Total		$14,737.3	$ (718.9)	$14,018.4

The following table presents details of our intangible assets, other than goodwill, as of December 31, 2017:

	Useful life	Gross	Accumulated amortization	Net
	(Years)	(In millions)		
Intangible assets subject to amortization:				
Brands	10 - 50	$5,215.3	$ (516.0)	$4,699.3
License agreements and distribution rights	15 - 28	236.3	(103.9)	132.4
Other	2 - 40	148.3	(42.4)	105.9
Intangible assets not subject to amortization:				
Brands	Indefinite	8,216.6	—	8,216.6
Distribution networks	Indefinite	804.7	—	804.7
Other	Indefinite	337.6	—	337.6
Total		$14,958.8	$ (662.3)	$14,296.5

The changes in the gross carrying amounts of intangibles from December 31, 2017, to June 30, 2018, are primarily driven by the impact of foreign exchange rates, as a significant amount of intangibles are denominated in foreign currencies.

Based on foreign exchange rates as of June 30, 2018, the estimated future amortization expense of intangible assets is as follows:

Fiscal year	Amount (In millions)
2018 - remaining	$ 111.5
2019	$ 222.8
2020	$ 221.8
2021	$ 215.5
2022	$ 210.9

Amortization expense of intangible assets was $56.2 million and $55.1 million for the three months ended June 30, 2018, and June 30, 2017, respectively, and $112.8 million and $110.3 million for the six months ended June 30, 2018, and June 30, 2017, respectively. This expense is primarily presented within marketing, general and administrative expenses on the unaudited condensed consolidated statements of operations.

Annual Goodwill Impairment Testing

We completed our required annual goodwill and indefinite-lived intangible impairment testing as of October 1, 2017, the first day of our fourth quarter, and concluded there were no impairments of goodwill within our reporting units or our indefinite-lived intangible assets.

Key Assumptions

Fair value determinations require considerable judgment and are sensitive to changes in underlying assumptions and factors. The key assumptions used to derive the estimated fair values of our reporting units and indefinite-lived intangibles are discussed in Part II—Item 8 Financial Statements, Note 11, "Goodwill and Intangible Assets" in our Annual Report.

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. For example, subsequent to the completion of our annual impairment testing, we considered the implications of the enactment of the 2017 Tax Act on our U.S. reporting unit and indefinite-lived brand valuations. The results of our preliminary analysis indicated that the implications are expected to be favorable, keeping all other assumptions constant.

While historical performance and current expectations have resulted in fair values of our reporting units and indefinite-lived intangible assets 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.

Indefinite and Definite-Lived Intangibles

Regarding indefinite and definite-lived intangibles, we continuously monitor the performance of the underlying assets for potential triggering events suggesting an impairment review should be performed. No such triggering events were identified in the first half of 2018 that resulted in an impairment.

9. Debt

Debt obligations

	As of June 30, 2018	December 31, 2017
	(In millions)	
Long-term debt:		
CAD 400 million 2.25% notes due 2018	$304.6	$ 318.2
CAD 500 million 2.75% notes due 2020	380.7	397.7
CAD 500 million 2.84% notes due 2023	380.7	397.7
CAD 500 million 3.44% notes due 2026	380.7	397.7
$500 million 1.45% notes due 2019	500.0	500.0
$500 million 1.90% notes due 2019[1]	499.1	498.5
$500 million 2.25% notes due 2020[1][2]	498.6	498.2
$1.0 billion 2.10% notes due 2021	1,000.0	1,000.0
$500 million 3.5% notes due 2022[1]	510.7	512.2
$2.0 billion 3.0% notes due 2026	2,000.0	2,000.0
$1.1 billion 5.0% notes due 2042	1,100.0	1,100.0
$1.8 billion 4.2% notes due 2046	1,800.0	1,800.0
EUR 500 million notes due 2019	584.2	600.3
EUR 800 million 1.25% notes due 2024	934.7	960.4
Other long-term debt	48.7	22.1
Less: unamortized debt discounts and debt issuance costs	(70.0)	(75.9)
Total long-term debt (including current portion)	10,852.7	10,927.1
Less: current portion of long-term debt	(1,397.6)	(328.4)
Total long-term debt	$9,455.1	$ 10,598.7
Short-term borrowings:		
Commercial paper program	$—	$ 379.0
Other short-term borrowings[3]	13.4	7.4
Current portion of long-term debt	1,397.6	328.4
Current portion of long-term debt and short-term borrowings	$1,411.0	$ 714.8

(1) The fair value hedges related to these notes have been settled and are being amortized over the life of the respective note.

(2) During the second quarter, we entered into cross currency swaps in order to hedge a portion of the foreign currency translational impacts of our European investment. As a result of the swaps, we economically converted our $500 million 2.25% senior notes due 2020 and associated interest to EUR denominated, which will result in a EUR interest rate to be received at 0.85%. See Note 12, "Derivative Instruments and Hedging Activities" for further details.

(3) As of June 30, 2018, we had $6.9 million in bank overdrafts and $71.6 million in bank cash related to our cross-border, cross-currency cash pool, for a net positive position of $64.7 million. As of December 31, 2017, we had $1.2 million in bank overdrafts and $37.8 million in bank cash related to our cross-border, cross-currency cash pool for a net positive position of $36.6 million. We had total outstanding borrowings of $5.4 million and $3.2 million under our two JPY overdraft facilities as of June 30, 2018, and December 31, 2017, respectively. In addition, we have GBP and CAD lines of credit under which we had no borrowings as of June 30, 2018, or December 31, 2017.

Debt Fair Value Measurements

We utilize market approaches to estimate the fair value of certain outstanding borrowings by discounting anticipated future cash flows derived from the contractual terms of the obligations and observable market interest and foreign exchange rates. As of June 30, 2018, and December 31, 2017, the fair value of our outstanding long-term debt

(including the current portion of long-term debt) was approximately $10.5 billion and $11.2 billion, respectively. All senior notes are valued based on

significant observable inputs and classified as Level 2 in the fair value hierarchy. The carrying values of all other outstanding long-term borrowings and our short-term borrowings approximate their fair values and are also classified as Level 2 in the fair value hierarchy.

Revolving Credit Facility

As of June 30, 2018, we had $1.5 billion available to draw under our $1.5 billion revolving multi-currency credit facility. The borrowing capacity is reduced by borrowings under our commercial paper program when outstanding. We had no borrowings drawn on this revolving credit facility as of June 30, 2018. The maximum leverage ratio of this facility is 5.25x 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. Subsequent to quarter end, we extended the maturity date of our revolving credit facility by one year to July 7, 2023.

Under the terms of each of our debt facilities, we must comply with certain restrictions. These include customary events of default and specified representations and warranties and covenants, including, among other things, covenants that restrict our ability to incur certain additional priority indebtedness, create or permit liens on assets, or engage in mergers or consolidations. As of June 30, 2018, we were in compliance with all of these restrictions and have met all debt payment obligations. All of our outstanding senior notes as of June 30, 2018, rank pari-passu.

10. Inventories

	As of June 30, 2018	December 31, 2017
	(In millions)	
Finished goods	$284.5	$ 222.3
Work in process	87.6	85.2
Raw materials	196.9	231.7
Packaging materials	68.5	52.3
Inventories, net	$637.5	$ 591.5

11. Accumulated Other Comprehensive Income (Loss)

	MCBC shareholders				
	Foreign currency translation adjustments	Gain (loss) on derivative and non-derivative instruments	Pension and postretirement benefit adjustments	Equity method investments	Accumulated other comprehensive income (loss)
	(In millions)				
As of December 31, 2017	$(314.6)	$ (110.9)	$ (375.0)	$ (59.5)	$ (860.0)
Foreign currency translation adjustments	(216.0)	69.4	(1.0)	—	(147.6)
Unrealized gain (loss) on derivative instruments	—	14.0	—	—	14.0
Reclassification of derivative (gain) loss to income	—	2.4	—	—	2.4
Amortization of net prior service (benefit) cost and net actuarial (gain) loss to income	—	—	3.6	—	3.6
Ownership share of unconsolidated subsidiaries' other comprehensive income (loss)	—	—	—	(0.7)	(0.7)
Tax benefit (expense)	(14.8)	(21.9)	(0.6)	0.2	(37.1)
As of June 30, 2018	$(545.4)	$ (47.0)	$ (373.0)	$ (60.0)	$ (1,025.4)

Reclassifications from AOCI to income:

	Three Months Ended		Six Months Ended		
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017	
	Reclassifications from AOCI				Location of gain (loss) recognized in income
	(In millions)				
Gain/(loss) on cash flow hedges:					
Forward starting interest rate swaps	$(0.7)	$(0.9)	$(1.5)	$(1.9)	Interest expense, net
Foreign currency forwards	(0.3)	2.8	(0.9)	4.7	Cost of goods sold
Foreign currency forwards	—	(1.2)	—	(2.1)	Other income (expense), net
Total income (loss) reclassified, before tax	(1.0)	0.7	(2.4)	0.7	
Income tax benefit (expense)	0.3	(0.3)	0.6	(0.3)	
Net income (loss) reclassified, net of tax	$(0.7)	$0.4	$(1.8)	$0.4	
Amortization of defined benefit pension and other postretirement benefit plan items:					
Prior service benefit (cost)	$(0.1)	$(0.1)	$(0.3)	$(0.3)	Other pension and postretirement benefits (costs), net
Curtailment and net actuarial gain (loss)	(1.6)	(3.6)	(3.3)	(1.8)	Other pension and postretirement benefits (costs), net
Total income (loss) reclassified, before tax	(1.7)	(3.7)	(3.6)	(2.1)	
Income tax benefit (expense)	0.4	(1.0)	0.6	(1.6)	
Net income (loss) reclassified, net of tax	$(1.3)	$(4.7)	$(3.0)	$(3.7)	
Total income (loss) reclassified, net of tax	$(2.0)	$(4.3)	$(4.8)	$(3.3)	

12. Derivative Instruments and Hedging Activities

Our risk management and derivative accounting policies are presented in Notes 1 and 17 of the Notes included in our Annual Report and did not significantly change during the first half of 2018, with the exception of early adopting the updated hedge accounting guidance during the second quarter of 2018. The adoption of this guidance did not result in a cumulative adjustment to the opening balance of retained earnings as of January 1, 2018, and did not have any other material effect on our results of operations, financial position or cash flows. All required disclosures under the new guidance are presented below on a prospective basis. See further discussion in Note 2, "New Accounting Pronouncements". As noted in Note 17 of the Notes included in our Annual Report, due to the nature of our counterparty agreements, and the fact that we are not subject to master netting arrangements, we are not able to net positions with the same counterparty and, therefore, present our derivative positions on a gross basis in our unaudited condensed consolidated balance sheets. Except as noted below, our significant derivative positions have not changed considerably since year-end.

Cross Currency Swaps

Effective April 18, 2018, we entered into cross currency swap agreements having a total notional of approximately EUR 404 million ($500.0 million upon execution) in order to hedge a portion of the foreign currency translational impacts of our European investment. As a result of the swaps, we economically converted our $500 million 2.25% senior notes due 2020 and associated interest to EUR denominated, which will result in a EUR interest rate to be received at 0.85%. We have designated these cross currency swaps as net investment hedges and accordingly, record changes in fair value due to fluctuations in the

spot rate to AOCI. The changes in fair value of the swaps attributable to changes other than those due to fluctuations in the spot rate are excluded from the assessment of hedge effectiveness and recorded to interest expense over the life of the hedge.

Forward Starting Interest Rate Swaps

Forward starting interest rate swaps are instruments we use to manage our exposure to the volatility of the interest rates associated with future interest payments on a forecasted debt issuance. Subsequent to June 30, 2018, we entered into forward starting interest rate swaps with notional amounts totaling $1.5 billion. The forward starting interest rate swaps have an effective date of July 2018 and termination dates of July 2021, May 2022 and July 2026, mirroring the terms of the forecasted debt issuances. Under the agreements we are required to early terminate these swaps at the time we expect to issue the related forecasted debt. We have designated these contracts as cash flow hedges. As a result, the unrealized mark-to-market gains or losses will be recorded to AOCI until termination at which point the realized gain or loss of these swaps at issuance of the hedged debt will be reclassified from AOCI and amortized to interest expense over the term of the hedged debt.

Derivative Fair Value Measurements

We utilize market approaches to estimate the fair value of our derivative instruments by discounting anticipated future cash flows derived from the derivative's contractual terms and observable market interest, foreign exchange and commodity rates. The fair values of our derivatives also include credit risk adjustments to account for our counterparties' credit risk, as well as our own non-performance risk, as appropriate. The table below summarizes our derivative assets and liabilities that were measured at fair value as of June 30, 2018, and December 31, 2017.

		Fair value measurements as of June 30, 2018		
	As of June 30, 2018	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	(In millions)			
Cross currency swaps	$27.6	$—	$ 27.6	$ —
Foreign currency forwards	4.1	—	4.1	—
Commodity swaps and options	82.7	—	82.7	—
Total	$114.4	$—	$ 114.4	$ —

		Fair value measurements as of December 31, 2017		
	As of December 31, 2017	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	(In millions)			
Foreign currency forwards	$(10.9)	$—	$ (10.9)	$ —
Commodity swaps and options	122.8	—	122.8	—
Total	$111.9	$—	$ 111.9	$ —

As of June 30, 2018, we had no significant transfers between Level 1 and Level 2. New derivative contracts transacted during the six months ended June 30, 2018, were all included in Level 2.

Results of Period Derivative Activity

The tables below include the year-to-date results of our derivative activity in the unaudited condensed consolidated balance sheets as of June 30, 2018, and December 31, 2017, and the unaudited condensed consolidated statements of

operations for the three and six months ended June 30, 2018, and June 30, 2017.

Fair Value of Derivative Instruments in the Unaudited Condensed Consolidated Balance Sheets (in millions):

	As of June 30, 2018				
		Derivative Assets		Derivative Liabilities	
	Notional amount	Balance sheet location	Fair value	Balance sheet location	Fair value
Derivatives designated as hedging instruments:					
Cross currency swaps	$500.0	Other non-current assets	$27.6	Other liabilities	$—
Foreign currency forwards	$339.6	Other current assets	2.4	Accounts payable and other current liabilities	(0.8)
		Other non-current assets	3.2	Other liabilities	(0.7)
Total derivatives designated as hedging instruments			$33.2		$(1.5)
Derivatives not designated as hedging instruments:					
Commodity swaps[(1)]	$796.0	Other current assets	$59.0	Accounts payable and other current liabilities	$(7.0)
		Other non-current assets	36.2	Other liabilities	(5.5)
Commodity options[(1)]	$30.6	Other current assets	0.2	Accounts payable and other current liabilities	(0.2)
		Other non-current assets	—	Other liabilities	—
Total derivatives not designated as hedging instruments			$95.4		$(12.7)

	As of December 31, 2017				
		Derivative Assets		Derivative Liabilities	
	Notional amount	Balance sheet location	Fair value	Balance sheet location	Fair value
Derivatives designated as hedging instruments:					
Foreign currency forwards	$326.4	Other current assets	$0.4	Accounts payable and other current liabilities	$(6.1)
		Other non-current assets	0.2	Other liabilities	(5.4)
Total derivatives designated as hedging instruments			$0.6		$(11.5)
Derivatives not designated as hedging instruments:					
Commodity swaps[(1)]	$765.0	Other current assets	$70.8	Accounts payable and other current liabilities	$(7.3)
		Other non-current assets	63.5	Other liabilities	(4.2)
Commodity options[(1)]	$30.6	Other current and non-current assets	0.2	Accounts payable and other current liabilities and other liabilities	(0.2)
Total derivatives not designated as hedging instruments			$134.5		$(11.7)

(1) Notional includes offsetting buy and sell positions, shown in terms of absolute value. Buy and sell positions are shown gross in the asset and/or liability position, as appropriate.

Items Designated and Qualifying as Hedged Items in Fair Value Hedging Relationships in the Unaudited Condensed Consolidated Balance Sheets (in millions):

Line item in the balance sheet in which the hedged item is included	Carrying amount of the hedged assets/liabilities	Cumulative amount of fair value hedging adjustment(s) in the hedged assets/liabilities[(1)] Increase/(Decrease)

	As of June 30, 2018	As of June 30, 2018
	(In millions)	
Current portion of long-term debt and short-term borrowings	$ —	$ (0.9)
Long-term debt	$ —	$ 9.3

(1) Entire balances relate to hedging adjustments on discontinued hedging relationships.

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The Pretax Effect of Fair Value and Cash Flow Hedge Accounting on Accumulated Other Comprehensive Income (in millions):

Three Months Ended June 30, 2018

Derivatives in cash flow hedge relationships	Amount of gain (loss) recognized in OCI on derivative	Location of gain (loss) reclassified from AOCI into income	Amount of gain (loss) recognized from AOCI on derivative
Forward starting interest rate swaps	$ —	Interest expense, net	$ (0.7)
Foreign currency forwards	6.5	Cost of goods sold	(0.3)
Total	$ 6.5		$ (1.0)

Three Months Ended June 30, 2018

Derivatives in net investment hedge relationships	Amount of gain (loss) recognized in OCI on derivative	Location of gain (loss) reclassified from AOCI into income	Amount of gain (loss) recognized from AOCI on derivative	Location of gain (loss) recognized in income on derivative (amount excluded from effectiveness testing)	Amount of gain (loss) recognized in income on derivative (amount excluded from effectiveness testing)[1]
Cross currency swap	$ 27.6	Interest income (expense), net	$ —	Interest income (expense), net	$ 2.4
Total	$ 27.6		$ —		$ 2.4

(1) Represents amounts excluded from the assessment of effectiveness for which the difference between changes in fair value and period amortization is recorded in other comprehensive income.

Three Months Ended June 30, 2018

Non-derivative financial instruments in net investment hedge relationships	Amount of gain (loss) recognized in OCI on derivative	Location of gain (loss) reclassified from AOCI into income	Amount of gain (loss) recognized from AOCI on derivative	Location of gain (loss) recognized in income on derivative (amount excluded from effectiveness testing)	Amount of gain (loss) recognized in income on derivative (amount excluded from effectiveness testing)
EUR 800 million notes due 2024	$ 51.2	Other income (expense), net	$ —	Other income (expense), net	$ —
EUR 500 million notes due 2019	32.0	Other income (expense), net	—	Other income (expense), net	—
Total	$ 83.2		$ —		$ —

Three Months Ended June 30, 2017

Derivatives in cash flow hedge relationships	Amount of gain (loss) recognized in OCI on derivative (effective portion)	Location of gain (loss) reclassified from AOCI into income (effective portion)	Amount of gain (loss) recognized from AOCI on derivative (effective portion)	Location of gain (loss) recognized in income on derivative (ineffective portion and amount excluded from effectiveness testing)	Amount of gain (loss) recognized in income on derivative (ineffective portion and amount excluded from effectiveness testing)
Forward starting interest rate swaps	$ —	Interest expense, net	$ (0.9)	Interest expense, net	$ —
Foreign currency forwards	(8.4)	Cost of goods sold	2.8	Cost of goods sold	—
		Other income (expense), net	(1.2)	Other income (expense), net	—
Total	$ (8.4)		$ 0.7		$ —

Three Months Ended June 30, 2017

Non-derivative financial instruments in net investment hedge relationships	Amount of gain (loss) recognized in OCI on derivative (effective portion)	Location of gain (loss) reclassified from AOCI into income (effective portion)	Amount of gain (loss) recognized from AOCI on derivative (effective portion)	Location of gain (loss) recognized in income on derivative (ineffective portion and amount excluded from effectiveness testing)	Amount of gain (loss) recognized in income on derivative (ineffective portion and amount excluded from effectiveness testing)
EUR 800 million notes due 2024	$ (61.9)	Other income (expense), net	$ —	Other income (expense), net	$ —
EUR 500 million notes due 2019	(38.7)	Other income (expense), net	—	Other income (expense), net	—
Total	$ (100.6)		$ —		$ —

Three Months Ended June 30, 2017

Derivatives in fair value hedge relationships	Amount of gain (loss) recognized in income on derivative	Location of gain (loss) recognized in income
Interest rate swaps	$ 0.4	Interest expense, net
Total	$ 0.4	

Six Months Ended June 30, 2018

Derivatives in cash flow hedge relationships	Amount of gain (loss) recognized in OCI on derivative	Location of gain (loss) reclassified from AOCI into income	Amount of gain (loss) recognized from AOCI on derivative
Forward starting interest rate swaps	$ —	Interest expense, net	$ (1.5)
Foreign currency forwards	14.0	Cost of goods sold	(0.9)
Total	$ 14.0		$ (2.4)

Six Months Ended June 30, 2018

Derivatives in net investment hedge relationships	Amount of gain (loss) recognized in OCI on derivative	Location of gain (loss) reclassified from AOCI into income	Amount of gain (loss) recognized from AOCI on derivative	Location of gain (loss) recognized in income on derivative (amount excluded from effectiveness testing)	Amount of gain (loss) recognized in income on derivative (amount excluded from effectiveness testing)[(1)]
Cross currency swap	$ 27.6	Interest income (expense), net	$ —	Interest income (expense), net	$ 2.4
Total	$ 27.6		$ —		$ 2.4

(1) Represents amounts excluded from the assessment of effectiveness for which the difference between changes in fair value and period amortization is recorded in other comprehensive income.

Six Months Ended June 30, 2018

Non-derivative financial instruments in net investment hedge relationships	Amount of gain (loss) recognized in OCI on derivative	Location of gain (loss) reclassified from AOCI into income	Amount of gain (loss) recognized from AOCI on derivative	Location of gain (loss) recognized in income on derivative (amount excluded from effectiveness testing)	Amount of gain (loss) recognized in income on derivative (amount excluded from effectiveness testing)

EUR 800 million notes due 2024	$	25.7	Other income (expense), net	$	—	Other income (expense), net	$	—
EUR 500 million notes due 2019		16.1	Other income (expense), net		—	Other income (expense), net		—
Total	$	41.8		$	—		$	—

Six Months Ended June 30, 2017

Derivatives in cash flow hedge relationships	Amount of gain (loss) recognized in OCI on derivative (effective portion)	Location of gain (loss) reclassified from AOCI into income (effective portion)	Amount of gain (loss) recognized from AOCI on derivative (effective portion)	Location of gain (loss) recognized in income on derivative (ineffective portion and amount excluded from effectiveness testing)	Amount of gain (loss) recognized in income on derivative (ineffective portion and amount excluded from effectiveness testing)
Forward starting interest rate swaps	$ —	Interest expense, net	$ (1.9)	Interest expense, net	$ —
Foreign currency forwards	(13.9)	Cost of goods sold	4.7	Cost of goods sold	—
		Other income (expense), net	(2.1)	Other income (expense), net	—
Total	$ (13.9)		$ 0.7		$ —

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Six Months Ended June 30, 2017

Non-derivative financial instruments in net investment hedge relationships	Amount of gain (loss) recognized in OCI on derivative (effective portion)	Location of gain (loss) reclassified from AOCI into income (effective portion)	Amount of gain (loss) recognized from AOCI on derivative (effective portion)	Location of gain (loss) recognized in income on derivative (ineffective portion and amount excluded from effectiveness testing)	Amount of gain (loss) recognized in income on derivative (ineffective portion and amount excluded from effectiveness testing)
EUR 800 million notes due 2024	$ (72.7)	Other income (expense), net	$ —	Other income (expense), net	$ —
EUR 500 million notes due 2019	(34.6)	Other income (expense), net	—	Other income (expense), net	$ —
Total	$ (107.3)		$ —		$ —

Six Months Ended June 30, 2017

Derivatives in fair value hedge relationships	Amount of gain (loss) recognized in income on derivative	Location of gain (loss)recognized in income
Interest rate swaps	$ 0.1	Interest expense, net
Total	$ 0.1	

We expect net losses of approximately $1 million (pretax) recorded in AOCI as of June 30, 2018, related to cash flow hedges, will be reclassified into earnings within the next 12 months. For derivatives designated in cash flow hedge relationships, the maximum length of time over which forecasted transactions are hedged as of June 30, 2018, is approximately four years.

The Effect of Fair Value and Cash Flow Hedge Accounting on the Unaudited Condensed Consolidated Statements of Operations (in millions):

	Location and amount of gain (loss) recognized in income on fair value and cash flow hedging relationships[(1)]	
	Three Months Ended June 30, 2018	
	Cost of goods sold	Interest expense, net
	$(1,739.1)	$ (76.7)

Total amount of income and expense line items presented in the unaudited condensed consolidated statement of operations in which the effects of fair value or cash flow hedges are recorded		
Gain (loss) on cash flow hedging relationships:		
Forward starting interest rate swaps		
Amount of gain (loss) reclassified from accumulated other comprehensive income into income	—	(0.7)
Foreign currency forwards		
Amount of gain (loss) reclassified from accumulated other comprehensive income into income	(0.3)	—

	Location and amount of gain (loss) recognized in income on fair value and cash flow hedging relationships[(1)] Six Months Ended June 30, 2018	
	Cost of goods sold	Interest expense, net
Total amount of income and expense line items presented in the unaudited condensed consolidated statement of operations in which the effects of fair value or cash flow hedges are recorded	$(3,274.8)	$(159.9)
Gain (loss) on cash flow hedging relationships:		
Forward starting interest rate swaps		
Amount of gain (loss) reclassified from accumulated other comprehensive income into income	—	(1.5)
Foreign currency forwards		
Amount of gain (loss) reclassified from accumulated other comprehensive income into income	(0.9)	—

(1) We had no outstanding fair value hedges during the first half of 2018.

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The Effect of Derivatives Not Designated as Hedging Instruments on the Unaudited Condensed Consolidated Statements of Operations (in millions):

Three Months Ended June 30, 2018

Derivatives not in hedging relationships	Location of gain (loss) recognized in income on derivative	Amount of gain (loss) recognized in income on derivative
Commodity swaps	Cost of goods sold	$ 62.2
Total		$ 62.2

Three Months Ended June 30, 2017

Derivatives not in hedging relationships	Location of gain (loss) recognized in income on derivative	Amount of gain (loss) recognized in income on derivative
Commodity swaps	Cost of goods sold	$ (17.7)
Total		$ (17.7)

Six Months Ended June 30, 2018

Derivatives not in hedging relationships	Location of gain (loss) recognized in income on derivative	Amount of gain (loss) recognized in income on derivative
Commodity swaps	Cost of goods sold	$ (12.2)
Total		$ (12.2)

Six Months Ended June 30, 2017

Derivatives not in hedging relationships	Location of gain (loss) recognized in income on derivative	Amount of gain (loss) recognized in income on derivative
Commodity swaps	Cost of goods sold	$ 48.0
Foreign currency forwards	Other income (expense), net	(8.3)
Total		$ 39.7

13. Pension and Other Postretirement Benefits

	Three Months Ended					
	June 30, 2018			June 30, 2017		
	Pension	OPEB	Consolidated	Pension	OPEB	Consolidated
	(In millions)					
Service cost:						
Service cost	$1.4	$2.3	$ 3.7	$1.9	$2.8	$ 4.7
Other pension and postretirement costs (benefits), net:						
Interest cost	$40.7	$6.6	$ 47.3	$50.8	$7.6	$ 58.4
Expected return on plan assets	(58.9)	—	(58.9)	(71.4)	—	(71.4)

Amortization of prior service cost (benefit)	0.2	(0.1)	0.1	0.1	—	0.1
Amortization of net actuarial loss (gain)	2.0	(0.4)	1.6	3.6	—	3.6
Less: expected participant contributions	—	—	—	(0.1)	—	(0.1)
Total other pension and postretirement cost (benefits), net	$(16.0)	$ 6.1	$ (9.9)	$(17.0)	$ 7.6	$ (9.4)
Net periodic pension and OPEB cost (benefit)	$(14.6)	$ 8.4	$ (6.2)	$(15.1)	$ 10.4	$ (4.7)

	Six Months Ended					
	June 30, 2018			June 30, 2017		
	Pension	OPEB	Consolidated	Pension	OPEB	Consolidated
	(In millions)					
Service cost:						
Service cost	$2.8	$4.6	$ 7.4	$3.7	$5.4	$ 9.1
Other pension and postretirement costs (benefits), net:						
Interest cost	$81.9	$13.2	$ 95.1	$102.3	$15.2	$ 117.5
Expected return on plan assets	(118.6)	—	(118.6)	(142.1)	0.1	(142.0)
Amortization of prior service cost (benefit)	0.4	(0.1)	0.3	0.3	—	0.3
Amortization of net actuarial loss (gain)	3.9	(0.7)	3.2	4.7	—	4.7
Curtailment and settlement loss (gain)	0.1	—	0.1	—	(2.9)	(2.9)
Less: expected participant contributions	—	—	—	(0.3)	—	(0.3)
Total other pension and postretirement cost (benefits), net	$(32.3)	$12.4	$ (19.9)	$(35.1)	$12.4	$ (22.7)
Net periodic pension and OPEB cost (benefit)	$(29.5)	$17.0	$ (12.5)	$(31.4)	$17.8	$ (13.6)

During the six months ended June 30, 2018, employer contributions to the defined benefit pension plans were approximately $5 million. Total 2018 employer contributions to the defined benefit plans are expected to be approximately $10 million, based on foreign exchange rates as of June 30, 2018. BRI and BDL contributions to their defined benefit pension plans are not included above, as they are not consolidated in our financial statements.
Additionally, we have adopted the FASB's new guidance related to defined benefit pension and other postretirement plans. 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 unaudited condensed consolidated statements of operations separately from the service cost component and outside of operating income. 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. See further discussion in Note 2, "New Accounting Pronouncements".

14. Commitments and Contingencies

Litigation, Environmental and Other Contingencies

Related to litigation, environmental issues and other contingencies, we had $13.9 million and $17.8 million accrued, in aggregate, as of June 30, 2018, and December 31, 2017, respectively. While we cannot predict the eventual aggregate cost for legal, environmental and other matters in which we are currently involved, we believe adequate reserves have been provided for losses that are probable and estimable. Additionally, we believe that any reasonably possible losses in excess of the amounts accrued are immaterial to our unaudited condensed consolidated interim financial statements. Our legal, environmental and other liabilities are discussed in further detail within Part II—Item 8 Financial Statements, Note 19, "Commitments and Contingencies" in our Annual Report and did not significantly change during the first half of 2018.
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, other than as noted, none of these disputes or legal actions are 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.
As a result of receiving a favorable ruling related to our historical indirect tax calculations in Europe, we released a previously recorded indirect tax provision related to our Europe operations during the first quarter of 2017, resulting in a benefit of approximately $50 million, recorded within the excise taxes line item on the unaudited condensed consolidated statement of operations during the quarter ended March 31, 2017. During the second quarter of 2017, we received formal confirmation from the regulatory authority that they would not appeal the local jurisdictional court ruling, and the regulatory authority has since withdrawn its assessments. As a result, we believe this dispute is fully resolved.

On February 12, 2018, Stone Brewing Company filed a trademark infringement lawsuit in federal court in the Southern District of California against MillerCoors LLC alleging that the Keystone brand has “rebranded” itself as “Stone” and is

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marketing itself in a manner confusingly similar to Stone Brewing Company's registered Stone trademark. Stone Brewing Company seeks treble damages in the amount of MillerCoors' profit from Keystone sales. MillerCoors subsequently filed an answer and counterclaims against Stone Brewing Company. On May 31, 2018, Stone Brewing Company filed motions to dismiss and for a preliminary injunction seeking to bar MillerCoors from continuing to use "STONE" on Keystone Light cans and related marketing materials. A hearing relating to the motions to dismiss and preliminary injunction is currently scheduled during the third quarter of 2018. We intend to vigorously assert and defend our rights in this lawsuit. A range of potential loss is not estimable at this time.

Guarantees

We guarantee indebtedness and other obligations to banks and other third parties for some of our equity method investments and consolidated subsidiaries. As of June 30, 2018, and December 31, 2017, the unaudited condensed consolidated balance sheets include liabilities related to these guarantees of $59.8 million and $42.8 million, respectively, primarily related to the guarantee of the indebtedness of our equity method investments. See Note 4, "Investments" for further detail.

Separately, related to our Kaiser indemnities, we have accrued $14.7 million and $17.3 million, in aggregate, as of June 30, 2018, and December 31, 2017, respectively. The maximum potential claims amount remaining for the Kaiser-related purchased tax credits was $90.3 million, based on foreign exchange rates as of June 30, 2018. Our Kaiser liabilities are discussed in further detail within Part II—Item 8 Financial Statements, Note 19, "Commitments and Contingencies" in our Annual Report and did not significantly change during the first half of 2018.

15. Supplemental Guarantor Information

For purposes of this Note 15, including the tables, "Parent Issuer" shall mean MCBC. "Subsidiary Guarantors" shall mean certain Canadian and U.S. subsidiaries reflecting the substantial operations of each of our Canada and U.S. segments.

SEC Registered Securities

On May 3, 2012, MCBC issued $1.9 billion of senior notes, in a registered public offering, consisting of $300 million 2.0% senior notes due 2017 (subsequently repaid in the second quarter of 2017), $500 million 3.5% senior notes due 2022, and $1.1 billion 5.0% senior notes due 2042. Additionally, on July 7, 2016, MCBC issued $500 million 1.45% senior notes due 2019, $1.0 billion 2.10% senior notes due 2021, $2.0 billion 3.0% senior notes due 2026, $1.8 billion 4.2% senior notes due 2046 and EUR $800.0 million 1.25% senior notes due 2024, in a registered public offering. In December 2017, MCBC completed an exchange offer in which it issued publicly registered senior notes in exchange for its $500 million 1.90% senior notes due 2019, $500 million 2.25% senior notes due 2020 and our EUR 500 million floating rate senior notes due 2019, which were issued in private placement transactions in March 2017. "Parent Issuer" in the below tables is specifically referring to MCBC in its capacity as the issuer of these 2012, 2016 and 2017 issuances. These senior notes are guaranteed on a senior unsecured basis by the Subsidiary Guarantors. Each of the Subsidiary Guarantors is 100% owned by the Parent Issuer. The guarantees are full and unconditional and joint and several.

None of our other outstanding debt is registered with the SEC, and such other outstanding debt is guaranteed on a senior unsecured basis by the Parent and/or Subsidiary Guarantors. These guarantees are full and unconditional and joint and several. See Note 9, "Debt" for details of all debt issued and outstanding as of June 30, 2018.

Presentation

Certain amounts have been revised to reflect the retrospective application of our change in accounting policy and the new accounting pronouncements recently adopted as discussed in Note 1, "Basis of Presentation and Summary of Significant Accounting Policies" and Note 2, "New Accounting Pronouncements".

Effective January 1, 2018, MillerCoors USA LLC, a new entity with no historic activity, was added as a subsidiary guarantor. In addition, effective December 26, 2017, our historical subsidiary guarantor, Jacob Leinenkugel Brewing Co., LLC, was merged with and into the existing subsidiary guarantor, MillerCoors LLC, and, on January 1, 2018, our historical subsidiary guarantors MillerCoors Holdings LLC and MC Holding Company LLC were also merged with and into MillerCoors LLC, a subsidiary guarantor.

In the first quarter of 2018, MillerCoors LLC, a subsidiary guarantor, declared a distribution of approximately $1.7 billion to Molson Coors Brewing Company, which was simultaneously non-cash settled via offset to an equal amount of payables that were owed by Molson Coors Brewing Company to MillerCoors LLC.

The following information sets forth the unaudited condensed consolidating statements of operations for the three and six months ended June 30, 2018, and June 30, 2017, unaudited condensed consolidating balance sheets as of June 30, 2018, and

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December 31, 2017, and unaudited condensed consolidating statements of cash flows for the six months ended June 30, 2018, and June 30, 2017. Investments in subsidiaries are accounted for under the equity method; accordingly, entries necessary to consolidate the Parent Issuer and all of our guarantor and non-guarantor subsidiaries are reflected in the eliminations column. In the opinion of management, separate complete financial statements of MCBC and the Subsidiary Guarantors would not provide additional material information that would be useful in assessing their financial composition.

MOLSON COORS BREWING COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
(IN MILLIONS)
(UNAUDITED)

	Three Months Ended June 30, 2018				
	Parent Issuer	Subsidiary Guarantors	Subsidiary Non Guarantors	Eliminations	Consolidated
Sales	$—	$ 2,874.7	$ 1,079.7	$ (133.9)	$ 3,820.5
Excise taxes	—	(406.4)	(328.9)	—	(735.3)
Net sales	—	2,468.3	750.8	(133.9)	3,085.2
Cost of goods sold	(0.5)	(1,385.0)	(485.8)	132.2	(1,739.1)
Gross profit	(0.5)	1,083.3	265.0	(1.7)	1,346.1
Marketing, general and administrative expenses	(60.9)	(514.0)	(171.5)	1.7	(744.7)
Special items, net	(0.4)	(7.7)	(2.4)	—	(10.5)
Equity income (loss) in subsidiaries	261.9	79.2	57.4	(398.5)	—
Operating income (loss)	200.1	640.8	148.5	(398.5)	590.9
Interest income (expense), net	(81.2)	84.8	(80.3)	—	(76.7)
Other pension and postretirement benefits (costs), net	—	1.6	8.3	—	9.9
Other income (expense), net	0.3	(80.5)	79.1	—	(1.1)
Income (loss) before income taxes	119.2	646.7	155.6	(398.5)	523.0
Income tax benefit (expense)	304.9	(385.1)	(12.0)	—	(92.2)
Net income (loss)	424.1	261.6	143.6	(398.5)	430.8
Net (income) loss attributable to noncontrolling interests	—	—	(6.7)	—	(6.7)
Net income (loss) attributable to MCBC	$424.1	$ 261.6	$ 136.9	$ (398.5)	$ 424.1
Comprehensive income (loss) attributable to MCBC	$209.6	$ (30.7)	$ (47.0)	$ 77.7	$ 209.6

MOLSON COORS BREWING COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
(IN MILLIONS)
(UNAUDITED)

	Three Months Ended June 30, 2017				
	Parent Issuer	Subsidiary Guarantors	Subsidiary Non Guarantors	Eliminations	Consolidated
Sales	$8.3	$2,954.1	$ 973.2	$ (142.5)	$ 3,793.1
Excise taxes	—	(411.5)	(290.3)	—	(701.8)
Net sales	8.3	2,542.6	682.9	(142.5)	3,091.3
Cost of goods sold	(1.0)	(1,421.4)	(463.7)	130.6	(1,755.5)
Gross profit	7.3	1,121.2	219.2	(11.9)	1,335.8
Marketing, general and administrative expenses	(68.2)	(558.4)	(167.7)	11.9	(782.4)
Special items, net	(0.3)	(13.7)	(2.5)	—	(16.5)
Equity income (loss) in subsidiaries	440.6	(132.2)	62.2	(370.6)	—
Operating income (loss)	379.4	416.9	111.2	(370.6)	536.9
Interest income (expense), net	(74.4)	60.3	(75.1)	—	(89.2)
Other pension and postretirement benefits (costs), net	—	(2.0)	11.4	—	9.4
Other income (expense), net	—	94.9	(91.8)	—	3.1
Income (loss) before income taxes	305.0	570.1	(44.3)	(370.6)	460.2
Income tax benefit (expense)	24.9	(129.7)	(20.4)	—	(125.2)
Net income (loss)	329.9	440.4	(64.7)	(370.6)	335.0
Net (income) loss attributable to noncontrolling interests	—	—	(5.1)	—	(5.1)
Net income (loss) attributable to MCBC	$329.9	$440.4	$ (69.8)	$ (370.6)	$ 329.9
Comprehensive income (loss) attributable to MCBC	$576.2	$730.7	$ 92.0	$ (822.7)	$ 576.2

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MOLSON COORS BREWING COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
(IN MILLIONS)
(UNAUDITED)

	Six Months Ended June 30, 2018				
	Parent Issuer	Subsidiary Guarantors	Subsidiary Non Guarantors	Eliminations	Consolidated
Sales	$4.9	$5,109.3	$1,822.3	$(248.0)	$6,688.5
Excise taxes	—	(707.8)	(564.0)	—	(1,271.8)
Net sales	4.9	4,401.5	1,258.3	(248.0)	5,416.7
Cost of goods sold	(1.0)	(2,626.7)	(885.5)	238.4	(3,274.8)
Gross profit	3.9	1,774.8	372.8	(9.6)	2,141.9
Marketing, general and administrative expenses	(131.1)	(977.3)	(327.0)	9.6	(1,425.8)
Special items, net	(0.4)	313.7	(9.0)	—	304.3
Equity income (loss) in subsidiaries	897.4	(79.6)	62.2	(880.0)	—
Operating income (loss)	769.8	1,031.6	99.0	(880.0)	1,020.4
Interest income (expense), net	(166.4)	166.8	(160.3)	—	(159.9)
Other pension and postretirement benefits (costs), net	—	3.0	16.9	—	19.9
Other income (expense), net	0.1	(40.3)	40.2	—	—
Income (loss) before income taxes	603.5	1,161.1	(4.2)	(880.0)	880.4
Income tax benefit (expense)	98.7	(263.2)	(2.6)	—	(167.1)
Net income (loss)	702.2	897.9	(6.8)	(880.0)	713.3
Net (income) loss attributable to noncontrolling interests	—	—	(11.1)	—	(11.1)
Net income (loss) attributable to MCBC	$702.2	$897.9	$(17.9)	$(880.0)	$702.2
Comprehensive income (loss) attributable to MCBC	$536.8	$712.5	$(94.3)	$(618.2)	$536.8

MOLSON COORS BREWING COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS
(IN MILLIONS)
(UNAUDITED)

	Six Months Ended June 30, 2017				
	Parent Issuer	Subsidiary Guarantors	Subsidiary Non Guarantors	Eliminations	Consolidated
Sales	$15.3	$5,330.7	$1,623.2	$(262.3)	$6,706.9
Excise taxes	—	(737.2)	(429.7)	—	(1,166.9)
Net sales	15.3	4,593.5	1,193.5	(262.3)	5,540.0
Cost of goods sold	(1.0)	(2,561.8)	(805.1)	240.1	(3,127.8)
Gross profit	14.3	2,031.7	388.4	(22.2)	2,412.2
Marketing, general and administrative expenses	(135.9)	(1,056.9)	(317.1)	22.2	(1,487.7)
Special items, net	(0.8)	(17.3)	(5.1)	—	(23.2)
Equity income (loss) in subsidiaries	786.6	(203.9)	82.0	(664.7)	—
Operating income (loss)	664.2	753.6	148.2	(664.7)	901.3
Interest income (expense), net	(155.5)	119.2	(149.5)	—	(185.8)
Other pension and postretirement benefits (costs), net	—	—	22.7	—	22.7
Other income (expense), net	(8.2)	111.6	(100.5)	—	2.9
Income (loss) before income taxes	500.5	984.4	(79.1)	(664.7)	741.1
Income tax benefit (expense)	37.9	(197.8)	(31.2)	—	(191.1)
Net income (loss)	538.4	786.6	(110.3)	(664.7)	550.0
Net (income) loss attributable to noncontrolling interests	—	—	(11.6)	—	(11.6)
Net income (loss) attributable to MCBC	$538.4	$786.6	$(121.9)	$(664.7)	$538.4
Comprehensive income attributable to MCBC	$857.4	$1,148.2	$82.8	$(1,231.0)	$857.4

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MOLSON COORS BREWING COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEET
(IN MILLIONS)
(UNAUDITED)

	As of June 30, 2018				
	Parent Issuer	Subsidiary Guarantors	Subsidiary Non Guarantors	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$433.5	$68.6	$290.8	$—	$ 792.9
Accounts receivable, net	—	530.8	454.1	—	984.9
Other receivables, net	44.5	57.0	29.6	—	131.1
Inventories, net	—	477.0	160.5	—	637.5
Other current assets, net	—	244.1	97.0	—	341.1
Intercompany accounts receivable	—	1,942.6	67.9	(2,010.5)	—
Total current assets	478.0	3,320.1	1,099.9	(2,010.5)	2,887.5
Properties, net	18.0	3,428.8	1,152.6	—	4,599.4
Goodwill	—	6,463.8	1,868.8	—	8,332.6
Other intangibles, net	7.0	11,979.6	2,031.8	—	14,018.4
Net investment in and advances to subsidiaries	25,417.0	4,262.6	4,598.4	(34,278.0)	—
Other assets	121.4	263.0	401.5	(62.9)	723.0
Total assets	$26,041.4	$29,717.9	$11,153.0	$(36,351.4)	$ 30,560.9
Liabilities and equity					
Current liabilities:					
Accounts payable and other current liabilities	$163.1	$1,825.5	$982.4	$—	$ 2,971.0
Current portion of long-term debt and short-term borrowings	1,082.2	304.5	24.3	—	1,411.0
Intercompany accounts payable	1,566.2	114.6	329.7	(2,010.5)	—
Total current liabilities	2,811.5	2,244.6	1,336.4	(2,010.5)	4,382.0
Long-term debt	8,279.9	1,138.9	36.3	—	9,455.1
Pension and postretirement benefits	3.1	811.8	13.2	—	828.1
Deferred tax liabilities	—	927.1	906.8	(62.9)	1,771.0
Other liabilities	23.8	196.3	108.0	—	328.1
Intercompany notes payable	1,347.6	80.1	6,164.7	(7,592.4)	—
Total liabilities	12,465.9	5,398.8	8,565.4	(9,665.8)	16,764.3
MCBC stockholders' equity	13,576.6	30,482.6	3,795.4	(34,278.0)	13,576.6
Intercompany notes receivable	(1.1)	(6,163.5)	(1,427.8)	7,592.4	—
Total stockholders' equity	13,575.5	24,319.1	2,367.6	(26,685.6)	13,576.6
Noncontrolling interests	—	—	220.0	—	220.0
Total equity	13,575.5	24,319.1	2,587.6	(26,685.6)	13,796.6
Total liabilities and equity	$26,041.4	$29,717.9	$11,153.0	$(36,351.4)	$ 30,560.9

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MOLSON COORS BREWING COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATING BALANCE SHEET
(IN MILLIONS)
(UNAUDITED)

	As of December 31, 2017				
	Parent Issuer	Subsidiary Guarantors	Subsidiary Non Guarantors	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	$6.6	$140.9	$271.1	$—	$ 418.6
Accounts receivable, net	—	424.8	309.0	—	733.8
Other receivables, net	90.4	45.2	32.6	—	168.2
Inventories, net	—	457.7	133.8	—	591.5
Other current assets, net	9.6	184.8	83.2	—	277.6
Intercompany accounts receivable	—	2,303.2	65.6	(2,368.8)	—
Total current assets	106.6	3,556.6	895.3	(2,368.8)	2,189.7
Properties, net	16.8	3,509.8	1,147.1	—	4,673.7
Goodwill	—	6,487.8	1,917.7	—	8,405.5
Other intangibles, net	8.0	12,183.8	2,104.7	—	14,296.5
Net investment in and advances to subsidiaries	26,443.9	4,297.4	4,683.1	(35,424.4)	—
Other assets	101.7	253.7	387.2	(61.1)	681.5
Total assets	$26,677.0	$30,289.1	$11,135.1	$(37,854.3)	$ 30,246.9
Liabilities and equity					
Current liabilities:					
Accounts payable and other current liabilities	$180.4	$1,648.9	$855.2	$—	$ 2,684.5
Current portion of long-term debt and short-term borrowings	379.0	317.8	18.0	—	714.8
Intercompany accounts payable	2,131.8	102.8	134.2	(2,368.8)	—
Total current liabilities	2,691.2	2,069.5	1,007.4	(2,368.8)	3,399.3
Long-term debt	9,399.7	1,189.5	9.5	—	10,598.7
Pension and postretirement benefits	2.9	832.1	13.5	—	848.5
Deferred tax liabilities	—	864.7	845.0	(61.1)	1,648.6
Other liabilities	10.7	200.1	106.0	—	316.8
Intercompany notes payable	1,347.6	227.0	6,370.5	(7,945.1)	—
Total liabilities	13,452.1	5,382.9	8,351.9	(10,375.0)	16,811.9
MCBC stockholders' equity	13,226.1	31,275.5	4,148.9	(35,424.4)	13,226.1
Intercompany notes receivable	(1.2)	(6,369.3)	(1,574.6)	7,945.1	—
Total stockholders' equity	13,224.9	24,906.2	2,574.3	(27,479.3)	13,226.1
Noncontrolling interests	—	—	208.9	—	208.9
Total equity	13,224.9	24,906.2	2,783.2	(27,479.3)	13,435.0
Total liabilities and equity	$26,677.0	$30,289.1	$11,135.1	$(37,854.3)	$ 30,246.9

MOLSON COORS BREWING COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
(IN MILLIONS)
(UNAUDITED)

	Six Months Ended June 30, 2018				
	Parent Issuer	Subsidiary Guarantors	Subsidiary Non Guarantors	Eliminations	Consolidated
Net cash provided by (used in) operating activities	$987.7	$ 368.8	$ 78.1	$ (136.8)	$ 1,297.8
CASH FLOWS FROM INVESTING ACTIVITIES:					
Additions to properties	(7.0)	(256.8)	(87.3)	—	(351.1)
Proceeds from sales of properties and other assets	—	1.7	2.7	—	4.4
Other	—	(0.7)	(49.8)	—	(50.5)
Net intercompany investing activity	18.3	(20.8)	177.8	(175.3)	—
Net cash provided by (used in) investing activities	11.3	(276.6)	43.4	(175.3)	(397.2)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Exercise of stock options under equity compensation plans	6.3	—	—	—	6.3
Dividends paid	(162.5)	—	(151.3)	136.8	(177.0)
Payments on debt and borrowings	—	(0.4)	(2.0)	—	(2.4)
Net proceeds from (payments on) revolving credit facilities and commercial paper	(378.4)	—	2.3	—	(376.1)
Change in overdraft balances and other	(4.9)	(6.9)	36.3	—	24.5
Net intercompany financing activity	(32.6)	(157.5)	14.8	175.3	—
Net cash provided by (used in) financing activities	(572.1)	(164.8)	(99.9)	312.1	(524.7)
CASH AND CASH EQUIVALENTS:					
Net increase (decrease) in cash and cash equivalents	426.9	(72.6)	21.6	—	375.9
Effect of foreign exchange rate changes on cash and cash equivalents	—	0.3	(1.9)	—	(1.6)
Balance at beginning of year	6.6	140.9	271.1	—	418.6
Balance at end of period	$433.5	$ 68.6	$ 290.8	$ —	$ 792.9

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MOLSON COORS BREWING COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
(IN MILLIONS)
(UNAUDITED)

	Six Months Ended June 30, 2017				
	Parent Issuer	Subsidiary Guarantors	Subsidiary Non Guarantors	Eliminations	Consolidated
Net cash provided by (used in) operating activities	$496.0	$ 471.3	$ 111.8	$ (260.6)	$ 818.5
CASH FLOWS FROM INVESTING ACTIVITIES:					
Additions to properties	(10.3)	(275.3)	(68.4)	—	(354.0)
Proceeds from sales of properties and other assets	—	2.2	43.9	—	46.1
Other	—	—	6.0	—	6.0
Net intercompany investing activity	—	(70.8)	—	70.8	—
Net cash provided by (used in) investing activities	(10.3)	(343.9)	(18.5)	70.8	(301.9)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Exercise of stock options under equity compensation plans	1.1	—	—	—	1.1
Dividends paid	(161.8)	(150.5)	(124.9)	260.6	(176.6)
Payments on debt and borrowings	(2,200.0)	—	(1.5)	—	(2,201.5)
Proceeds on debt and borrowings	1,536.0	—	—	—	1,536.0
Net proceeds from (payments on) revolving credit facilities and commercial paper	280.3	—	1.7	—	282.0
Change in overdraft balances and other	(17.2)	(10.6)	(6.4)	—	(34.2)
Net intercompany financing activity	—	—	70.8	(70.8)	—
Net cash provided by (used in) financing activities	(561.6)	(161.1)	(60.3)	189.8	(593.2)
CASH AND CASH EQUIVALENTS:					
Net increase (decrease) in cash and cash equivalents	(75.9)	(33.7)	33.0	—	(76.6)
Effect of foreign exchange rate changes on cash and cash equivalents	—	1.5	17.1	—	18.6
Balance at beginning of year	147.3	141.5	272.1	—	560.9
Balance at end of period	$71.4	$ 109.3	$ 322.2	$ —	$ 502.9

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") in this Form 10-Q is provided as a supplement to, and should be read in conjunction with, our audited consolidated financial statements, the accompanying notes and the MD&A included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 ("Annual Report"), as well as our unaudited condensed consolidated interim financial statements and the accompanying notes included in this Form 10-Q. Due to the seasonality of our operating results, quarterly financial results are not an appropriate basis from which to project annual results.

Unless otherwise noted in this report, any description of "we," "us" or "our" includes Molson Coors Brewing Company ("MCBC" or the "Company"), principally a holding company, and its operating and non-operating subsidiaries included within our reporting segments and Corporate. Our reporting segments include: MillerCoors LLC ("MillerCoors" or U.S. segment), operating in the United States; Molson Coors Canada ("MCC" or Canada segment), operating in Canada; Molson Coors Europe (Europe segment), operating in Bulgaria, Croatia, Czech Republic, Hungary, Montenegro, Republic of Ireland, Romania, Serbia, the United Kingdom and various other European countries; and Molson Coors International ("MCI" or International segment), operating in various other countries.

Unless otherwise indicated, information in this report is presented in USD and comparisons are to comparable prior periods. Our primary operating currencies, other than USD, include the CAD, the GBP, and our Central European operating currencies such as the EUR, CZK, HRK and RSD.

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 U.S. 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 Canada and U.S. businesses 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.

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.

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 unaudited condensed consolidated statements of operations for the three and six months ended June 30, 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.

	Three Months Ended June 30, 2018				
	U.S.	Canada	Europe	International	Consolidated
	(In millions)				
Impact to Unaudited Condensed Consolidated Statements of Operations - Favorable/(Unfavorable):					
Net sales	$(12.1)	$(12.1)	$(0.5)	$ —	$ (24.7)
Cost of goods sold	$—	$—	$—	$ —	$ —
Gross profit	$(12.1)	$(12.1)	$(0.5)	$ —	$ (24.7)
Marketing, general and administrative expenses	$2.2	$9.9	$0.9	$ —	$ 13.0
Operating income (loss)	$(9.9)	$(2.2)	$0.4	$ —	$ (11.7)
Interest income (expense), net	$—	$—	$(0.9)	$ —	$ (0.9)
Income (loss) before income taxes	$(9.9)	$(2.2)	$(0.5)	$ —	$ (12.6)

	Six Months Ended June 30, 2018				
	U.S.	Canada	Europe	International	Consolidated
	(In millions)				
Impact to Unaudited Condensed Consolidated Statements of Operations - Favorable/(Unfavorable):					
Net sales	$(16.8)	$(23.1)	$(1.1)	$ 0.2	$ (40.8)
Cost of goods sold	$—	$—	$—	$ —	$ —
Gross profit	$(16.8)	$(23.1)	$(1.1)	$ 0.2	$ (40.8)
Marketing, general and administrative expenses	$2.9	$21.5	$1.7	$ —	$ 26.1
Operating income (loss)	$(13.9)	$(1.6)	$0.6	$ 0.2	$ (14.7)
Interest income (expense), net	$—	$—	$(1.7)	$ —	$ (1.7)
Income (loss) before income taxes	$(13.9)	$(1.6)	$(1.1)	$ 0.2	$ (16.4)

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 unaudited condensed 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 Part I—Item 1. Financial Statements, Note 2, "New Accounting Pronouncements" for further details including updated historical financial information.

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Summary of Consolidated Results of Operations

The following table highlights summarized components of our unaudited condensed consolidated statements of operations for the three and six months ended June 30, 2018, and June 30, 2017. See Part I-Item 1. Financial Statements for additional details of our U.S. GAAP results.

	Three Months Ended			Six Months Ended		
	June 30, 2018	June 30, 2017	% change	June 30, 2018	June 30, 2017	% change
	(In millions, except percentages and per share data)					
Financial volume in hectoliters	27.745	28.340	(2.1)%	48.558	50.218	(3.3)%
Net sales	$3,085.2	$3,091.3	(0.2)%	$5,416.7	$5,540.0	(2.2)%
Net income (loss) attributable to MCBC	$424.1	$329.9	28.6 %	$702.2	$538.4	30.4 %
Net income (loss) attributable to MCBC per diluted share	$1.96	$1.52	28.9 %	$3.24	$2.49	30.1 %

Second Quarter 2018 Financial Highlights

During the second quarter of 2018, we recognized net income attributable to MCBC of $424.1 million, or $1.96 per diluted share, representing an increase of $94.2 million versus the prior year. The increase in net income attributable to MCBC was primarily driven by unrealized mark-to-market gains on our commodity positions compared to prior year, cost savings, lower income tax expense, lower interest expense and positive net pricing, partially offset by lower financial volume, higher cost inflation and the impact of adopting the new accounting pronouncement related to revenue recognition. Net sales of approximately $3.1 billion in the second quarter of 2018 were flat compared to the prior year due to positive foreign currency impact of approximately $50 million and positive net pricing, offset by lower volume and the impact of adopting the new accounting pronouncement related to revenue recognition.

Regional financial highlights:

- In our U.S. segment, income before income taxes decreased 8.4% to $445.5 million in the second quarter of 2018, compared to the prior year primarily due to cost of goods sold inflation, the impact of lower shipment volumes, negative sales mix, the impact of adopting the new accounting pronouncement related to revenue recognition and higher depreciation expense, partially offset by higher net pricing and lower marketing, general and administrative expenses.
- In our Canada segment, income before income taxes decreased by 12.1% to $61.3 million in the second quarter of 2018, compared to the prior year, primarily due to negative sales mix and lower volumes as well as the impact of adopting the new accounting pronouncement related to revenue recognition, partially offset by lower marketing investment.
- In our Europe segment, income before income taxes increased 24.2% to $86.8 million in the second quarter of 2018, compared to the prior year, primarily driven by favorable gross profit impacts, lower marketing investments, the partial reversal of bad debt provisions, the addition of Aspall Cider business, as well as favorable foreign exchange impact. These factors were partially offset by adopting recently revised excise-tax guidelines in one of our European markets and investments in our First Choice Agenda.
- In our International segment, income before income taxes increased to $1.3 million in the second quarter of 2018, compared to a loss of $7.7 million in the prior year, primarily driven by positive net pricing, favorable sales mix, and lower marketing and integration expenses, partially offset by the loss of the Modelo brands in Japan.

See "Results of Operations" below for further analysis of our segment results.

Core brand highlights:

- Global priority brand volume decreased 4.0% in the second quarter of 2018 versus 2017, due to declines across the U.S., Canada and International partially offset by growth in Europe.
- Blue Moon Belgian White global brand volume decreased 0.8% in the second quarter of 2018 versus 2017, driven by declines in the U.S., partially offset by growth in International, Canada and Europe.

- Carling brand volume in Europe decreased by 2.9% during the second quarter of 2018, versus the second quarter of 2017 due to lower volumes in U.K., the brand's primary market.
- Coors global brand volume - Coors Light global brand volume decreased 6.4% during the second quarter of 2018 versus the second quarter of 2017. The overall volume decrease in the second quarter of 2018 was due to lower brand volume in the U.S., Canada and International, slightly 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 high inventory levels in Quebec at the start of the year, along with ongoing competitive pressures in Quebec and Ontario and a continued shift in consumer preference to value brands in the West. The declines in International were the result of balancing volume with pricing in Mexico. Coors Banquet global brand volume decreased 4.8% during the second quarter of 2018 versus the second quarter of 2017 driven by the U.S. and Canada.
- Miller global brand volume - Miller Lite global brand volumes decreased 3.3% during the second quarter of 2018 versus prior year, primarily driven by the U.S. However, Miller Lite gained share of the U.S. premium light segment for the fifteenth consecutive quarter. Miller Genuine Draft global brand volume decreased 3.2% during the second quarter of 2018 versus prior year, due to the U.S. and Europe, partially offset by growth in International and Canada.
- Molson Canadian brand volume in Canada decreased by 9.2% during the second quarter of 2018 versus the prior year, primarily driven by competitive pressures in the West and Ontario.
- Staropramen global brand volume, including royalty volume, increased 10.2% during the second quarter of 2018, versus the second quarter of 2017, driven by higher volumes in European markets outside of Czech Republic, 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 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.

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 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.

	Three Months Ended			Six Months Ended		
	June 30, 2018	June 30, 2017	% change	June 30, 2018	June 30, 2017	% change
	(In millions, except percentages)					
Volume in hectoliters:						
Financial volume	27.745	28.340	(2.1)%	48.558	50.218	(3.3)%
Less: Contract brewing, wholesaler and non-beer volume	(2.277)	(2.390)	(4.7)%	(4.179)	(4.378)	(4.5)%
Add: Royalty volume	1.057	1.033	2.3 %	1.773	1.831	(3.2)%
Add: STW to STR adjustment	(0.780)	(0.617)	26.4 %	(1.306)	(1.599)	(18.3)%
Total worldwide brand volume	25.745	26.366	(2.4)%	44.846	46.072	(2.7)%

Our worldwide brand volume decreased 2.4% and 2.7% during the three and six months ended June 30, 2018, compared to prior year primarily due to declines in the U.S.

Net Sales Drivers

For the three months ended June 30, 2018, versus June 30, 2017, by segment (in percentages):

	Volume	Price, Product and Geography Mix[(1)]	Currency	Other	Total
Consolidated	(2.1)%	0.2 %	1.7 %	— %	(0.2)%
U.S.	(4.4)%	1.4 %	— %	(0.1)%	(3.1)%
Canada	(2.3)%	(4.1)%	3.8 %	0.1 %	(2.5)%
Europe	3.0 %	1.3 %	7.4 %	— %	11.7 %
International	(0.9)%	6.0 %	(0.8)%	— %	4.3 %

(1) Includes the impacts of the adoption of the new accounting pronouncement related to revenue recognition as discussed above. 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 revenue recognition guidance.

For the six months ended June 30, 2018, versus June 30, 2017, by segment (in percentages):

	Volume	Price, Product and Geography Mix[(1)]	Currency	Other[(2)]	Total
Consolidated	(3.3)%	(0.1)%	2.0 %	(0.8)%	(2.2)%
U.S.	(5.5)%	1.2 %	— %	— %	(4.3)%
Canada	(3.3)%	(3.3)%	4.0 %	0.1 %	(2.5)%
Europe	2.2 %	— %	9.3 %	(5.5)%	6.0 %
International	(1.2)%	0.2 %	(0.2)%	— %	(1.2)%

(1) Includes the impacts of the adoption of the new accounting pronouncement related to revenue recognition as discussed above. 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 revenue recognition guidance.

(2) Europe "Other" column includes the release of an indirect tax provision further described below.

Income taxes

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Effective tax rate	18%	27 %	19%	26 %

The decrease in the effective tax rate during the second quarter and first half of 2018 versus 2017, was primarily driven by the reduction of the statutory U.S. federal corporate income tax rate from 35% to 21% as a result of the 2017 U.S. Tax Cuts and Jobs Act (the "2017 Tax Act"). Our effective tax rates were also affected by the impact of discrete items. Specifically, we recognized a net discrete tax benefit of $1.2 million during the second quarter of 2018, and net discrete tax expense of $4.3 million during the first half of 2018. During the second quarter and first half of 2017, we recognized a net discrete tax benefit of $1.3 million and $9.7 million, respectively.

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 and other changes to regulatory environments in countries in which we do business that, if enacted, may have an impact on our effective tax rate. Additionally, we continue to evaluate the impacts of the 2017 Tax Act. As we further understand its implications, as well as the related, and yet to be issued, regulations and interpretations, our effective tax rate could be impacted.

Refer to Part I - Item 1. Financial Statements, Note 7, "Income Tax" for additional details regarding our effective tax rate as well as our ongoing evaluation of the 2017 Tax Act and its related impacts.

Results of Operations

United States Segment

	Three Months Ended			Six Months Ended		
	June 30, 2018	June 30, 2017	% change	June 30, 2018	June 30, 2017	% change
	(In millions, except percentages)					
Financial volume in hectoliters[1]	18.338	19.190	(4.4)%	33.056	34.962	(5.5)%
Sales[1]	$2,354.6	$2,433.0	(3.2)%	$4,216.3	$4,424.4	(4.7)%
Excise taxes	(282.1)	(294.1)	(4.1)%	(496.0)	(535.6)	(7.4)%
Net sales[1]	2,072.5	2,138.9	(3.1)%	3,720.3	3,888.8	(4.3)%
Cost of goods sold[1]	(1,189.7)	(1,180.3)	0.8 %	(2,179.8)	(2,205.4)	(1.2)%
Gross profit	882.8	958.6	(7.9)%	1,540.5	1,683.4	(8.5)%
Marketing, general and administrative expenses	(435.1)	(458.8)	(5.2)%	(828.2)	(864.5)	(4.2)%
Special items, net[2]	(3.3)	(12.6)	(73.8)%	(4.8)	(15.1)	(68.2)%
Operating income (loss)	444.4	487.2	(8.8)%	707.5	803.8	(12.0)%
Interest income (expense), net	1.6	—	N/M	0.4	—	N/M
Other income (expense), net	(0.5)	(0.7)	(28.6)%	(0.7)	(0.7)	— %
Income (loss) before income taxes	$445.5	$486.5	(8.4)%	$707.2	$803.1	(11.9)%

N/M = Not meaningful

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

(2) See Part I—Item 1. Financial Statements, Note 6, "Special Items" for detail of special items.

Significant events

The volatility of aluminum (inclusive of Midwest Premium) and freight and fuel costs have continued to significantly impact our results during the first half of 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 with the planned closure effective December 2018. Cider production will move to the 10th Street Brewery in Milwaukee, Wisconsin. Total special charges associated with the cidery closure are expected to be approximately $6 million, consisting primarily of accelerated depreciation in excess of normal depreciation and will be recorded through completion of the closure.

Volume and net sales

Brand volume for the three and six months ended June 30, 2018, declined 4.8% and 4.3%, respectively, compared to prior year, driven by lower volume in the premium light segment. STWs, excluding contract brewing volume, decreased 3.6% and 5.0% in the three and six months ended June 30, 2018, respectively, reflective of brand volume performance and year-to-date negative impacts resulting from lower distributor inventory levels, which was compounded by the launch of our new ordering system at the Golden, Colorado brewery in the first quarter.

Net sales per hectoliter on a brand volume basis for the three and six months ended June 30, 2018, increased 0.9% and 1.0%, respectively, compared to prior year due to favorable net pricing, partially offset by negative sales mix and impacts resulting from the adoption of the new accounting pronouncement related to revenue recognition. Net sales per hectoliter on a reported basis increased 1.4% and 1.2%, respectively, compared to prior year.

Cost of goods sold
Cost of goods sold per hectoliter for the three and six months ended June 30, 2018, increased 5.5% and 4.5%, respectively, compared to prior year driven by higher freight and fuel costs, aluminum inflation and volume deleverage, partially offset by cost savings. Additionally, for the three and six months ended June 30, 2018, we recorded $0.9 million and $2.0 million, respectively, of integration costs related to the Acquisition within cost of goods sold, and for the three and six months ended June 30, 2017, we recorded $0.7 million and $1.2 million, respectively, of integration costs related to the Acquisition within cost of goods sold.
Marketing, general and administrative expenses
Marketing, general and administrative expenses for the three and six months ended June 30, 2018, decreased compared to prior year due to spending optimization and efficiencies as well as lower employee-related expenses. Marketing, general and administrative expenses also include integration costs related to the Acquisition of $0.1 million and $4.1 million for the three and six months ended June 30, 2017, respectively.
Canada Segment

	Three Months Ended			Six Months Ended		
	June 30, 2018	June 30, 2017	% change	June 30, 2018	June 30, 2017	% change
	(In millions, except percentages)					
Financial volume in hectoliters[1]	2.473	2.530	(2.3)%	4.180	4.323	(3.3)%
Sales[1]	$524.6	$527.6	(0.6)%	$899.5	$905.0	(0.6)%
Excise taxes	(127.2)	(120.0)	6.0 %	(218.3)	(206.3)	5.8 %
Net sales[1]	397.4	407.6	(2.5)%	681.2	698.7	(2.5)%
Cost of goods sold[1]	(235.7)	(233.4)	1.0 %	(423.1)	(414.5)	2.1 %
Gross profit	161.7	174.2	(7.2)%	258.1	284.2	(9.2)%
Marketing, general and administrative expenses	(94.3)	(104.7)	(9.9)%	(175.3)	(200.8)	(12.7)%
Special items, net[2]	(5.7)	(1.0)	N/M	(11.3)	(2.2)	N/M
Operating income (loss)	61.7	68.5	(9.9)%	71.5	81.2	(11.9)%
Other income (expense), net	(0.4)	1.2	N/M	(1.1)	9.4	N/M
Income (loss) before income taxes	$61.3	$69.7	(12.1)%	$70.4	$90.6	(22.3)%

N/M = Not meaningful
(1) Includes gross inter-segment sales, purchases, and volumes, which are eliminated in the consolidated totals.
(2) See Part I-Item 1. Financial Statements, Note 6, "Special Items" for detail of special items.
Foreign currency impact on results
During the three months ended June 30, 2018, the CAD appreciated versus the USD on an average basis, resulting in an increase of $1.3 million to our USD earnings before income taxes. During the six months ended June 30, 2018, the CAD also appreciated versus the USD on an average basis, resulting in an increase of $1.0 million to our USD earnings before income taxes. Included in this amount 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 unaudited condensed consolidated statements of operations.
Volume and net sales
Our Canada brand volume decreased 2.4% and 2.8% during the three and six months ended June 30, 2018, respectively, versus prior year, as a result of volume challenges particularly in the West and Ontario.
Our net sales per hectoliter on a brand volume basis decreased 4.5% and 3.9% in local currency during the three and six months ended June 30, 2018, respectively, compared to prior year, 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 negative brand mix. The

decrease in the three months ended June 30, 2018, was also partially offset by higher net pricing. Net sales per hectoliter on a reported basis in local currency decreased 4.1% and 3.3%, respectively, compared to prior year.

Cost of goods sold

Cost of goods sold per hectoliter in local currency decreased 0.7% and increased 1.2% during the three and six months ended June 30, 2018, respectively, versus prior year. The decrease for the three months ended June 30, 2018, was driven by cost savings and certain one-time distribution savings. The increase for the six months ended June 30, 2018, was driven by impacts of mix shift, volume deleverage, input cost inflation and foreign exchange fluctuations, partially offset by cost savings.

Marketing, general and administrative expenses

Our marketing, general and administrative expenses decreased 13.8% and 16.4% in local currency for the three and six months ended June 30, 2018, respectively, compared to prior year, 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. For the three months ended, this decrease was also partially offset by year-over-year differences in the phasing of brand investments.

Other income (expense), net

During the first quarter of 2017, we received payment and recorded a gain of CAD 10.6 million, or $8.1 million, resulting from a purchase price adjustment related to the historical sale of Molson Inc.'s ownership interest in the Montreal Canadiens, which is considered an affiliate of MCBC.

Europe Segment

	Three Months Ended			Six Months Ended		
	June 30, 2018	June 30, 2017	% change	June 30, 2018	June 30, 2017	% change
	(In millions, except percentages)					
Financial volume in hectoliters[(1)(2)]	6.916	6.715	3.0 %	11.320	11.074	2.2 %
Sales[(2)]	$893.9	$796.2	12.3 %	$1,492.4	$1,310.6	13.9 %
Excise taxes	(307.8)	(271.5)	13.4 %	(532.0)	(404.3)	31.6 %
Net sales[(2)]	586.1	524.7	11.7 %	960.4	906.3	6.0 %
Cost of goods sold	(353.6)	(315.8)	12.0 %	(621.3)	(541.9)	14.7 %
Gross profit	232.5	208.9	11.3 %	339.1	364.4	(6.9)%
Marketing, general and administrative expenses	(143.7)	(138.0)	4.1 %	(274.1)	(264.8)	3.5 %
Special items, net[(3)]	0.3	(2.6)	N/M	(4.8)	(5.2)	(7.7)%
Operating income (loss)	89.1	68.3	30.5 %	60.2	94.4	(36.2)%
Interest income (expense), net	(1.4)	1.0	N/M	(2.1)	2.0	N/M
Other income (expense), net	(0.9)	0.6	N/M	(1.2)	0.5	N/M
Income (loss) before income taxes	$86.8	$69.9	24.2 %	$56.9	$96.9	(41.3)%

N/M = Not meaningful

(1) Excludes royalty volume of 0.490 million hectoliters and 0.796 million hectoliters for the three and six months ended June 30, 2018, respectively, and excludes royalty volume of 0.479 million hectoliters and 0.804 million hectoliters for the three and six months ended June 30, 2017, respectively.

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

(3) See Part I-Item 1. Financial Statements, Note 6, "Special Items" for detail of special items.

Significant events

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

During the three months ended March 31, 2017, we recorded a provision for an estimate of uncollectible receivables of approximately $11 million related to Agrokor, a large customer in Croatia. We have subsequently reduced this exposure and as

of June 30, 2018, our estimated provision of uncollectible receivables from Agrokor totals approximately $4 million. The settlement plan related to this matter was announced in July 2018. We are currently evaluating the implications of the settlement plan, and do not expect it to have a significant impact on our financial statements upon finalization. Separately, 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.

Foreign currency impact on results

Our Europe segment operates in numerous countries within Europe and each country's operations utilize distinct currencies. Foreign currency movements favorably impacted our Europe USD income before income taxes by $3.7 million for the three months ended June 30, 2018, and unfavorably impacted our Europe USD income before income taxes by $0.9 million for the six months ended June 30, 2018. Included in this amount 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 unaudited condensed consolidated statements of operations.

Volume and net sales

Our Europe brand volume increased 2.9% and 1.8% for the three and six months ended June 30, 2018, respectively, compared to prior year, primarily driven by growth from our above premium brands and national champion brands, as well as World Cup consumption.

Net sales per hectoliter on a brand volume basis increased in local currency by 1.5% for the three months ended June 30, 2018 and decreased in local currency by 6.9% for the six months ended June 30, 2018, compared to prior year. The increase for the three months ended June 30, 2018, was primarily driven by positive sales mix and pricing. This was partially offset by adopting recently revised excise-tax guidelines in one of our European markets as well as increasing our investment behind our First Choice Agenda this year, while the decrease for the six months ended June 30, 2018, was also negatively impacted by cycling the release of the approximate $50 million indirect tax provision in the first quarter of 2017. Net sales per hectoliter on a reported basis in local currency increased 1.3% and decreased 5.4%, respectively, compared to prior year.

Cost of goods sold

Cost of goods sold per hectoliter increased 1.5% and 2.0% in local currency in the three and six months ended June 30, 2018, respectively, versus prior year, primarily due to mix shift to higher-cost brands and geographies, input inflation and logistics costs.

Marketing, general and administrative expenses

Marketing, general and administrative expenses decreased 3.5% and 6.8% in local currency in the three and six months ended June 30, 2018, respectively, compared to prior year, driven by lower marketing investments, the impact of adopting the new revenue recognition guidance and a benefit from the partial reversal of bad debt provisions, slightly offset by the addition of Aspall brand investments.

International Segment

	Three Months Ended			Six Months Ended		
	June 30, 2018	June 30, 2017	% change	June 30, 2018	June 30, 2017	% change
	(In millions, except percentages)					
Financial volume in hectoliters[1]	0.637	0.643	(0.9)%	1.157	1.171	(1.2)%
Sales	$86.1	$81.3	5.9 %	$150.9	$147.6	2.2 %
Excise taxes	(18.2)	(16.2)	12.3 %	(25.5)	(20.7)	23.2 %
Net sales	67.9	65.1	4.3 %	125.4	126.9	(1.2)%
Cost of goods sold[2]	(44.1)	(47.8)	(7.7)%	(81.9)	(86.8)	(5.6)%
Gross profit	23.8	17.3	37.6 %	43.5	40.1	8.5 %
Marketing, general and administrative expenses	(20.6)	(24.7)	(16.6)%	(35.7)	(45.7)	(21.9)%
Special items, net[3]	(1.8)	(0.3)	N/M	(2.8)	(0.6)	N/M
Operating income (loss)	1.4	(7.7)	N/M	5.0	(6.2)	N/M
Other income (expense), net	(0.1)	—	N/M	—	—	— %
Income (loss) before income taxes	$1.3	$(7.7)	N/M	$5.0	$(6.2)	N/M

N/M = Not meaningful

(1) Excludes royalty volume of 0.567 million hectoliters and 0.977 million hectoliters for the three and six months ended June 30, 2018, respectively, and excludes royalty volume of 0.554 million hectoliters and 1.027 million hectoliters for the three and six months ended June 30, 2017, respectively.

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

(3) See Part I-Item 1. Financial Statements, Note 6, "Special Items" for detail of special items.

Significant events

During the first half of 2018, we decided to formally exit our business in China. We are currently in the process of withdrawing from this geography and, as such, have incurred special charges. See Part I—Item 1. Financial Statements, Note 6, "Special Items" for further detail.

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 did not significantly impact our International segment's USD income before income taxes for the three and six months ended June 30, 2018. Included in this amount 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 unaudited condensed consolidated statements of operations.

Volume and net sales

Our International brand volume increased by 0.6% and decreased 2.9% in the three and six months ended June 30, 2018, respectively, compared to prior year, primarily driven by organic volume growth in many of our focus markets, partially offset by the loss of the Modelo contract in Japan at the end of the second quarter of 2017. Brand volume for the six months ended June 30, 2018, was also negatively impacted by lower volumes in Mexico due to higher net pricing.

Net sales per hectoliter on a brand volume basis increased 3.8% and 1.8% in the three and six months ended June 30, 2018, respectively, compared to prior year. The increase for the three and six months ended June 30, 2018, was driven by positive net pricing and favorable sales mix. Net sales per hectoliter on a reported basis increased 5.3% compared to the prior year for the three months ended June 30, 2018, driven by positive net pricing and favorable sales mix. Net sales per hectoliter on a reported basis was flat compared to the prior year for the six months ended June 30, 2018.

Cost of goods sold

Cost of goods sold per hectoliter decreased 6.9% and 4.5% in the three and six months ended June 30, 2018, respectively, compared to prior year, primarily driven by sales mix changes.

Marketing, general and administrative expenses
Marketing, general and administrative expenses decreased in the three and six months ended June 30, 2018, compared to prior year, primarily due to lower marketing investments and integration costs and $2.0 million of settlement proceeds related to our Colombia business in the first quarter.
Corporate

	Three Months Ended			Six Months Ended		
	June 30, 2018	June 30, 2017	% change	June 30, 2018	June 30, 2017	% change
	(In millions, except percentages)					
Financial volume in hectoliters	—	—	— %	—	—	— %
Sales	$0.3	$0.3	— %	$0.5	$0.6	(16.7)%
Excise taxes	—	—	— %	—	—	— %
Net sales	0.3	0.3	— %	0.5	0.6	(16.7)%
Cost of goods sold	45.0	(23.5)	N/M	(39.8)	39.5	N/M
Gross profit	45.3	(23.2)	N/M	(39.3)	40.1	N/M
Marketing, general and administrative expenses	(51.0)	(56.2)	(9.3)%	(112.5)	(111.9)	0.5 %
Special items, net[(1)]	—	—	— %	328.0	(0.1)	N/M
Operating income (loss)	(5.7)	(79.4)	(92.8)%	176.2	(71.9)	N/M
Interest expense, net	(76.9)	(90.2)	(14.7)%	(158.2)	(187.8)	(15.8)%
Other pension and postretirement benefits (costs), net	9.9	9.4	5.3 %	19.9	22.7	(12.3)%
Other income (expense), net	0.8	2.0	(60.0)%	3.0	(6.3)	N/M
Income (loss) before income taxes	$(71.9)	$(158.2)	(54.6)%	$40.9	$(243.3)	N/M

N/M = Not meaningful
(1) See Part I-Item 1. Financial Statements, Note 6, "Special Items" for detail of special items.
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. Higher commodity market prices relative to our hedged positions on our commodity swaps drove the total unrealized mark-to-market gain of $45.1 million recognized in cost of goods sold for the three months ended June 30, 2018, as compared to the unrealized mark-to-market loss of $23.4 million recognized in cost of goods sold for the three months ended June 30, 2017. Lower commodity market prices relative to our hedged positions on our commodity swaps drove the total unrealized mark-to-market loss of $39.6 million recognized in cost of goods sold for the six months ended June 30, 2018, as compared to the unrealized mark-to-market gain of $39.7 million recognized in cost of goods sold for the six months ended June 30, 2017.
Marketing, general and administrative expenses
Marketing, general and administrative expenses decreased in the three months ended June 30, 2018, primarily due to the timing of corporate general and administrative costs and higher integration costs related to the Acquisition recognized in the prior year. The increase in the six months ended June 30, 2018, was partially offset by incremental investment behind global business capabilities including information technology investments. Specifically, for the three and six months ended June 30, 2018, we recorded integration costs related to the Acquisition of $7.7 million and $16.5 million, respectively, within marketing, general and administrative expense. For the three and six months ended June 30, 2017, we recorded integration costs related to the Acquisition of $11.2 million and $24.6 million, respectively, within marketing, general and administrative expense.

Interest expense, net
Net interest expense decreased for the three and six months ended June 30, 2018, compared to the prior year, primarily driven by debt repayments. See Part I—Item 1. Financial Statements, Note 12, "Derivative Instruments and Hedging Activities" and Note 9, "Debt" for further details.
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 twelve months subsequent to the date of the issuance of this quarterly report, 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. We continue to have exposure to Agrokor, a company in Croatia, who entered into financial difficulty in 2017. The settlement plan related to this matter was announced in July 2018. We are currently evaluating the implications of the settlement plan, and do not expect it to have a significant impact on our financial statements upon finalization.
A significant portion of our cash flows from operating activities are generated outside the U.S. in currencies other than USD. As of June 30, 2018, approximately 40% 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 will 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. 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 we described in Part I—Item 1A. "Risk Factors" in our Annual Report.
Cash Flows from Operating Activities
Net cash provided by operating activities was approximately $1.3 billion for the six months ended June 30, 2018, compared to net cash provided by operating activities of $818.5 million for the six months ended June 30, 2017. This increase in net cash provided by operating activities of $479.3 million is primarily related to higher net income largely due to the proceeds received during the first quarter of $328.0 million related to the Adjustment Amount as defined and further discussed in Part I—Item 1. Financial Statements, Note 6, "Special Items", working capital improvements and lower pension contributions and interest.
Cash Flows from Investing Activities
Net cash used in investing activities of $397.2 million for the six months ended June 30, 2018, increased by $95.3 million compared to the six months ended June 30, 2017, driven primarily by lower proceeds related to asset disposals as well as increased outflows from other investing activities, including acquisitions.
Cash Flows from Financing Activities
Net cash used in financing activities was $524.7 million for the six months ended June 30, 2018, compared to net cash used in financing activities of $593.2 million for the six months ended June 30, 2017. This decrease was primarily driven by lower net repayments on debt and borrowings compared to prior year, partially offset by the repayment of borrowings under our commercial paper program during the first half of 2018 compared to an increase in borrowings under our commercial paper program during the first half of 2017.

Capital Resources

Cash and Cash Equivalents

As of June 30, 2018, we had total cash and cash equivalents of $792.9 million, compared to $418.6 million as of December 31, 2017, and $502.9 million as of June 30, 2017. The increase in cash and cash equivalents as of June 30, 2018, from both prior periods 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 I—Item 1. Financial Statements, Note 6, "Special Items", partially offset by repayments of borrowings, capital expenditures and dividend payments.

Borrowings

During the three months ended June 30, 2018, there was no significant borrowing or repayment activity. The following table summarizes the maturities of our long-term debt, excluding short-term borrowings. Notional amounts are presented in USD based on the applicable exchange rate as of June 30, 2018. Refer to Part I—Item 1. Financial Statements, Note 9, "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.

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. As of June 30, 2018, we had approximately $1.5 billion available to draw under our $1.5 billion revolving multi-currency credit facility, as we did not have any borrowings drawn on this revolving credit facility or any commercial paper outstanding. Subsequent to quarter end, we extended the maturity date of our revolving credit facility by one year to July 7, 2023. In addition, we also currently utilize and will further utilize our cross-border, cross currency cash pool for liquidity needs. We also have JPY overdraft facilities, CAD and GBP 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. As of June 30, 2018, we were in compliance

with all of these restrictions and have met all debt payment obligations. All of our outstanding senior notes as of June 30, 2018, rank pari-passu.

Additionally, under the $1.5 billion revolving credit facility, the maximum leverage ratio is 5.25x 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.

See Part I—Item 1. Financial Statements, Note 9, "Debt" 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 Investor Services 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 applicable 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 17, "Derivative Instruments and Hedging Activities" of our Annual Report 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:

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Weighted-Average Exchange Rate (1 USD equals)				
Canadian Dollar (CAD)	1.30	1.33	1.29	1.33
Euro (EUR)	0.83	0.90	0.82	0.92
British Pound (GBP)	0.73	0.78	0.73	0.78
Czech Koruna (CZK)	21.93	23.71	21.66	24.31
Croatian Kuna (HRK)	6.31	6.64	6.28	6.73
Serbian Dinar (RSD)	99.17	110.79	96.83	113.75
Romanian Leu (RON)	3.95	4.07	3.89	4.15
Bulgarian Lev (BGN)	1.64	1.77	1.62	1.81
Hungarian Forint (HUF)	264.65	279.98	254.16	288.62

	As of June 30, 2018	December 31, 2017
Closing Exchange Rate (1 USD equals)		
Canadian Dollar (CAD)	1.31	1.26
Euro (EUR)	0.86	0.83
British Pound (GBP)	0.76	0.74
Czech Koruna (CZK)	22.24	21.29
Croatian Kuna (HRK)	6.32	6.19
Serbian Dinar (RSD)	101.42	98.52
Romanian Leu (RON)	3.99	3.89
Bulgarian Lev (BGN)	1.67	1.63
Hungarian Forint (HUF)	281.79	258.91

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 before interest and taxes of the USD equivalent.

Capital Expenditures

We incurred $265.6 million, and have paid $351.1 million, for capital improvement projects worldwide in the six months ended June 30, 2018, excluding capital spending by equity method joint ventures, representing a decrease of $14.4 million from the $280.0 million of capital expenditures incurred in the six months ended June 30, 2017. This decrease is primarily due to the timing of projects as we currently expect to incur total capital expenditures of approximately $670 million for full year 2018, based on foreign exchange rates as of June 30, 2018. This expectation includes capital expenditures associated with the construction of our new British Columbia and Montreal breweries and excludes capital spending by equity method joint ventures.

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

There were no material changes to our contractual obligations and commercial commitments since December 31, 2017, as reported in Part II - Item 7. Management's Discussion and Analysis, Contractual Obligations and Commercial Commitments in our Annual Report.

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 I - Item 1. Financial Statements, Note 14, "Commitments and Contingencies" for further discussion.

Contingencies

We are party to various legal proceedings arising in the ordinary course of business, environmental issues and other contingencies. See Part I—Item 1. Financial Statements, Note 14, "Commitments and Contingencies" for further discussion.

Off-Balance Sheet Arrangements

In accordance with U.S. GAAP, our operating leases are not reflected in our unaudited condensed consolidated balance sheets. Refer to Part II—Item 8 Financial Statements, Note 19, "Commitments and Contingencies" in our Annual Report for further discussion of these off-balance sheet arrangements. As of June 30, 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 2018

In the U.S., we plan to continue to build distributor inventories in the second half of the year, as we prepare for further brewery system implementations. We also plan to continue to drive our portfolio strategy of building distinctive brands across all segments to meet the needs of American beer drinkers. We have an urgent focus on improving Coors Light trends through bolder execution of the "World's Most Refreshing Beer" and sharper feature and display activity while continuing the strong

share trends for Miller Lite through a bold competitive position. Additionally, we expect flavored malt beverage and cider performance to benefit from incremental volumes from Arnold Palmer Spiked distribution, flavor and pack innovations from Henry's Hard Sparkling, and the introduction of slim cans for Crispin Rosé. More broadly in above premium, we are working to accelerate our import share with both Sol and Peroni while strengthening the Blue Moon franchise and rapidly scaling our family of regional craft breweries.

In Canada, the commercial teams plan to continue to focus on strengthening the portfolio by stabilizing our premium brands performance, accelerating the growth of our above premium portfolio, and simplifying our offering in the value segment. In premium, Coors Light is our top priority and we expect to improve brand activations and promotional intensity with an emphasis on refreshment to drive feature and display. Our premiumization efforts are expected to drive an acceleration of the growth of our key import brand Heineken, as well as our Miller Genuine Draft and Coors Banquet brands. Trou du Diable, our most recent craft addition, is broadening our footprint in the world of craft in Quebec, and is delivering strong results. We have also lifted and shifted Leinenkugel’s Summer Shandy and Henry’s Hard Soda from the U.S. The recent addition of Coors Edge, a new non-alcoholic offering, is complementing Heineken 0.0 in this rapidly growing segment. In below premium, the recently launched Miller High Life brand continues to deliver strong results, while complementing our Pilsner and Black Label brands and underpinning continued segment share growth. Finally, as we look to ongoing productivity improvements, the construction of our new highly efficient brewery in British Columbia is on track for brewing in 2019 and planning for our new brewery in Quebec is advancing quickly.

In Europe, we are encouraged by the strong start to the summer selling season. Our teams plan to continue to use a balanced portfolio approach by building on momentum from the international growth of Staropramen outside of the Czech Republic, Coors Light and our craft and cider portfolio. Additionally, we expect to remain disciplined with retail execution and optimization of our brewery network and infrastructure.

In International, strong year-to-date performance gives us added confidence for the remainder of 2018. We expect the second half of the year to build on success in Latin America, including Mexico, Paraguay, and Honduras, along with further development of our Asia Pacific markets, such as South Korea. We plan to continue to focus our efforts on succeeding in high-potential markets and brands that we expect to play a pivotal role in reaching our long-term top- and bottom-line international growth targets. We expect our International segment to be a meaningful driver of results this year.

Pension Plans

We currently anticipate approximately $10 million of cash contributions to our defined benefit pension plans in 2018, based on foreign exchange rates as of June 30, 2018. BRI and BDL contributions to their respective defined benefit pension plans are excluded here, as they are not consolidated in our financial statements.

Interest

We anticipate 2018 Corporate net interest expense of approximately $330 million, based on foreign exchange and interest rates as of June 30, 2018.

Tax

We expect to realize net benefits from the 2017 Tax Act, primarily driven by the lower federal corporate income tax rate of 21% and accelerated depreciation of qualified assets for tax purposes. As an additional result of the 2017 Tax Act, we expect a long-term consolidated effective tax rate in the range of 20% to 24%. However, we will continue to evaluate the impacts of the 2017 Tax Act as we further understand its implications, as well as the related, and yet to be issued, regulations and interpretations which could impact this outlook.

Dividends and Stock Repurchases

As a result of the Acquisition, we currently plan to maintain our current quarterly dividend of $0.41 per share until we achieve a leverage ratio of 3.75x debt to EBITDA on a rating agency basis, which we expect to achieve near the second half of 2019. Once this target is achieved, we currently intend to reinstitute a dividend payout-ratio target based upon the annual trailing EBITDA and raise our quarterly dividend accordingly. 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 accounting policies and accounting estimates critical to our financial condition and results of operations are set forth in our Annual Report and did not change during the first half of 2018. See Part I—Item 1. Financial Statements, Note 2, "New

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Accounting Pronouncements" for discussion of recently adopted accounting pronouncements. See also Part I—Item 1. Financial Statements, Note 8, "Goodwill and Intangible Assets" for discussion of the results of the 2017 annual impairment testing analysis and the related risks to our indefinite-lived intangible brand assets and goodwill amounts associated with our reporting units.

New Accounting Pronouncements Not Yet Adopted

Leases

In February 2016, the FASB issued authoritative guidance intended to increase transparency and comparability among organizations by recognizing lease assets and liabilities on the balance sheet and disclosing key information about leasing arrangements. Under the new guidance, lessees will be required to recognize a right-of-use asset and a lease liability, measured on a discounted basis, at the commencement date for all leases with terms greater than twelve months. Additionally, this guidance will require disclosures to help investors and other financial statement users to better understand the amount, timing, and uncertainty of cash flows arising from leases, including qualitative and quantitative requirements. This guidance is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those annual periods, with early adoption permitted. The guidance should be applied under a modified retrospective transition approach, with an option to apply the guidance either at the beginning of the earliest comparative period presented in the adoption-period financial statements, or to apply the new guidance at the adoption date. We currently anticipate that we will apply the guidance at the beginning of the period of adoption; however, this expectation may change following the completion of our evaluation of the impact of this guidance on our financial statements. We are currently evaluating the potential impact on our financial position and results of operations upon adoption of this guidance. This guidance will result in our existing operating leases, for certain real estate and equipment, to be recognized on our balance sheet. We will further analyze our lease arrangements as we complete our assessment and implementation of this new guidance.

See Part I—Item 1. Financial Statements, Note 2, "New Accounting Pronouncements" for a description of all new accounting pronouncements.

ITEM 3. 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.

For details of our derivative instruments that are presented on the balance sheet, including their fair values as of period end, see Part I—Item 1. Financial Statements, Note 12, "Derivative Instruments and Hedging Activities". On a rolling twelve-month basis, maturities of derivative financial instruments held on June 30, 2018, based on foreign exchange rates as of June 30, 2018, are as follows:

Total	Less than 1 year	1 - 3 years	3 - 5 years	More than 5 years
(In millions)				
$114.4	$53.6	$60.9	$(0.1)	$ —

Sensitivity Analysis

Our market risk sensitive derivative and other financial instruments, as defined by the SEC, are foreign currency forward contracts, debt, commodity swaps and commodity options. We monitor foreign exchange risk, interest rate risk, commodity risk and related derivatives using a sensitivity analysis.

The following table presents the results of the sensitivity analysis, which reflects the impact of a hypothetical 10% adverse change in each of these risks to our derivative and debt portfolio:

	As of June 30, 2018	December 31, 2017
	(In millions)	
Estimated fair value volatility		
Foreign currency risk:		
Forwards	$(36.5)	$ (36.5)
Foreign currency denominated debt	$(287.8)	$ (310.0)
Swaps	$(51.9)	$ —
Interest rate risk:		
Debt	$(304.1)	$ (311.9)
Commodity price risk:		
Commodity swaps	$(81.8)	$ (43.5)
Commodity options	$—	$ —

The volatility of the applicable rates and prices are dependent on many factors that cannot be forecast with reliable accuracy. Therefore, actual changes in fair values could differ significantly from the results presented in the table above.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of our disclosure controls and procedures as such item is defined under Rule 13a-15(e) under the Exchange Act. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2018, to provide reasonable assurance that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Management necessarily applies its judgment in assessing the costs and benefits of such controls and procedures that, by their nature, can only provide reasonable assurance regarding management's control objectives. Also, we have investments in certain unconsolidated entities that we do not control or manage.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) during the three months ended June 30, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For information regarding litigation, other disputes and environmental and regulatory proceedings see Part I—Item 1. Financial Statements, Note 14, "Commitments and Contingencies" for additional information.

We are also 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 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 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I—Item 1A. "Risk Factors" in our Annual Report, which could materially affect our business, financial condition

and/or future results. There have been no material changes to the risk factors contained in our Annual Report except as noted below. The

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risks described in our Annual Report are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business, financial condition, cash flows and/or future results.

Our Canadian business faces numerous risks relating to its proposed joint venture in the Canadian cannabis industry. On August 1, 2018, a wholly-owned subsidiary within our Canadian business entered into a definitive agreement to form a joint venture with The Hydropothecary Corporation (a/k/a HEXO), a Canadian entity listed on the Toronto Stock Exchange that serves the Canadian cannabis market. The joint venture will pursue opportunities to develop non-alcoholic, cannabis-infused beverages for the Canadian market following legalization. The formation of the joint venture and related actions and investments have not yet occurred and are subject to future closing conditions, which may not be met. In addition, 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 perception of our current brands or business partner, investor or public sentiment regarding our 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 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.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The following are filed or incorporated by reference as a part of this Quarterly Report on Form 10-Q:

(a) Exhibits

Exhibit Number	Document Description
10.1	Molson Coors Deferred Compensation Plan (as amended and restated effective January 1, 2018) (incorporated by reference to Exhibit 10.1 of our Current Report on Form 8-K, filed on May 25, 2018).
31.1	Section 302 Certification of Chief Executive Officer.
31.2	Section 302 Certification of Chief Financial Officer.
32	Written Statement of Chief Executive Officer and Chief Financial Officer furnished pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 USC. Section 1350).
101.INS	XBRL Instance Document.*
101.SCH	XBRL Taxonomy Extension Schema Document.*
101.CAL	

	XBRL Taxonomy Extension Calculation Linkbase Document.*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.*

*	Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) the Unaudited Condensed Consolidated Statements of Operations, (ii) the Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss), (iii) the Unaudited Condensed Consolidated Balance Sheets,

(iv) the Unaudited Condensed Consolidated Statements of Cash Flows, (v) the Unaudited Condensed Consolidated Statements of Stockholders' Equity and Noncontrolling Interests, (vi) the Notes to Unaudited Condensed Consolidated Financial Statements, and (vii) document and entity information.

SIGNATURE

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

MOLSON COORS BREWING COMPANY

By: /s/ BRIAN C. TABOLT

Brian C. Tabolt
Vice President and Controller
(Chief Accounting Officer)
August 1, 2018

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