CONAGRA BRANDS INC.
Form 10-K
July 20, 2018

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

FORM 10-K
(Mark One)
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended May 27, 2018
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 No. 1-7275

CONAGRA BRANDS, INC.
(Exact name of registrant as specified in its charter)

Delaware	47-0248710
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
222 W. Merchandise Mart Plaza, Suite 1300 Chicago, Illinois	60654
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (312) 549-5000

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

Title of each class	Name of each exchange on which registered
Common Stock, $5.00 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 þ No ¨

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

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 þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) 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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨ (Do not check if a smaller reporting company)
Smaller reporting company ¨ Emerging growth company ¨
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨
No þ
The aggregate market value of the voting common stock of Conagra Brands, Inc. held by non-affiliates on November 26, 2017 (the last business day of the Registrant's most recently completed second fiscal quarter) was approximately $14,207,433,670 based upon the closing sale price on the New York Stock Exchange on such date.
At June 24, 2018, 390,888,172 common shares were outstanding.
Documents Incorporated by Reference
Portions of the Registrant’s definitive Proxy Statement for the Registrant's 2018 Annual Meeting of Stockholders (the "2018 Proxy Statement") are incorporated by reference into Part III.

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PART I

This annual report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Actual results, performance or achievements could differ materially from those projected in the forward-looking statements as a result of a number of risks, uncertainties, and other factors. For a discussion of important factors that could cause our results, performance, or achievements to differ materially from any future results, performance, or achievements expressed or implied by our forward-looking statements, please refer to Item 1A, Risk Factors and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations below.

ITEM 1. BUSINESS

General Development of Business

Conagra Brands, Inc., a Delaware corporation, together with its consolidated subsidiaries (collectively, the "Company", "we", "our", or "us"), is one of North America's leading branded food companies. Guided by an entrepreneurial spirit, the Company combines a rich heritage of making great food with a sharpened focus on innovation. The Company's portfolio is evolving to satisfy people's changing food preferences. Its iconic brands such as Marie Callender's®, Reddi-wip®, Hunt's®, Healthy Choice®, Slim Jim®, and Orville Redenbacher's®, as well as emerging brands, including Alexia®, Angie's® BOOMCHICKAPOP®, Blake's®, Duke's®, and Frontera®, offer choices for every occasion.

We began as a Midwestern flour-milling company and entered other commodity-based businesses throughout our history. We were initially incorporated as a Nebraska corporation in 1919 and reincorporated as a Delaware corporation in January 1976. Over time, we transformed into the branded, pure-play consumer packaged goods food company we are today. We achieved this through various acquisitions, including consumer food brands such as Banquet®, Chef Boyardee®, Marie Callender's®, Alexia®, Blake's®, Frontera®, Duke's®, BIGS®, and divestitures. We have divested our Lamb Weston business, Private Brands business, Spicetec Flavors & Seasonings business, JM Swank business, milling business, dehydrated and fresh vegetable operations, and a trading and merchandising business, among others. Growing our food businesses has also been fueled by innovation, organic growth of our brands, and expansion into adjacent categories. We are focused on delivering sustainable, profitable growth with strong and improving returns on our invested capital.

On November 9, 2016, we completed the spinoff of Lamb Weston Holdings, Inc. ("Lamb Weston") through a distribution of 100% of our interest in Lamb Weston to holders, as of November 1, 2016, of outstanding shares of our common stock (the "Spinoff"). The transaction effecting this change was structured as a tax-free spinoff.

In January 2013, we acquired Ralcorp Holdings, Inc. ("Ralcorp"), a manufacturer of private branded food. Since the acquisition of Ralcorp, we focused on addressing executional shortfalls and customer service issues intended to improve operating performance for our Private Brands business. However, after further review of the Private Brands business, we changed our strategic direction and divested the Private Brands business in the third quarter of fiscal 2016.

Financial Information about Reporting Segments

We reflect our results of operations in five reporting segments: Grocery & Snacks, Refrigerated & Frozen, International, Foodservice, and Commercial. The contributions of each reporting segment to net sales, operating profit, and identifiable assets are set forth in Note 21 "Business Segments and Related Information" to the consolidated financial statements.

Narrative Description of Business

We compete throughout the food industry and focus on adding value for our customers who operate in the retail food and foodservice channels.

Our operations, including our reporting segments, are described below. Our locations, including manufacturing facilities, within each reporting segment, are described in Item 2, Properties.

Reporting Segments
Our reporting segments are as follows:
Grocery & Snacks
The Grocery & Snacks reporting segment principally includes branded, shelf stable food products sold in various retail channels in the United States.
Refrigerated & Frozen
The Refrigerated & Frozen reporting segment principally includes branded, temperature-controlled food products sold in various retail channels in the United States.
International
The International reporting segment principally includes branded food products, in various temperature states, sold in various retail and foodservice channels outside of the United States.
Foodservice
The Foodservice reporting segment includes branded and customized food products, including meals, entrees, sauces, and a variety of custom-manufactured culinary products packaged for sale to restaurants and other foodservice establishments primarily in the United States.
Commercial Foods
The Commercial reporting segment included commercially branded and private label food and ingredients, which were sold primarily to commercial, restaurant, foodservice, food manufacturing, and industrial customers. The segment's primary food items included a variety of vegetable, spice, and frozen bakery goods, which were sold under brands such as Spicetec Flavors & Seasonings®. In the first quarter of fiscal 2017, we sold our Spicetec and JM Swank businesses. These businesses comprise the entire Commercial segment following the presentation of Lamb Weston as discontinued operations.
Unconsolidated Equity Investments
We have three unconsolidated equity investments. Our most significant equity method investment is a milling business.
Acquisitions
On June 26, 2018, subsequent to the end of fiscal 2018, we entered into a definitive merger agreement with Pinnacle Foods Inc. ("Pinnacle") under which we plan to acquire all outstanding shares of Pinnacle common stock in a cash and stock transaction valued at approximately $10.9 billion, including Pinnacle's outstanding net debt. Under the terms of the merger agreement, Pinnacle shareholders will receive $43.11 per share in cash and 0.6494 shares of our common stock for each share of Pinnacle common stock held. The implied price of $68.00 per Pinnacle share is based on the volume-weighted average price of our stock for the five days ended June 21, 2018. The planned acquisition is expected to close by the end of calendar 2018 and remains subject to the approval of Pinnacle shareholders, the receipt of regulatory approvals, and other customary closing conditions.
In February 2018, we acquired the Sandwich Bros. of Wisconsin® business, maker of frozen breakfast and entree flatbread pocket sandwiches. This business is included in the Refrigerated & Frozen segment.
In October 2017, we acquired Angie's Artisan Treats, LLC, maker of Angie's® BOOMCHICKAPOP® ready-to-eat popcorn. This business is primarily included in the Grocery & Snacks segment.
In April 2017, we acquired protein-based snacking businesses Thanasi Foods LLC, maker of Duke's® meat snacks, and BIGS LLC, maker of BIGS® seeds. These businesses are primarily included in the Grocery & Snacks segment.
In September 2016, we acquired the operating assets of Frontera Foods, Inc. and Red Fork LLC, including the Frontera®, Red Fork®, and Salpica® brands (the "Frontera acquisition"). These businesses make authentic, gourmet Mexican food products and contemporary American cooking sauces. These businesses are reflected principally within the Grocery & Snacks segment, and to a lesser extent within the Refrigerated & Frozen and International segments.

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Divestitures

In the third quarter of fiscal 2018, we entered into an agreement to sell our Del Monte® processed fruit and vegetable business in Canada and completed the sale in July 2018, subsequent to the end of fiscal 2018. The assets of this business have been reclassified as assets held for sale within our Consolidated Balance Sheets for all periods presented.

In the fourth quarter of fiscal 2017, we signed an agreement to sell our Wesson® oil business. In the fourth quarter of fiscal 2018, the agreement was terminated. This outcome followed the decision of the Federal Trade Commission, announced on March 5, 2018, to challenge the pending sale. The Company is still actively marketing the Wesson® oil business and expects to sell it within the next twelve months. The assets of this business have been reclassified as assets held for sale within our Consolidated Balance Sheets for all periods presented.

On November 9, 2016, we completed the Spinoff of our Lamb Weston business. As of such date, we did not beneficially own any equity interest in Lamb Weston and no longer consolidated Lamb Weston into our financial results. We reflected the results of this business as discontinued operations for all periods presented.

In the first quarter of fiscal 2017, we completed the sales of our Spicetec Flavors & Seasonings business ("Spicetec") and our JM Swank business for combined proceeds of $489.0 million. The results of operations of Spicetec and JM Swank are included in the Commercial segment.

On February 1, 2016, pursuant to a Stock Purchase Agreement, dated as of November 1, 2015, we completed the disposition of our Private Brands operations to TreeHouse Foods, Inc. ("Treehouse"). We reflected the results of this business as discontinued operations for all periods presented.

General

The following comments pertain to all of our reporting segments.

Conagra Brands is a branded consumer packaged goods food company that operates in many sectors of the food industry, with a significant focus on the sale of branded, private branded, and value-added consumer food, as well as foodservice items and ingredients. We use many different raw materials, the bulk of which are commodities. The prices paid for raw materials used in making our food generally reflect factors such as weather, commodity market fluctuations, currency fluctuations, tariffs, and the effects of governmental agricultural programs. Although the prices of raw materials can be expected to fluctuate as a result of these factors, we believe such raw materials to be in adequate supply and generally available from numerous sources. From time to time, we have faced increased costs for many of our significant raw materials, packaging, and energy inputs. We seek to mitigate higher input costs through productivity and pricing initiatives, and the use of derivative instruments to economically hedge a portion of forecasted future consumption.

We experience intense competition for sales of our food items in our major markets. Our food items compete with widely advertised, well-known, branded food, as well as private branded and customized food items. Some of our competitors are larger and have greater resources than we have. We compete primarily on the basis of quality, value, customer service, brand recognition, and brand loyalty.

Demand for certain of our food items may be influenced by holidays, changes in seasons, or other annual events.

We manufacture primarily for stock and fill our customer orders from finished goods inventories. While at any given time there may be some backlog of orders, such backlog is not material in respect to annual net sales, and the changes of backlog orders from time to time are not significant.

Our trademarks are of material importance to our business and are protected by registration or other means in the United States and most other markets where the related food items are sold. Some of our food items are sold under brands that have been licensed from others. We also actively develop and maintain a portfolio of patents, although no single patent is considered material to the business as a whole. We have proprietary trade secrets, technology, know-how, processes, and other intellectual property rights that are not registered.

Many of our facilities and products we make are subject to various laws and regulations administered by the United States Department of Agriculture, the Federal Food and Drug Administration, the Occupational Safety and Health Administration, and other federal, state, local, and foreign governmental agencies relating to the food safety and quality, sanitation, safety and health matters, and environmental control. We believe that we comply with such laws and regulations in all material respects

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and that continued compliance with such regulations will not have a material effect upon capital expenditures, earnings, or our competitive position.

Our largest customer, Walmart, Inc. and its affiliates, accounted for approximately 24% of consolidated net sales for both fiscal 2018 and 2017 and 23% of consolidated net sales for fiscal 2016.

At May 27, 2018, Conagra Brands and its subsidiaries had approximately 12,400 employees, primarily in the United States. Approximately 43% of our employees are parties to collective bargaining agreements. Of the employees subject to collective bargaining agreements, approximately 47% are parties to collective bargaining agreements scheduled to expire during fiscal 2019. We believe our relationships with employees and their representative organizations are good.

Research and Development

We employ processes at our principal manufacturing locations that emphasize applied research and technical services directed at product improvement and quality control. In addition, we conduct research activities related to the development of new products. Research and development expense was $47.3 million, $44.6 million, and $59.6 million in fiscal 2018, 2017, and 2016, respectively.

EXECUTIVE OFFICERS OF THE REGISTRANT AS OF JULY 20, 2018

Name	Title & Capacity	Age	Year First Appointed an Executive Officer
Sean M. Connolly	President and Chief Executive Officer	52	2015
David S. Marberger	Executive Vice President and Chief Financial Officer	53	2016
Colleen R. Batcheler	Executive Vice President, General Counsel and Corporate Secretary	44	2008
David B. Biegger	Executive Vice President, Chief Supply Chain Officer	59	2015
Charisse Brock	Executive Vice President, Chief Human Resources Officer	56	2015
Thomas M. McGough	President, Operating Segments	53	2013
Darren C. Serrao	Executive Vice President, Chief Growth Officer	52	2015
Robert G. Wise	Senior Vice President, Corporate Controller	50	2012

Sean M. Connolly has served as our President and Chief Executive Officer and a member of the Board since April 6, 2015. Prior to that, he served as President and Chief Executive Officer and a director of The Hillshire Brands Company (a branded food products company) from June 2012 to August 2014, Executive Vice President of Sara Lee Corporation (the predecessor to Hillshire), and Chief Executive Officer, Sara Lee North American Retail and Foodservice, from January 2012 to June 2012. Prior to joining Hillshire, Mr. Connolly served as President of Campbell North America, the largest division of Campbell Soup Company (a branded convenience food products company), from October 2010 to December 2011, President, Campbell USA from 2008 to 2010, and President, North American Foodservice for Campbell from 2007 to 2008. Before joining Campbell in 2002, he served in various marketing and brand management roles at The Procter & Gamble Company (a consumer product goods company).

David S. Marberger has served as Executive Vice President and Chief Financial Officer since August 2016. Prior to joining Conagra Brands, he served as Chief Financial Officer of Prestige Brands Holdings, Inc. (a provider of over-the-counter healthcare products) from October 2015 until July 2016. Prior to that, Mr. Marberger served as the Senior Vice President and Chief Financial Officer of Godiva Chocolatier, Inc. (a global manufacturer and supplier of premium chocolates) from 2008 until October 2015. Prior to that, Mr. Marberger served Tasty Baking Company as Executive Vice President and Chief Financial Officer from 2006 to 2008 and as Senior Vice President and Chief Financial Officer from 2003 to 2006. From 1993 until 2003, he served in various roles at Campbell Soup Company, where he last held the position of Vice President, Finance, Food and Beverage Division.

Colleen R. Batcheler has served as Executive Vice President, General Counsel and Corporate Secretary since September 2009 and served as Senior Vice President, General Counsel and Corporate Secretary from February 2008 until September 2009. Ms. Batcheler joined Conagra Brands in June 2006 as Vice President, Chief Securities Counsel and Assistant Corporate Secretary. In September 2006, she was named Corporate Secretary. From 2003 until joining

Conagra Brands, Ms. Batcheler

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served as Vice President and Corporate Secretary of Albertson's, Inc. (a retail food and drug chain). Prior to that, she served as Associate Counsel with The Cleveland Clinic Foundation (a non-profit academic medical center) and an associate with Jones Day (a law firm).
David B. Biegger has served as Executive Vice President and Chief Supply Chain Officer since October 2015. Prior to joining Conagra Brands, Mr. Biegger spent nearly 11 years at the Campbell Soup Company, where he served as Senior Vice President, Global Supply Chain from February 2014 until October 2015 and was responsible for the global supply chain of that company, including manufacturing, quality, safety, engineering, procurement, logistics, environmental sustainability and customer service. Prior to joining Campbell Soup Company, he spent 24 years in supply chain roles at Procter & Gamble Co. (a consumer goods corporation).
Charisse Brock has served as Executive Vice President and Chief Human Resources Officer since November 2015 and as Senior Vice President and Interim Chief Human Resources Officer from August 2015 until November 2015. Prior to serving in these roles, Ms. Brock served as Vice President of Human Resources for the Consumer Foods segment of Conagra Brands from September 2010 until August 2015. Ms. Brock joined Conagra Brands in 2004 as Director of Human Resources, supporting the Refrigerated Foods Group. Prior to joining Conagra Brands, she served for 15 years at The Quaker Oats Company (which was acquired by PepsiCo during her tenure) in its Consumer Foods Division.
Thomas M. McGough has served as President, Operating Segments since May 2017 and as President of Consumer Foods from May 2013 until May 2017. Mr. McGough joined Conagra Brands in 2007 as Vice President in the Consumer Foods organization and has provided leadership for many brand teams within Conagra Brands, including Banquet®, Hunt's®, and Reddi-wip®. He most recently served as President, Grocery Products from 2011 until May 2013, leading the largest business within the Consumer Foods segment. Mr. McGough has over 25 of experience in the branded packaged foods industry and began his career at H.J. Heinz in 1990.
Darren C. Serrao has served as Executive Vice President, Chief Growth Officer since August 2015. As head of the Growth Center of Excellence, Mr. Serrao leads efforts to bring together insights, innovation, research and development, and marketing teams to improve connectivity and boost speed-to-market, ensuring that strong insights lead to relevant and timely products with the right marketing support. Prior to joining the Company, Mr. Serrao served as Senior Vice President, Chief Marketing and Commercial Officer at Campbell Soup Company from February 2015 until August 2015, during which period he led the company's U.S. consumer business (its largest line of business). Prior to that, he served as Senior Vice President of Innovation and Business Development for Campbell North America from July 2011 until February 2015. Mr. Serrao has also held several profit and loss and marketing positions during his career, including roles with PepsiCo and Unilever.
Robert G. Wise has served as Senior Vice President, Corporate Controller since December 2012. Mr. Wise joined Conagra Brands in March 2003 and has held various positions of increasing responsibility with Conagra Brands, including Vice President, Assistant Corporate Controller from March 2006 until January 2012 and as Vice President, Corporate Controller from January 2012 until December 2012. Prior to joining Conagra Brands, Mr. Wise served in various roles at KPMG LLP (an accounting firm) from October 1995 until March 2003.

Foreign Operations
Foreign operations information is set forth in Note 21 "Business Segments and Related Information" to the consolidated financial statements.

Available Information
We make available, free of charge through the "Investors—Financial Reports & Filings" link on our Internet website at http://www.conagrabrands.com, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission ("SEC"). We use our Internet website, through the "Investors" link, as a channel for routine distribution of important information, including news releases, analyst presentations, and financial information. The information on our website is not, and will not be deemed to be, a part of this annual report

on Form 10-K or incorporated into any of our other filings with the SEC.

We have also posted on our website our (1) Corporate Governance Principles, (2) Code of Conduct, (3) Code of Ethics for Senior Corporate Officers, and (4) Charters for the Audit/Finance Committee, Nominating, Governance and Public Affairs Committee, and Human Resources Committee. Shareholders may also obtain copies of these items at no charge by writing to: Corporate Secretary, Conagra Brands, Inc., 222 Merchandise Mart Plaza, Suite 1300, Chicago, IL, 60654.

ITEM 1A. RISK FACTORS

Our business is subject to various risks and uncertainties. Any of the risks and uncertainties described below could materially adversely affect our business, financial condition, and results of operations and should be considered in evaluating us. While we believe we have identified and discussed below the key risk factors affecting our business, there may be additional risks and uncertainties that are not presently known or that are not currently believed to be significant that may adversely affect our business, performance, or financial condition in the future.

Risks Relating to our Business

Deterioration of general economic conditions could harm our business and results of operations.

Our business and results of operations may be adversely affected by changes in national or global economic conditions, including inflation, interest rates, availability of capital markets, consumer spending rates, energy availability and costs (including fuel surcharges), and the effects of governmental initiatives to manage economic conditions.

Volatility in financial markets and deterioration of national and global economic conditions could impact our business and operations in a variety of ways, including as follows:

- consumers may shift purchases to more generic, lower-priced, or other value offerings, or may forego certain purchases altogether during economic downturns, which could result in a reduction in sales of higher margin products or a shift in our product mix to lower margin offerings adversely affecting the results of our operations;
- decreased demand in the restaurant business, particularly casual and fine dining, which may adversely affect our Foodservice operations;
- volatility in commodity and other input costs could substantially impact our result of operations;
- volatility in the equity markets or interest rates could substantially impact our pension costs and required pension contributions; and
- it may become more costly or difficult to obtain debt or equity financing to fund operations or investment opportunities, or to refinance our debt in the future, in each case on terms and within a time period acceptable to us.

Increased competition may result in reduced sales or profits.

The food industry is highly competitive, and further consolidation in the industry would likely increase competition. Our principal competitors have substantial financial, marketing, and other resources. Increased competition can reduce our sales due to loss of market share or the need to reduce prices to respond to competitive and customer pressures. Competitive pressures also may restrict our ability to increase prices, including in response to commodity and other cost increases. We sell branded, private brand, and customized food products, as well as commercially branded foods. Our branded products have an advantage over private brand products primarily due to advertising and name recognition, although private brand products typically sell at a discount to those of branded competitors. In addition, when branded competitors focus on price and promotion, the environment for private brand producers becomes more challenging because the price difference between private brand products and branded products may become less significant. In most product categories, we compete not only with other widely advertised branded products, but also with other private label and store brand products that are generally sold at lower prices. A strong competitive response from one or more of our competitors to our marketplace efforts, or a consumer shift towards more generic, lower-priced, or other value offerings, could result in us reducing pricing, increasing marketing or other expenditures, or losing market share. Our margins and profits could decrease if a reduction in prices or increased costs are not counterbalanced with increased sales volume.

Increases in commodity costs may have a negative impact on profits.
We use many different commodities such as wheat, corn, oats, soybeans, beef, pork, poultry, steel, aluminum, and energy. Commodities are subject to price volatility caused by commodity market fluctuations, supply and demand, currency fluctuations, external conditions such as weather, and changes in governmental agricultural and energy policies and regulations. In addition, recent world events have increased the risks posed by international trade disputes, tariffs, and sanctions. We procure a wide spectrum of commodities globally and could potentially face increased prices for commodities sourced from nations that could be impacted by trade disputes, tariffs, or sanctions. Commodity price increases will result in increases in raw material, packaging, and energy costs and operating costs. We may not be able to increase our product prices and achieve cost savings that fully offset these increased costs; and increasing prices may result in reduced sales volume, reduced margins, and profitability. We have experience in hedging against commodity price increases; however, these practices and experience reduce, but do not eliminate, the risk of negative profit impacts from commodity price increases. We do not fully hedge against changes in commodity prices, and the risk management procedures that we use may not always work as we intend.
Volatility in the market value of derivatives we use to manage exposures to fluctuations in commodity prices will cause volatility in our gross margins and net earnings.
We utilize derivatives to manage price risk for some of our principal ingredients and energy costs, including grains (wheat, corn, and oats), oils, beef, pork, poultry, and energy. Changes in the values of these derivatives are generally recorded in earnings currently, resulting in volatility in both gross margin and net earnings. These gains and losses are reported in cost of goods sold in our Consolidated Statements of Operations and in unallocated general corporate expenses in our segment operating results until we utilize the underlying input in our manufacturing process, at which time the gains and losses are reclassified to segment operating profit. We may experience volatile earnings as a result of these accounting treatments.
If we do not achieve the appropriate cost structure in the highly competitive food industry, our profitability could decrease.
Our future success and earnings growth depend in part on our ability to achieve the appropriate cost structure and operate efficiently in the highly competitive food industry, particularly in an environment of volatile input costs. We continue to implement profit-enhancing initiatives that impact our supply chain and general and administrative functions. These initiatives are focused on cost-saving opportunities in procurement, manufacturing, logistics, and customer service, as well as general and administrative overhead levels. Gaining additional efficiencies may become more difficult over time. Our failure to reduce costs through productivity gains or by eliminating redundant costs resulting from acquisitions could adversely affect our profitability and weaken our competitive position. If we do not continue to effectively manage costs and achieve additional efficiencies, our competitiveness and our profitability could decrease.
We may not realize the benefits that we expect from our Supply Chain and Administrative Efficiency Plan, or SCAE Plan.
In May 2013, we announced the Supply Chain and Administrative Efficiency Plan (the "SCAE Plan"), our plan to integrate and restructure the operations of our Private Brands business, improve selling, general and administrative ("SG&A") effectiveness and efficiencies, and optimize our supply chain network, manufacturing assets, dry distribution centers, and mixing centers. In fiscal 2016, we announced plans to realize efficiency benefits by reducing SG&A expenses and enhancing trade spend processes and tools, which plans were included in the SCAE Plan. Although we divested the Private Brands business, we have continued to implement the SCAE Plan, including by working to optimize our supply chain network, pursue cost reductions through our SG&A functions, enhance trade spend processes and tools, and improve productivity.
The successful design and implementation of the SCAE Plan presents significant organizational design and infrastructure challenges and in many cases will require successful negotiations with third parties, including labor organizations, suppliers, business partners, and other stakeholders. In addition, the SCAE Plan may not advance our business strategy as expected. Events and circumstances, such as financial or strategic difficulties, delays, and unexpected costs may occur that could result in our not realizing all or any of the anticipated benefits or our not realizing the anticipated benefits on our expected timetable. If we are unable to realize the anticipated savings of the

SCAE Plan, our ability to fund other initiatives may be adversely affected. Any failure to implement the SCAE Plan in accordance with our expectations could adversely affect our financial condition, results of operations, and cash flows.

In addition, the complexity of the SCAE Plan will require a substantial amount of management and operational resources. Our management team must successfully implement administrative and operational changes necessary to achieve the anticipated benefits of the SCAE Plan. These and related demands on our resources may divert the organization's attention from existing core businesses, integrating financial or other systems, have adverse effects on existing business relationships with suppliers and customers, and impact employee morale. As a result, our financial condition, results of operations, and cash flows could be adversely affected.

We may be subject to product liability claims and product recalls, which could negatively impact our profitability.

We sell food products for human consumption, which involves risks such as product contamination or spoilage, product tampering, other adulteration of food products, mislabeling, and misbranding. We may be subject to liability if the consumption of any of our products causes injury, illness, or death. In addition, we will voluntarily recall products in the event of contamination or damage. We have issued recalls and have from time to time been and currently are involved in lawsuits relating to our food products. A significant product liability judgment or a widespread product recall may negatively impact our sales and profitability for a period of time depending on the costs of the recall, the destruction of product inventory, product availability, competitive reaction, customer reaction, and consumer attitudes. Even if a product liability claim is unsuccessful or is not fully pursued, the negative publicity surrounding any assertion that our products caused illness or injury could adversely affect our reputation with existing and potential customers and our corporate and brand image.

Additionally, as a manufacturer and marketer of food products, we are subject to extensive regulation by the U.S. Food and Drug Administration and other federal, state, and local government agencies. The Food, Drug & Cosmetic Act, (the "FDCA"), and the Food Safety Modernization Act and their respective regulations govern, among other things, the manufacturing, composition and ingredients, packaging, and safety of food products. Some aspects of these laws use a strict liability standard for imposing sanctions on corporate behavior; meaning that no intent is required to be established. If we fail to comply with applicable laws and regulations, we may be subject to civil remedies, including fines, injunctions, recalls, or seizures, as well as criminal sanctions, any of which could have a material adverse effect on our business, financial condition, or results of operations.

We must identify changing consumer preferences and develop and offer food products to meet their preferences.

Consumer preferences evolve over time and the success of our food products depends on our ability to identify the tastes and dietary habits of consumers and to offer products that appeal to their preferences, including concerns of consumers regarding health and wellness, obesity, product attributes, and ingredients. Introduction of new products and product extensions requires significant development and marketing investment. If our products fail to meet consumer preferences, or we fail to introduce new and improved products on a timely basis, then the return on that investment will be less than anticipated and our strategy to grow sales and profits with investments in acquisitions, marketing, and innovation will be less successful. Similarly, demand for our products could be affected by consumer concerns or perceptions regarding the health effects of ingredients such as sodium, trans fats, sugar, processed wheat, or other product ingredients or attributes.

Changes in our relationships with significant customers or suppliers could adversely affect us.

During fiscal 2018, our largest customer, Walmart, Inc. and its affiliates, accounted for approximately 24% of our consolidated net sales. There can be no assurance that Walmart, Inc. and other significant customers will continue to purchase our products in the same quantities or on the same terms as in the past, particularly as increasingly powerful retailers continue to demand lower pricing. The loss of a significant customer or a material reduction in sales to a significant customer could materially and adversely affect our product sales, financial condition, and results of operations.

The sophistication and buying power of our customers could have a negative impact on profits.

Our customers, such as supermarkets, warehouse clubs, and food distributors, have continued to consolidate, resulting in fewer customers on which we can rely for business. These consolidations, the growth of supercenters, and the growth of on-line customers have produced large, sophisticated customers with increased buying power and negotiating strength who are more capable of resisting price increases and can demand lower pricing, increased promotional programs, or specialty tailored products. In addition, larger retailers have the scale to develop supply chains that permit them to operate with reduced inventories or to develop and market their own retailer brands. These customers may also in the future use more of their shelf space, currently used for our products, for their store brand products. We continue to implement initiatives to counteract these pressures. However, if the larger size of these customers results in additional negotiating strength and/or increased private label or store brand competition, our profitability could decline.

Consolidation also increases the risk that adverse changes in our customers' business operations or financial performance will have a corresponding material adverse effect on us. For example, if our customers cannot access sufficient funds or financing, then they may delay, decrease, or cancel purchases of our products, or delay or fail to pay us for previous purchases.

If we are unable to complete proposed acquisitions or integrate acquired businesses, our financial results could be materially and adversely affected.

From time to time, we evaluate acquisition candidates that may strategically fit our business objectives. If we are unable to complete acquisitions or to successfully integrate and develop acquired businesses, our financial results could be materially and adversely affected. Moreover, we may incur asset impairment charges related to acquisitions that reduce our profitability.

Our acquisition activities may present financial, managerial, and operational risks. Those risks include diversion of management attention from existing businesses, difficulties integrating personnel and financial and other systems, effective and immediate implementation of control environment processes across our employee population, adverse effects on existing business relationships with suppliers and customers, inaccurate estimates of fair value made in the accounting for acquisitions and amortization of acquired intangible assets which would reduce future reported earnings, potential loss of customers or key employees of acquired businesses, and indemnities and potential disputes with the sellers. Any of these factors could affect our product sales, financial condition, and results of operations.

In fiscal 2018, we completed the acquisitions of the Sandwich Bros. of Wisconsin® business for $87.3 million in cash, net of cash acquired, including working capital adjustments, and the Angie's Artisan Treats, LLC business, which included the Angie's® BOOMCHICKAPOP® ready-to-eat popcorn brand, for $249.8 million in cash, net of cash acquired, including working capital adjustments. In fiscal 2019, we entered into a definitive merger agreement with Pinnacle pursuant to which, among other things and subject to the satisfaction or waiver of specified conditions, we plan to acquire all of the outstanding shares of common stock of Pinnacle for cash and shares of Conagra Brands common stock. See "Risks Relating to our Planned Acquisition of Pinnacle" below for more information on risks relating to the planned acquisition of Pinnacle.

If we are unable to complete our proposed divestitures, our financial results could be materially and adversely affected.

From time to time, we may divest businesses that do not meet our strategic objectives or do not meet our growth or profitability targets. We may not be able to complete desired or proposed divestitures on terms favorable to us. Gains or losses on the sales of, or lost operating income from, those businesses may affect our profitability and margins. Moreover, we may incur asset impairment charges related to divestitures that reduce our profitability.

Our divestiture activities may present financial, managerial, and operational risks. Those risks include diversion of management attention from existing businesses, difficulties separating personnel and financial and other systems, possible need for providing transition services to buyers, adverse effects on existing business relationships with suppliers and customers and indemnities and potential disputes with the buyers. Any of these factors could adversely affect our product sales, financial condition, and results of operations.

Disruption of our supply chain could have an adverse impact on our business, financial condition, and results of operations.

Our ability to make, move, and sell our products is critical to our success. Damage or disruption to our supply chain, including third-party manufacturing or transportation and distribution capabilities, due to weather, including any potential effects of climate change, natural disaster, fire or explosion, terrorism, pandemics, strikes, government action, or other reasons beyond our control or the control of our suppliers and business partners, could impair our ability to manufacture or sell our products. Failure to take adequate steps to mitigate the likelihood or potential impact of such events, or to effectively manage such events if they occur, particularly when a product is sourced from a single supplier or location, could adversely affect our business or financial results. In addition, disputes with significant suppliers, including disputes regarding pricing or performance, could adversely affect our ability to supply products to our customers and could materially and adversely affect our product sales, financial condition, and results of operations.

Any damage to our reputation could have a material adverse effect on our business, financial condition, and results of operations.

Maintaining a good reputation globally is critical to selling our products. Product contamination or tampering, the failure to maintain high standards for product quality, safety, and integrity, including with respect to raw materials and ingredients obtained from suppliers, or allegations of product quality issues, mislabeling, or contamination, even if untrue, may reduce demand for our products or cause production and delivery disruptions. Our reputation could also be adversely impacted by any of the following, or by adverse publicity (whether or not valid) relating thereto: the failure to maintain high ethical, social, and environmental standards for all of our operations and activities; the failure to achieve any stated goals with respect to the nutritional profile of our products; our research and development efforts; or our environmental impact, including use of agricultural materials, packaging, energy use, and waste management. Moreover, the growing use of social and digital media by consumers has greatly increased the speed and extent that information or misinformation and opinions can be shared. Failure to comply with local laws and regulations, to maintain an effective system of internal controls or to provide accurate and timely financial information could also hurt our reputation. Damage to our reputation or loss of consumer confidence in our products for any of these or other reasons could result in decreased demand for our products and could have a material adverse effect on our business, financial condition, and results of operations, as well as require additional resources to rebuild our reputation.

If we fail to comply with the many laws applicable to our business, we may face lawsuits or incur significant fines and penalties.

Our business is subject to a variety of governmental laws and regulations, including food and drug laws, environmental laws, laws related to advertising and marketing practices, accounting standards, taxation requirements, competition laws, employment laws, data privacy laws, and anti-corruption laws, among others, in and outside of the United States. Our facilities and products are subject to many laws and regulations administered by the United States Department of Agriculture, the Federal Food and Drug Administration, the Occupational Safety and Health Administration, and other federal, state, local, and foreign governmental agencies relating to the processing, packaging, storage, distribution, advertising, labeling, quality, and safety of food products, the health and safety of our employees, and the protection of the environment. Our failure to comply with applicable laws and regulations could subject us to lawsuits, administrative penalties, and civil remedies, including fines, injunctions, and recalls of our products. Our operations are also subject to extensive and increasingly stringent regulations administered by the Environmental Protection Agency, which pertain to the discharge of materials into the environment and the handling and disposition of wastes. Failure to comply with these regulations can have serious consequences, including civil and administrative penalties and negative publicity. Changes in applicable laws or regulations or evolving interpretations thereof, including increased government regulations to limit carbon dioxide and other greenhouse gas emissions as a result of concern over climate change, may result in increased compliance costs, capital expenditures, and other financial obligations for us, which could affect our profitability or impede the production or distribution of our products, which could affect our net operating revenues.

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We are increasingly dependent on information technology, and potential disruption, cyber attacks, security problems, and expanding social media vehicles present new risks.
We rely on information technology networks and systems, including the Internet, to process, transmit, and store electronic and financial information, to manage and support a variety of business processes and activities, and to comply with regulatory, legal, and tax requirements. Our information technology systems, some of which are dependent on services provided by third parties, may be vulnerable to damage, interruption, or shutdown due to any number of causes outside of our control such as catastrophic events, natural disasters, fires, power outages, systems failures, telecommunications failures, security breaches, computer viruses, hackers, employee error or malfeasance, and other causes. Increased cybersecurity threats pose a potential risk to the security and viability of our information technology systems, as well as the confidentiality, integrity, and availability of the data stored on those systems. If we do not allocate and effectively manage the resources necessary to build and sustain the proper technology infrastructure and to maintain and protect the related automated and manual control processes, we could be subject to billing and collection errors, business disruptions, or damage resulting from security breaches. If any of our significant information technology systems suffer severe damage, disruption, or shutdown, and our business continuity plans do not effectively resolve the issues in a timely manner, our product sales, financial condition, and results of operations may be materially and adversely affected, and we could experience delays in reporting our financial results. In addition, there is a risk of business interruption, violation of data privacy laws and regulations, litigation, and reputational damage from leakage of confidential information. Any interruption of our information technology systems could have operational, reputational, legal, and financial impacts that may have a material adverse effect on our business.
In addition, the inappropriate use of certain media vehicles could cause brand damage or information leakage. Negative posts or comments about the Company on any social networking web site could seriously damage its reputation. In addition, the disclosure of non-public company sensitive information through external media channels could lead to information loss. Identifying new points of entry as social media continues to expand presents new challenges. Any business interruptions or damage to our reputation could negatively impact our financial condition, results of operations, and the market price of our common stock.
Additionally, we regularly move data across national borders to conduct our operations and, consequently, are subject to a variety of laws and regulations in the United States and other jurisdictions regarding privacy, data protection, and data security, including those related to the collection, storage, handling, use, disclosure, transfer, and security of personal data. There is significant uncertainty with respect to compliance with such privacy and data protection laws and regulations, including the European Union General Data Protection Regulation, because they are continuously evolving and developing and may be interpreted and applied differently from country to country and may create inconsistent or conflicting requirements.
We rely on our management team and other key personnel.
We depend on the skills, working relationships, and continued services of key personnel, including our experienced management team. In addition, our ability to achieve our operating goals depends on our ability to identify, hire, train, and retain qualified individuals. We compete with other companies both within and outside of our industry for talented personnel, and we may lose key personnel or fail to attract, train, and retain other talented personnel. Any such loss or failure could adversely affect our product sales, financial condition, and operating results.
In particular, our continued success will depend in part on our ability to retain the talents and dedication of key employees. If key employees terminate their employment, or if an insufficient number of employees is retained to maintain effective operations, our business activities may be adversely affected and our management team's attention may be diverted. In addition, we may not be able to locate suitable replacements for any key employees who leave, or offer employment to potential replacements on reasonable terms, all of which could adversely affect our product sales, financial condition, and operating results.
Our existing and future debt may limit cash flow available to invest in the ongoing needs of our business and could prevent us from fulfilling our debt obligations.
As of May 27, 2018, we had a substantial amount of debt, including approximately $2.9 billion aggregate principal amount of senior notes. We have the ability under our existing revolving credit facility to incur substantial additional

debt. Our level of debt could have important consequences. For example, it could:

- make it more difficult for us to make payments on our debt;
- require us to dedicate a substantial portion of our cash flow from operations to the payment of debt service, reducing

the availability of our cash flow to fund working capital, capital expenditures, acquisitions, and other general corporate purposes;

- increase our vulnerability to adverse economic or industry conditions;
- limit our ability to obtain additional financing in the future to enable us to react to changes in our business; or
- place us at a competitive disadvantage compared to businesses in our industry that have less debt.

Additionally, any failure to meet required payments on our debt, or failure to comply with any covenants in the instruments governing our debt, could result in an event of default under the terms of those instruments and a downgrade to our credit ratings. A downgrade in our credit ratings would increase our borrowing costs and could affect our ability to issue commercial paper. In the event of a default, the holders of our debt could elect to declare all the amounts outstanding under such instruments to be due and payable. Any default under the agreements governing our debt and the remedies sought by the holders of such debt could render us unable to pay principal and interest on our debt.

Impairment in the carrying value of goodwill or other intangibles could result in the incurrence of impairment charges and negatively impact our net worth.

As of May 27, 2018, we had goodwill of $4.5 billion and other intangibles of $1.3 billion. The net carrying value of goodwill represents the fair value of acquired businesses in excess of identifiable assets and liabilities as of the acquisition date (or subsequent impairment date, if applicable). The net carrying value of other intangibles represents the fair value of trademarks, customer relationships, and other acquired intangibles as of the acquisition date (or subsequent impairment date, if applicable), net of accumulated amortization. Goodwill and other acquired intangibles expected to contribute indefinitely to our cash flows are not amortized, but must be evaluated by management at least annually for impairment. Amortized intangible assets are evaluated for impairment whenever events or changes in circumstance indicate that the carrying amounts of these assets may not be recoverable. Impairments to goodwill and other intangible assets may be caused by factors outside our control, such as the inability to quickly replace lost co-manufacturing business, increasing competitive pricing pressures, lower than expected revenue and profit growth rates, changes in industry EBITDA (earnings before interest, taxes, depreciation and amortization) multiples, changes in discount rates based on changes in cost of capital (interest rates, etc.), or the bankruptcy of a significant customer and could result in the incurrence of impairment charges and negatively impact our net worth.

Our results could be adversely impacted as a result of increased pension, labor, and people-related expenses.

Inflationary pressures and any shortages in the labor market could increase labor costs, which could have a material adverse effect on our operating results or financial condition. Our labor costs include the cost of providing employee benefits in the U.S. and foreign jurisdictions, including pension, health and welfare, and severance benefits. Changes in interest rates, mortality rates, health care costs, early retirement rates, investment returns, and the market value of plan assets can affect the funded status of our defined benefit plans and cause volatility in the future funding requirements of the plans. A significant increase in our obligations or future funding requirements could have a negative impact on our results of operations and cash flows from operations. Additionally, the annual costs of benefits vary with increased costs of health care and the outcome of collectively-bargained wage and benefit agreements.

Climate change, or legal, regulatory, or market measures to address climate change, may negatively affect our business and operations.

There is growing concern that carbon dioxide and other greenhouse gases in the atmosphere may have an adverse impact on global temperatures, weather patterns, and the frequency and severity of extreme weather and natural disasters. In the event that such climate change has a negative effect on agricultural productivity, we may be subject to decreased availability or less favorable pricing for certain commodities that are necessary for our products, such as corn, wheat, and potatoes. We may also be subjected to decreased availability or less favorable pricing for water as a result of such change, which could impact our manufacturing and distribution operations. In addition, natural disasters and extreme weather conditions may disrupt the productivity of our facilities or the operation of our supply chain. The increasing concern over climate change also may result in more regional, federal, and/or global legal and regulatory requirements to reduce or mitigate the effects of greenhouse gases. In the event that such regulation is enacted and is more aggressive than the sustainability measures that we are currently undertaking to monitor our emissions and improve our energy efficiency, we may experience significant increases in our costs of operation and delivery. In particular, increasing regulation of fuel emissions could substantially increase the distribution and supply chain costs associated with our products. As a result, climate change could negatively affect our business and operations.

The termination or expiration of current co-manufacturing arrangements could reduce our sales volume and adversely affect our results of operations.

Our businesses periodically enter into co-manufacturing arrangements with manufacturers of products. The terms of these agreements vary but are generally for relatively short periods of time. Volumes produced under each of these agreements can fluctuate significantly based upon the product's life cycle, product promotions, alternative production capacity, and other factors, none of which are under our direct control. Our future ability to enter into co-manufacturing arrangements is not guaranteed, and a decrease in current co-manufacturing levels could have a significant negative impact on sales volume.

Ardent Mills may not achieve the benefits that are anticipated from the joint venture.

The benefits that are expected to result from our Ardent Mills joint venture will depend, in part, on our ability to realize the anticipated cost synergies in the transaction, Ardent Mills' ability to successfully integrate the ConAgra Mills and Horizon Milling businesses and its ability to successfully manage the joint venture on a going-forward basis. It is not certain that we will realize these benefits at all, and if we do, it is not certain how long it will take to achieve these benefits. If, for example, we are unable to achieve the anticipated cost savings, or if there are unforeseen integration costs, or if Ardent Mills is unable to operate the joint venture smoothly in the future, the financial performance of the joint venture may be negatively affected.

As we outsource certain functions, we become more dependent on the third parties performing those functions.

As part of a concerted effort to achieve cost savings and efficiencies, we have entered into agreements with third-party service providers under which we have outsourced certain information systems, sales, finance, accounting, and other functions, and we may enter into managed services agreements with respect to other functions in the future. If any of these third-party service providers do not perform according to the terms of the agreements, or if we fail to adequately monitor their performance, we may not be able to achieve the expected cost savings or we may have to incur additional costs to correct errors made by such service providers, and our reputation could be harmed. Depending on the function involved, such errors may also lead to business interruption, damage or disruption of information technology systems, processing inefficiencies, the loss of or damage to intellectual property or non-public company sensitive information through security breaches or otherwise, effects on financial reporting, litigation or remediation costs, or damage to our reputation, any of which could have a material adverse effect on our business. In addition, if we transition functions to one or more new, or among existing, external service providers, we may experience challenges that could have a material adverse effect on our results of operations or financial condition.

Our intellectual property rights are valuable, and any inability to protect them could have an adverse impact on our business, financial condition, and results of operations.

Our intellectual property rights, including our trademarks, licensing agreements, trade secrets, patents, and copyrights, are a significant and valuable aspect of our business. We attempt to protect our intellectual property rights by pursuing remedies available to us under trademark, copyright, trade secret, and patent laws, as well as entering into licensing, third-party nondisclosure and assignment agreements and policing of third-party misuses of our intellectual property. If we fail to adequately protect the intellectual property rights we have now or may acquire in the future, or if there occurs any change in law or otherwise that serves to reduce or remove the current legal protections of our intellectual property, then our financial results could be materially and adversely affected.

Certain of our intellectual property rights, including the P.F. Chang's®, Bertolli®, Del Monte®, and Libby's® trademarks, are owned by third parties and licensed to us, and others, such as Alexia®, are owned by us and licensed to third parties. While many of these licensing arrangements are perpetual in nature, others must be periodically renegotiated or renewed pursuant to the terms of such licensing arrangement. If in the future we are unable to renew such a licensing arrangement pursuant to its terms and conditions, or if we fail to renegotiate such a licensing arrangement, then our financial results could be materially and adversely affected.

There is also a risk that other parties may have intellectual property rights covering some of our brands, products, or technology. If any third parties bring a claim of intellectual property infringement against us, we may be subject to costly and time-consuming litigation, diverting the attention of management and our employees. If we are unsuccessful in defending against such claims, we may be subject to, among other things, significant damages, injunctions against development and sale of certain products, or we may be required to enter into costly licensing agreements, any of which could have an adverse impact on our business, financial condition, and results of operations.

Risks Relating to our Spinoff of Lamb Weston

We may be unable to achieve some or all of the benefits that we expect to achieve from the Spinoff.

In the second quarter of fiscal 2017, the Company completed the announced Spinoff of Lamb Weston. Although we believe that separating the Lamb Weston business from the Company will provide financial, operational, managerial, and other benefits to us and our stockholders, the Spinoff may not provide such results on the scope, scale, or timeline we anticipate, and we may not realize the intended benefits of the Spinoff. In addition, we incurred one-time costs in connection with the Spinoff that may negate some of the benefits we expect to achieve. If we do not realize these assumed benefits, we could suffer a material adverse effect on our financial condition. In addition, our operational and financial profile changed upon the separation of the Lamb Weston business from the Company. As a result, the diversification of our revenue sources diminished, and our results of operations, cash flows, working capital, and financing requirements may be subject to increased volatility as a result.

We may be exposed to claims and liabilities or incur operational difficulties as a result of the Spinoff.

The Spinoff continues to involve a number of risks, including, among other things, certain indemnification risks and risk associated with the provision of transitional services. In connection with the Spinoff, we entered into a separation and distribution agreement and various other agreements (including a transition services agreement, a tax matters agreement, an employee matters agreement, and a trademark license agreement), which we refer to as the Lamb Weston agreements. The Lamb Weston agreements govern the Spinoff and the relationship between the two companies going forward. They also provide for the performance of services by each company for the benefit of the other for a period of time.

The Lamb Weston agreements provide for indemnification obligations designed to make Lamb Weston financially responsible for certain liabilities that may exist relating to its business activities, whether incurred prior to or after the distribution, including any pending or future litigation. It is possible that a court would disregard the allocation agreed to between us and Lamb Weston and require us to assume responsibility for obligations allocated to Lamb Weston. Third parties could also seek to hold us responsible for any of these liabilities or obligations, and the indemnity rights we have under the separation and distribution agreement may not be sufficient to fully cover all of these liabilities and obligations. Even if we are successful in obtaining indemnification, we may have to bear costs temporarily. In addition, our indemnity obligations to Lamb Weston may be significant. These risks could negatively affect our business, financial condition, or results of operations.

In addition, certain of the Lamb Weston agreements provide for the performance of services by each company for the benefit of the other for a period of time. As such, there is continued risk that management's and our employees' attention will be significantly diverted by the provision of transitional services. The Lamb Weston agreements could also lead to disputes over rights to certain shared property and rights and over the allocation of costs and revenues for products and operations. If Lamb Weston is unable to satisfy its obligations under these agreements, including its indemnification obligations, we could incur losses. Our inability to effectively manage separation activities and related events could adversely affect our business, financial condition, or results of operations.

The Spinoff could result in substantial tax liability.

The Spinoff is intended to qualify for tax-free treatment to the Company and its stockholders under the Internal Revenue Code of 1986, as amended, which we refer to as the Code. Completion of the Spinoff was conditioned upon, among other things, our receipt of an opinion from our tax advisors that the distribution of shares of Lamb Weston in the Spinoff will qualify as tax-free to Lamb Weston, the Company, and our stockholders for U.S. federal income tax purposes under Sections 355 and 368(a)(1)(D) and related provisions of the Code. The opinion relied on, among other things, various assumptions and representations as to factual matters made by the Company and Lamb Weston. If such assumptions or representations are inaccurate or incomplete in any material respect, the conclusions reached by such advisor in its opinion could be jeopardized. The opinion is not binding on the Internal Revenue Service, which we refer to as the IRS, or the courts, and there can be no assurance that the IRS or the courts will not challenge the qualification of the Spinoff as a transaction under Sections 355 and 368(a) of the Code or that any such challenge would not prevail.

If the Spinoff is determined to be taxable, the Company and its stockholders could incur significant tax liabilities, which could adversely affect our business, financial condition, or results of operations.

Risks Relating to our Planned Acquisition of Pinnacle

Our planned acquisition of Pinnacle may not occur at all, may not occur in the expected time frame, or may involve the divestiture of certain businesses, which may negatively affect the trading prices of our stock and our future business and financial results.

On June 26, 2018, we entered into a definitive merger agreement with Pinnacle, pursuant to which, among other things and subject to the satisfaction or waiver of specified conditions, we will acquire all of the outstanding shares of Pinnacle common stock for cash and shares of Conagra Brands common stock. As a result of the planned acquisition of Pinnacle, Pinnacle shareholders are expected to own approximately 16% of the combined company.

Completion of the planned acquisition of Pinnacle is not assured and is subject to Pinnacle shareholder approval and the satisfaction or waiver of customary closing conditions, including, among others: the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended; and the receipt of other required antitrust approvals.

The planned acquisition of Pinnacle is subject to risks and uncertainties, including the risks that the necessary shareholder and regulatory approvals will not be obtained, the risk that the parties to the merger agreement may be required to divest certain businesses or assets in connection with the planned acquisition or that other closing conditions will not be satisfied. For example, in connection with obtaining the required regulatory approvals, the Company and/or Pinnacle may be required to divest assets of their respective businesses, subject to certain limitations set forth in the merger agreement (including that the Company shall not be required to divest any assets or business of the Company or Pinnacle that, in the aggregate, generated net sales in excess of $300.0 million during the most recently completed fiscal year). If the planned acquisition of Pinnacle is not completed, if there are significant delays in completing the planned acquisition or if the planned acquisition involves the divestiture of certain businesses, it could negatively affect the trading prices of our common stock and our future business and financial results and could result in our failure to realize certain synergies relating to such acquisition.

Our obligation to complete the planned acquisition of Pinnacle is not subject to a financing condition, and we may be required to finance a portion of the purchase price at interest rates higher than currently expected.

Our obligation to complete the planned acquisition of Pinnacle is not subject to a financing condition. We have obtained committed financing from Goldman Sachs Bank USA and Goldman Sachs Lending Partners LLC, and expect to obtain permanent financing for the planned acquisition by accessing the capital markets, which may include the issuance of long-term debt and equity. If any of the banks in the committed financing facilities are unable to perform their commitments, we may be required to finance a portion of the purchase price of the planned acquisition at interest rates higher than currently expected.

We may not realize the growth opportunities and cost synergies that are anticipated from the planned acquisition of Pinnacle.

The benefits that are expected to result from the planned acquisition of Pinnacle will depend, in part, on our ability to realize the anticipated growth opportunities and $215 million in cost synergies as a result of the planned acquisition. Our success in realizing these growth opportunities and cost synergies, and the timing of this realization, depends on whether the Company or Pinnacle are required to divest assets of their respective business and on the successful integration of Pinnacle. There is a significant degree of difficulty and management distraction inherent in the process of integrating an acquisition as sizable as Pinnacle. The process of integrating operations could cause an interruption of, or loss of momentum in, our and Pinnacle's activities. Members of our senior management may be required to devote considerable amounts of time to this integration process, which will decrease the time they will have to manage our company, service existing customers, attract new customers, and develop new products or strategies. If senior management is not able to effectively manage the integration process, or if any significant business activities are interrupted as a result of the integration process, our business could suffer. There can be no assurance that we will successfully or cost-effectively integrate Pinnacle. The failure to do so could have a material adverse effect on our business, financial condition, and results of operations.

Even if we are able to integrate Pinnacle successfully, this integration may not result in the realization of the full benefits of the growth opportunities and cost synergies that we currently expect from this integration, and we cannot guarantee that these benefits will be achieved within anticipated time frames or at all. For example, we may not be able to eliminate duplicative costs. Moreover, we may incur substantial expenses in connection with the integration of Pinnacle. While it is anticipated that certain expenses will be incurred to achieve cost synergies, such expenses are difficult to estimate accurately, and may exceed current estimates. Accordingly, the benefits from the planned acquisition may be offset by costs incurred to, or delays in, integrating the businesses.

We will incur a substantial amount of debt to complete the planned acquisition of Pinnacle. To service our debt, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control. We also depend on the business of our subsidiaries to satisfy our cash needs. If we cannot generate the required cash, we may not be able to make the necessary payments required under our indebtedness.

At May 27, 2018, we had total debt of approximately $3.8 billion. We have the ability under our existing credit facilities to incur substantial additional indebtedness in the future, and we plan to incur significant additional indebtedness if we complete the planned acquisition of Pinnacle. In connection with the acquisition, we expect to incur up to $8.3 billion of long-term debt, including for the payment of the cash portion of the merger consideration, the repayment of Pinnacle debt, the refinancing of certain Conagra debt, and the payment of related fees and expenses. Our ability to make payments on our debt, fund our other liquidity needs, and make planned capital expenditures will depend on our ability to generate cash in the future. Our historical financial results have been, and we anticipate that our future financial results will be, subject to fluctuations. Our ability to generate cash, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory, and other factors that are beyond our control. We cannot guarantee that our business will generate sufficient cash flow from our operations or that future borrowings will be available to us in an amount sufficient to enable us to make payments of our debt, fund other liquidity needs, and make planned capital expenditures.

The degree to which we are currently leveraged and will be leveraged following the completion of the planned acquisition could have important consequences for shareholders. For example, it could:

- require us to dedicate a substantial portion of our cash flow from operations to the payment of debt service, reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions, and other general corporate purposes;
- increase our vulnerability to adverse economic or industry conditions;
- limit our ability to obtain additional financing in the future to enable us to react to changes in our business; or
- place us at a competitive disadvantage compared to businesses in our industry that have less debt.

Additionally, any failure to comply with covenants in the instruments governing our debt could result in an event of default that, if not cured or waived, could have a material adverse effect on us.

A significant portion of our operations are conducted through our subsidiaries. As a result, our ability to generate sufficient cash flow for our needs is dependent to some extent on the earnings of our subsidiaries and the payment of those earnings to us in the form of dividends, loans, or advances and through repayment of loans or advances from us. Our subsidiaries are separate and distinct legal entities. Our subsidiaries have no obligation to pay any amounts due on our debt or to provide us with funds to meet our cash flow needs, whether in the form of dividends, distributions, loans, or other payments. In addition, any payment of dividends, loans, or advances by our subsidiaries could be subject to statutory or contractual restrictions. Payments to us by our subsidiaries will also be contingent upon our subsidiaries' earnings and business considerations. Our right to receive any assets of any of our subsidiaries upon their liquidation or reorganization will be effectively subordinated to the claims of that subsidiary's creditors, including trade creditors. In addition, even if we are a creditor of any of our subsidiaries, our rights as a creditor would be subordinate to any security interest in the assets of our subsidiaries and any indebtedness of our subsidiaries senior to that held by us. Finally, changes in the laws of foreign jurisdictions in which we operate may adversely affect the ability of some of our foreign subsidiaries to repatriate funds to us.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

Our headquarters are located in Chicago, Illinois. Other shared service centers and a product development facility are located in Omaha, Nebraska. We have general offices in Colorado, the District of Columbia, and Minnesota. We also lease a limited number of domestic sales offices. International general offices are located in Canada, Colombia, Mexico, Panama, and the Philippines.

We maintain a number of stand-alone distribution facilities. In addition, there are warehouses at most of our manufacturing facilities.

Utilization of manufacturing capacity varies by manufacturing plant based upon the type of products assigned and the level of demand for those products. Management believes that our manufacturing and processing plants are well maintained and are generally adequate to support the current operations of the business.

As of July 20, 2018, we have thirty-three domestic manufacturing facilities located in Arkansas, California, Georgia, Illinois, Indiana, Iowa, Kentucky, Michigan, Minnesota, Missouri, Nebraska, Nevada, New Hampshire, Ohio, Pennsylvania, Tennessee, Washington, and Wisconsin. We also have international manufacturing facilities in Canada, Italy, and Mexico, and interests in ownership of international manufacturing facilities in India and Mexico.

We own most of our manufacturing facilities. However, a limited number of plants and parcels of land with the related manufacturing equipment are leased. Substantially all of our transportation equipment and forward-positioned distribution centers containing finished goods are leased or operated by third parties.

The majority of our manufacturing assets are shared across multiple reporting segments. Output from these facilities used by each reporting segment can change over time. Therefore, it is impracticable to disclose them by segment.

ITEM 3. LEGAL PROCEEDINGS

Litigation Matters

We are a party to certain litigation matters relating to our acquisition of Beatrice Company ("Beatrice") in fiscal 1991, including litigation proceedings related to businesses divested by Beatrice prior to our acquisition of the company. These proceedings include suits against a number of lead paint and pigment manufacturers, including ConAgra Grocery Products Company, LLC, a wholly owned subsidiary of the Company ("ConAgra Grocery Products") as alleged successor to W. P. Fuller & Co., a lead paint and pigment manufacturer owned and operated by a predecessor to Beatrice from 1962 until 1967. These lawsuits generally seek damages for personal injury, property damage, economic loss, and governmental expenditures allegedly caused by the use of lead-based paint, and/or injunctive relief for inspection and abatement. Although decisions favorable to us have been rendered in Rhode Island, New Jersey, Wisconsin, and Ohio, we remain a defendant in active suits in Illinois and California. ConAgra Grocery Products has denied liability in both suits, both on the merits of the claims and on the basis that we do not believe it to be the successor to any liability attributable to W. P. Fuller & Co. The California suit is discussed in the following paragraph. The Illinois suit seeks class-wide relief for reimbursement of costs associated with the testing of lead levels in blood. We do not believe it is probable that we have incurred any liability with respect to the Illinois case, nor is it possible to estimate any potential exposure.

In California, a number of cities and counties joined in a consolidated action seeking abatement of an alleged public nuisance in the form of lead-based paint potentially present on the interior of residences, regardless of its condition. On September 23, 2013, a trial of the California case concluded in the Superior Court of California for the County of Santa Clara, and on January 27, 2014, the court entered a judgment (the "Judgment") against ConAgra Grocery Products and two other defendants ordering the creation of a California abatement fund in the amount of $1.15 billion. Liability is joint and several. The Company appealed the Judgment, and on November 14, 2017 the California Court of Appeal for the Sixth Appellate District reversed in part, holding that the defendants were not liable to pay for abatement of homes built after 1950, but affirmed the Judgment as to homes built before 1951. The Court of Appeal remanded the case to the trial court with directions to recalculate the amount of the abatement fund estimated to be necessary to cover the cost of remediating pre-1951 homes, and to hold an evidentiary hearing regarding appointment of a suitable receiver. ConAgra Grocery Products and the other defendants petitioned the California Supreme Court for review of the decision, which we believe to be an unprecedented expansion of current California law. On February 14, 2018, the California Supreme Court denied the petition and declined to review the merits of the case, and the case was remanded to the trial court for further proceedings. ConAgra Grocery Products and the other defendants have indicated that they will seek further review of certain issues from the Supreme Court of the

United States, although further appeal is discretionary and may not be granted. Further proceedings in the trial court may not be stayed pending the outcome of any further appeal. In light of the decision rendered by the California Appellate Court on November 14, 2017, and the California Supreme Court's decision on February 14, 2018 not to review the Appellate Court's decision, we have concluded that the liability has likely become probable as contemplated by Accounting Standards Codification Topic 450, however many uncertainties remain which make it difficult to estimate the potential liability, including the following: (i) the trial court has not yet recalculated its estimate of the amount needed to remediate pre-1951 homes in the plaintiff jurisdictions or entered a new judgment to replace the one vacated by the California Appellate Court; (ii) although liability is joint and several, it is unknown what amount each defendant may ultimately be required to pay or how allocation among the defendants (and other potentially responsible parties such as property owners who may have violated the applicable housing codes) will be determined; (iii) according to the trial court's original order, participation in the abatement program by eligible homeowners is voluntary and it is unknown what percentage of eligible homeowners will choose to participate or how such claims will be administered; (iv) the trial court's original order required that any amounts paid by the defendants into the fund that were not spent within four years would be returned to the defendants, and it is unknown whether this feature of the fund will be retained or, if it is retained, how much will be spent during that time period; and (v) defendants will have a new right to appeal any new aspects of the judgment entered by the trial court upon remand, although it is unknown whether the court would stay execution of any new judgment while a subsequent appeal is pending.

To assist the trial court in satisfying its responsibilities, during our fourth quarter of fiscal 2018, the defendants and plaintiff each submitted information to the court regarding recalculation of the abatement fund. In addition, one of the defendants entered into a proposed settlement with the plaintiff, contingent upon a judicial good faith determination under California law. We are uncertain as to when the court will make a ruling on a recalculated abatement fund or the proposed settlement. Notwithstanding the uncertainties described above, this additional information was used by the Company in concluding that a loss is now reasonably estimable. While the ultimate amount of any loss and timing of payments related thereto remain uncertain and could change as further information is obtained, we believe that our share of the loss could range from $60 million to $335 million and have recorded a liability for the amount in that range that we believe is a better estimate than the low or high ends of the range. The extent of insurance coverage is uncertain and the Company's carriers are on notice; however, any possible insurance recovery has not been considered for purposes of determining our liability. The Company cannot assure that the final resolution of these matters will not have a material adverse effect on its financial condition, results of operations, or liquidity.

In June 2009, an accidental explosion occurred at our manufacturing facility in Garner, North Carolina. This facility was the primary production facility for our Slim Jim® branded meat snacks. In June 2009, the U.S. Bureau of Alcohol, Tobacco, Firearms and Explosives announced its determination that the explosion was the result of an accidental natural gas release and not a deliberate act. During the fourth quarter of fiscal 2011, we settled our property and business interruption claims related to the Garner accident with our insurance providers. During the fourth quarter of fiscal 2011, Jacobs Engineering Group Inc. ("Jacobs"), our engineer and project manager at the site, filed a declaratory judgment action against us seeking indemnity for personal injury claims brought against it as a result of the accident. During the first quarter of fiscal 2012, our motion for summary judgment was granted and the suit was dismissed without prejudice on the basis that the suit was filed prematurely. In the third quarter of fiscal 2014, Jacobs refiled its action seeking indemnity. On March 25, 2016, a Douglas County jury in Nebraska rendered a verdict in favor of Jacobs and against us in the amount of $108.9 million plus post-judgment interest. We filed our Notice of Appeal in September 2016, the appeal was heard by the Nebraska Supreme Court in November 2017, and the case is awaiting decision by the Nebraska Supreme Court. The appeal will be decided directly by the Nebraska Supreme Court. Although our insurance carriers have provided customary notices of reservation of their rights under the policies of insurance, we expect any ultimate exposure in this case to be limited to the applicable insurance deductible.

We are party to a number of putative class action lawsuits challenging various product claims made in the Company's product labeling. These matters include Briseno v. ConAgra Foods, Inc., in which it is alleged that the labeling for Wesson® oils as 100% natural is false and misleading because the oils contain genetically modified plants and organisms. In February 2015, the U.S. District Court for the Central District of California granted class certification to permit plaintiffs to pursue state law claims. The Company appealed to the United States Court of Appeals for the Ninth Circuit, which affirmed class certification in January 2017. The Supreme Court of the United States declined to review the decision and the case has been remanded to the trial court for further proceedings. While we cannot predict with certainty the results of this or any other legal proceeding, we do not expect this matter to have a material adverse effect on our financial condition, results of operations, or business.

We are party to matters challenging the Company's wage and hour practices. These matters include a number of putative class actions consolidated under the caption Negrete v. ConAgra Foods, Inc., et al, pending in the U.S. District Court for the Central District of California, in which the plaintiffs allege a pattern of violations of California and/or federal law at several current and former Company manufacturing facilities across the State of California. While we cannot predict with certainty the results of this or any other legal proceeding, we do not expect this matter to have a material adverse effect on our financial condition, results of operations, or business.

In the fourth quarter of fiscal 2018, we accrued $151.0 million in new legal reserves relating to the matters set forth above.

Environmental Matters

We are a party to certain environmental proceedings relating to our acquisition of Beatrice in fiscal 1991. Such proceedings include proceedings related to businesses divested by Beatrice prior to our acquisition of Beatrice. The current environmental proceedings associated with Beatrice include litigation and administrative proceedings involving Beatrice's possible status as a potentially responsible party at approximately 40 Superfund, proposed Superfund, or state-equivalent sites (the "Beatrice sites"). These sites involve locations previously owned or operated by predecessors of Beatrice that used or produced petroleum, pesticides, fertilizers, dyes, inks, solvents, PCBs, acids, lead, sulfur, tannery wastes, and/or other contaminants. In the past five years, Beatrice has paid or is in the process of paying its liability share at 31 of these sites. Reserves for these Beatrice environmental proceedings have been established based on our best estimate of the undiscounted remediation liabilities, which estimates include evaluation of investigatory studies, extent of required clean-up, the known volumetric contribution of Beatrice and other potentially responsible parties, and its experience in remediating sites. The accrual for Beatrice-related environmental matters totaled $52.4 million as of May 27, 2018, a majority of which relates to the Superfund and state-equivalent sites referenced above. During the third quarter of fiscal 2017, a final Remedial Investigation/Feasibility Study was submitted for the Southwest Properties portion of the Wells G&H Superfund site, which is one of the Beatrice sites. The U.S. Environmental Protection Agency (the "EPA") issued a Record of Decision (the "ROD") for the Southwest Properties portion of the site on September 29, 2017, and has entered into negotiations with potentially responsible parties to determine final responsibility for implementing the ROD.

General Matters

After taking into account liabilities recognized for all of the foregoing matters, management believes the ultimate resolution of such matters should not have a material adverse effect on our financial condition, results of operations, or liquidity; however, it is reasonably possible that a change of the estimates of any of the foregoing matters may occur in the future and, as noted, the lead paint matter could result in a material final judgment.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Our common stock is listed on the New York Stock Exchange, where it trades under the ticker symbol: CAG. At June 24, 2018, there were approximately 16,854 shareholders of record.

Quarterly sales price and dividend information is set forth in Note 22 "Quarterly Financial Data (Unaudited)" to the consolidated financial statements and incorporated herein by reference.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The following table presents the total number of shares of common stock purchased during the fourth quarter of fiscal 2018, the average price paid per share, the number of shares that were purchased as part of a publicly announced repurchase program, and the approximate dollar value of the maximum number of shares that may yet be purchased under the share repurchase program:

Period	Total Number of Shares (or units) Purchased	Average Price Paid per Share (or unit)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Approximate Dollar Value of Maximum Number of Shares that may yet be Purchased under the Program (1)
February 26 through March 25, 2018	—	$ —	—	$ 521,968,000
March 26 through April 22, 2018	1,680,824	$ 37.10	1,680,824	$ 459,599,000
April 23 through May 27, 2018	1,217,467	$ 36.88	1,217,467	$ 1,414,700,000
Total Fiscal 2018 Fourth Quarter Activity	2,898,291	$ 37.00	2,898,291	$ 1,414,700,000

(1) Pursuant to publicly announced share repurchase programs from December 2003, we have repurchased approximately 220.6 million shares at a cost of $6.14 billion through May 27, 2018. On October 11, 2016, we announced that our Board of Directors approved an increase of $1.25 billion to the share repurchase program. We announced that our Board of Directors approved further increases to the share repurchase program of $1.0 billion each on June 29, 2017 and June 27, 2018, respectively. The share repurchase program is effective and has no expiration date.

ITEM 6. SELECTED FINANCIAL DATA

For the Fiscal Years Ended May	2018	2017	2016	2015	2014
Dollars in millions, except per share amounts					
Net sales [1]	$7,938.3	$7,826.9	$8,664.1	$9,034.0	$9,041.7
Income from continuing operations [1]	$797.5	$546.0	$128.5	$451.3	$325.4
Net income (loss) attributable to Conagra Brands, Inc. [2]	$808.4	$639.3	$(677.0)	$(252.6)	$303.1
Basic earnings per share:					
Income from continuing operations attributable to Conagra Brands, Inc. common stockholders [1]	$1.97	$1.26	$0.29	$1.05	$0.77
Net income (loss) attributable to Conagra Brands, Inc. common stockholders [2]	$2.00	$1.48	$(1.57)	$(0.60)	$0.72
Diluted earnings per share:					
Income from continuing operations attributable to Conagra Brands, Inc. common stockholders [1]	$1.95	$1.25	$0.29	$1.04	$0.76
Net income (loss) attributable to Conagra Brands, Inc. common stockholders [2]	$1.98	$1.46	$(1.56)	$(0.59)	$0.70
Cash dividends declared per share of common stock	$0.85	$0.90	$1.00	$1.00	$1.00
At Year-End					
Total assets	$10,389.5	$10,096.3	$13,390.6	$17,437.8	$19,241.5
Senior long-term debt (noncurrent) [1]	$3,035.6	$2,573.3	$4,685.5	$6,676.0	$8,507.0
Subordinated long-term debt (noncurrent)	$195.9	$195.9	$195.9	$195.9	$195.9

(1) Amounts exclude the impact of discontinued operations of the Lightlife® operations, the Medallion Foods operations, the ConAgra Mills operations, the Private Brands operations, and the Lamb Weston operations.

(2) Amounts include aggregate pre-tax goodwill and certain long-lived asset impairment charges in discontinued operations of $1.92 billion, $1.56 billion, and $596.2 million for fiscal 2016, 2015, and 2014, respectively.

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

The following discussion and analysis is intended to provide a summary of significant factors relevant to our financial performance and condition. The discussion and analysis should be read together with our consolidated financial statements and related notes in Item 8, Financial Statements and Supplementary Data. Results for the fiscal year ended May 27, 2018, are not necessarily indicative of results that may be attained in the future.

FORWARD-LOOKING STATEMENTS

The information contained in this report includes forward-looking statements within the meaning of the federal securities laws. Examples of forward-looking statements include statements regarding our expected future financial performance or position, results of operations, business strategy, plans and objectives of management for future operations, and other statements that are not historical facts. You can identify forward-looking statements by their use of forward-looking words, such as "may", "will", "anticipate", "expect", "believe", "estimate", "intend", "plan", "should", "seek", or comparable terms.

Readers of this report should understand that these forward-looking statements are not guarantees of performance or results. Forward-looking statements provide our current expectations and beliefs concerning future events and are subject to risks, uncertainties, and factors relating to our business and operations, all of which are difficult to predict and could cause our actual results to differ materially from the expectations expressed in or implied by such forward-looking statements. Such risks, uncertainties, and factors include, among other things: the failure to obtain Pinnacle Foods Inc. ("Pinnacle") shareholder approval of the merger agreement; the possibility that the closing conditions to the planned acquisition of Pinnacle may not be satisfied or waived, including that a governmental entity may prohibit, delay, or refuse to grant a necessary regulatory approval and any conditions imposed on the combined entity in connection with consummation of the planned acquisition of Pinnacle; delay in closing the planned acquisition of Pinnacle or the possibility of non-consummation of the planned acquisition; the risk that the cost savings and any other synergies from the planned acquisition of Pinnacle may not be fully realized or may take longer to realize than expected, including that the planned acquisition may not be accretive within the expected timeframe or to the extent anticipated; the occurrence of any event that could give rise to termination of the merger agreement; the risk that shareholder litigation in connection with the planned acquisition of Pinnacle may affect the timing or occurrence of the planned acquisition or result in significant costs of defense, indemnification, and liability; risks related to the disruption of the planned acquisition of Pinnacle to us and our management; the effect of the announcement of the planned acquisition of Pinnacle on our ability to retain and hire key personnel and maintain relationships with customers, suppliers, and other third parties; our ability to achieve the intended benefits of recent and pending acquisitions and divestitures, including the recent spin-off of our Lamb Weston business; the continued evaluation of the role of our Wesson® oil business; general economic and industry conditions; our ability to successfully execute our long-term value creation strategy; our ability to access capital on acceptable terms or at all; our ability to execute our operating and restructuring plans and achieve our targeted operating efficiencies from cost-saving initiatives and to benefit from trade optimization programs; the effectiveness of our hedging activities and our ability to respond to volatility in commodities; the competitive environment and related market conditions; our ability to respond to changing consumer preferences and the success of our innovation and marketing investments; the ultimate impact of any product recalls and litigation, including litigation related to the lead paint and pigment matters; actions of governments and regulatory factors affecting our businesses, including the ultimate impact of recently enacted U.S. tax legislation and related regulations or interpretations; the availability and prices of raw materials, including any negative effects caused by inflation or weather conditions; risks and uncertainties associated with intangible assets, including any future goodwill or intangible assets impairment charges; and other risks described in our reports filed from time to time with the Securities and Exchange Commission (the "SEC"). We caution readers not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. We undertake no responsibility to update these statements, except as required by law.

The discussion that follows should be read together with the consolidated financial statements and related notes contained in this report. Results for fiscal 2018 are not necessarily indicative of results that may be attained in the future.

EXECUTIVE OVERVIEW

Conagra Brands, Inc. (the "Company", "we", "us", or "our"), headquartered in Chicago, is one of North America's leading branded food companies. Guided by an entrepreneurial spirit, the Company combines a rich heritage of making great food with a sharpened focus on innovation. The Company's portfolio is evolving to satisfy people's changing food preferences. Its iconic brands such as Marie Callender's®, Reddi-wip®, Hunt's®, Healthy Choice®, Slim Jim®, Orville Redenbacher's®, as well as emerging brands, including Alexia®, Angie's® BOOMCHICKAPOP®, Blake's®, Duke's®, and Frontera®, offer choices for every occasion.

Fiscal 2018 performance compared to fiscal 2017 reflected improving net sales trends, due to innovation and renovation of some of our largest brands and enhanced marketing methods. Higher gross profits in the International and Foodservice segments were offset by slightly lower gross profits in the Grocery & Snacks and Refrigerated & Frozen segments. Despite a challenging inflationary environment, we achieved significantly improved earnings in fiscal 2018. The improved operating performance reflected significantly lower selling, general and administrative ("SG&A") expenses and lower interest expense, in each case compared to fiscal 2017.

On December 22, 2017, the 2017 U.S. Tax Cuts and Jobs Act (the "Tax Act") was signed into law. The Tax Act reduces tax rates and modifies certain policies, credits, and deductions and has certain international tax consequences. The Tax Act reduces the federal corporate tax rate from a maximum of 35% to a flat 21% rate. The Tax Act's corporate rate reduction became effective January 1, 2018, in the middle of our third quarter. Given our off-calendar fiscal year-end, our fiscal 2018 federal statutory tax rate was a blended rate. Our federal statutory rate will reduce to 21% in fiscal 2019. As a result, we were required to revalue our deferred tax assets and liabilities to account for the future impact of lower corporate tax rates and other provisions of the Tax Act. These changes resulted in a one-time estimated income tax benefit of $233.3 million for fiscal 2018. This amount may be adjusted in the future as further information and interpretations become available.

Diluted earnings per share in fiscal 2018 were $1.98, including earnings of $1.95 per diluted share from continuing operations and $0.03 per diluted share from discontinued operations. Diluted earnings per share in fiscal 2017 were $1.46, including earnings of $1.25 per diluted share from continuing operations and $0.21 per diluted share from discontinued operations. Several significant items affect the comparability of year-over-year results of continuing operations (see "Items Impacting Comparability" below).

On June 26, 2018, subsequent to the end of fiscal 2018, we entered into a definitive merger agreement (the "Merger Agreement") with Pinnacle and Patriot Merger Sub Inc., a wholly-owned subsidiary of us ("Merger Sub"). The Merger Agreement provides for, among other things, the merger of Merger Sub with and into Pinnacle, with Pinnacle continuing as the surviving corporation. As a result of the merger, Merger Sub will cease to exist, and Pinnacle will survive as our wholly-owned subsidiary.

Subject to the terms and conditions of the Merger Agreement, at the effective time of the merger, each share of Pinnacle common stock issued and outstanding immediately prior to the effective time (other than shares as to which dissenter's rights have been properly exercised and certain other excluded shares) will be converted into the right to receive (i) $43.11 in cash and (ii) 0.6494 shares of our common stock, with cash payable in lieu of fractional shares of our common stock. The implied price of $68.00 per Pinnacle share is based on the volume-weighted average price of our stock for the five days ended June 21, 2018.

We have secured $9.0 billion in fully committed bridge financing from affiliates of Goldman Sachs Group, Inc. in connection with the planned acquisition of Pinnacle. The commitments under the committed bridge financing were subsequently reduced by the amounts of a term loan agreement we entered into on July 11, 2018 with a syndicate of financial institutions providing for term loans to us in an aggregate principal amount of up to $1.3 billion. The funding under the term loan agreement is anticipated to occur simultaneously with the closing date of the acquisition. In connection with the merger, we expect to incur up to $8.3 billion of long-term debt (which includes any funding under the new term loan agreement), including for the payment of the cash portion of the merger consideration, the repayment of Pinnacle debt, the refinancing of certain Conagra debt, and the payment of related fees and expenses. The permanent financing is also expected to include approximately $600 million of incremental cash proceeds from the issuance of equity and/or divestitures.

The planned acquisition of Pinnacle is expected to close by the end of calendar 2018 and is subject to customary closing conditions, including (i) the adoption of the Merger Agreement by the affirmative vote of the holders of at least a majority of all outstanding Pinnacle common stock, (ii) there being no law or order that restrains, enjoins, or otherwise prohibits the consummation of the planned acquisition or the issuance of our common stock in connection with the planned acquisition, and (iii) the expiration of the waiting period applicable to the planned acquisition under the Hart-Scott-Rodino Antitrust

Improvements Act of 1976, as amended, and receipt of other required antitrust approvals. The obligation of each of us and Pinnacle to consummate the planned acquisition is also conditioned on the other party's representations and warranties being true and correct (subject to certain materiality exceptions) and the other party having performed, in all material respects, its obligations under the Merger Agreement. The closing of the planned acquisition is not subject to a financing condition.

Items Impacting Comparability

Items of note impacting comparability of results from continuing operations for fiscal 2018 included the following:

- an income tax benefit of $233.3 million related to the enactment of the Tax Act,
- charges totaling $151.0 million ($113.3 million after-tax) related to certain litigation matters,
- an income tax expense of $78.6 million associated with a change in a valuation allowance on a deferred tax asset due to the termination of the agreement for the proposed sale of our Wesson® oil business,
- an income tax charge of $42.1 million associated with unusual tax items related to the repatriation of cash during the second quarter from foreign subsidiaries, the tax expense related to the earnings of foreign subsidiaries previously deemed to be permanently invested, a pension contribution, and the effect of a law change in Mexico requiring deconsolidation for tax reporting purposes,
- charges totaling $34.9 million ($25.6 million after-tax) related to the early termination of an unfavorable lease contract by purchasing the property subject to the lease,
- charges totaling $38.0 million ($27.0 million after-tax) in connection with our SCAE Plan (as defined below),
- charges totaling $15.7 million ($10.9 million after-tax) associated with costs incurred for acquisitions and divestitures,
- charges totaling $5.4 million ($3.7 million after-tax) related to pension plan lump-sum settlements and a remeasurement of our salaried and non-qualified pension plan liability,
- charges totaling $4.8 million ($3.7 million after-tax) related to the impairment of other intangible assets, and
- a benefit of $4.3 million ($2.9 million after-tax) related to the substantial liquidation of an international joint venture (recorded in equity method investment earnings).

Items of note impacting comparability of results from continuing operations for fiscal 2017 included the following:

- charges totaling $304.2 million ($257.7 million after-tax) related to the impairment of goodwill and other intangible assets,
- gains totaling $197.4 million ($68.4 million after-tax) from the sales of the Spicetec and JM Swank businesses,
- charges totaling $93.3 million ($60.2 million after-tax) related to the early retirement of debt,
- an income tax benefit of $91.3 million related to a tax adjustment of valuation allowance associated with the planned divestiture of the Wesson® oil business,
- charges totaling $63.6 million ($41.4 million after-tax) in connection with the SCAE Plan,
- charges totaling $31.4 million ($19.6 million after-tax), including an impairment charge of $27.6 million related to the production assets of the business, for the planned divestiture of the Wesson® oil business,
- an income tax benefit of $14.6 million associated with a tax planning strategy that allowed us to utilize certain state tax attributes and certain foreign incentives,
- charges totaling $13.8 million ($8.5 million after-tax) related to a pension lump sum settlement, and
- a gain of $5.7 million ($3.7 million after-tax) in connection with a legacy legal matter.

Segment presentation of gains and losses from derivatives used for economic hedging of anticipated commodity input costs and economic hedging of foreign currency exchange rate risks of anticipated transactions is discussed in the segment review below.

Acquisitions

As noted above, on June 26, 2018, subsequent to the end of fiscal 2018, we entered into the Merger Agreement with Pinnacle under which we will acquire all outstanding shares of Pinnacle common stock in a cash and stock transaction valued at approximately $10.9 billion, including Pinnacle's outstanding net debt. Under the terms of the Merger Agreement, Pinnacle shareholders will receive $43.11 per share in cash and 0.6494 shares of our common stock for each share of Pinnacle common stock held. The planned acquisition is expected to close by the end of calendar 2018 and remains subject to the approval of Pinnacle shareholders, the receipt of regulatory approvals, and other customary closing conditions.

In February 2018, we acquired the Sandwich Bros. of Wisconsin® business, maker of frozen breakfast and entree flatbread pocket sandwiches, for a cash purchase price of $87.3 million, net of cash acquired. Approximately $57.8 million has been classified as goodwill, subject to final purchase price allocation, and $9.7 million and $7.1 million have been classified as non-amortizing and amortizing intangible assets, respectively. The amount of goodwill allocated is deductible for tax purposes. The business is included in the Refrigerated & Frozen segment.

In October 2017, we acquired Angie's Artisan Treats, LLC, maker of Angie's® BOOMCHICKAPOP® ready-to-eat popcorn, for a cash purchase price of $249.8 million, net of cash acquired. Approximately $155.2 million has been classified as goodwill, subject to final purchase price allocation, of which $95.4 million is deductible for income tax purposes. Approximately $73.8 million and $10.3 million of the purchase price have been allocated to non-amortizing and amortizing intangible assets, respectively. The business is primarily included in the Grocery & Snacks segment.

In April 2017, we acquired protein-based snacking businesses Thanasi Foods LLC, maker of Duke's® meat snacks, and BIGS LLC, maker of BIGS® seeds, for $217.6 million in cash, net of cash acquired (the "Thanasi acquisition"). Approximately $133.3 million has been classified as goodwill, of which $70.5 million is deductible for income tax purposes. Approximately $65.1 million and $16.1 million of the purchase price have been allocated to non-amortizing and amortizing intangible assets, respectively. These businesses are primarily included in the Grocery & Snacks segment.

In September 2016, we acquired the operating assets of Frontera Foods, Inc. and Red Fork LLC, including the Frontera®, Red Fork®, and Salpica® brands (the "Frontera acquisition"). These businesses make authentic, gourmet Mexican food products and contemporary American cooking sauces. We acquired the businesses for $108.1 million in cash, net of cash acquired. Approximately $39.5 million has been classified as goodwill and $59.5 million and $7.2 million have been classified as non-amortizing and amortizing intangible assets, respectively. The amount allocated to goodwill is deductible for tax purposes. These businesses are included primarily in the Grocery & Snacks segment, and to a lesser extent within the Refrigerated & Frozen and International segments.

Divestitures

During the third quarter of fiscal 2018, we signed a definitive agreement to sell our Del Monte® processed fruit and vegetable business in Canada, which is part of our International segment. The transaction was completed in the first quarter of fiscal 2019, and was valued at approximately $43.0 million Canadian dollars, which was approximately $34.0 million U.S. dollars at the exchange rate on the date of announcement.

During the fourth quarter of fiscal 2017, we signed an agreement to sell our Wesson® oil business, which is part of our Grocery & Snacks segment, to The J.M. Smucker Company ("Smucker"). In the fourth quarter of fiscal 2018, Conagra Brands and Smucker terminated the agreement. This outcome followed the decision of the Federal Trade Commission, announced on March 5, 2018, to challenge the pending sale. The Company is still actively marketing the Wesson® oil business and expects to sell it within the next twelve months.

On November 9, 2016, we completed the previously announced spinoff (the "Spinoff") of Lamb Weston Holdings, Inc. ("Lamb Weston"). The results of operations of the Lamb Weston business have been reclassified to discontinued operations for all periods presented.

In the first quarter of fiscal 2017, we completed the sales of our Spicetec Flavors & Seasonings business ("Spicetec") and our JM Swank business for combined proceeds of $489.0 million. The results of operations of Spicetec and JM

Swank are included in the Commercial segment.

On February 1, 2016, pursuant to the stock purchase agreement, dated as of November 1, 2015, with TreeHouse Foods, Inc. ("TreeHouse"), we completed the disposition of our Private Brands business to TreeHouse for $2.6 billion in cash on a debt-free basis. The results of operations of the Private Brands business have been classified as discontinued operations for all periods presented.

Restructuring Plans

In May 2013, we announced the Supply Chain and Administrative Efficiency Plan (the "SCAE Plan"), our plan to integrate and restructure the operations of our Private Brands business, improve SG&A effectiveness and efficiencies, and optimize our supply chain network, manufacturing assets, dry distribution centers, and mixing centers. In fiscal 2016, we announced plans to realize efficiency benefits by reducing SG&A expenses and enhancing trade spend processes and tools, which plans were included as part of the SCAE Plan. Although we divested the Private Brands business, we have continued to implement the SCAE Plan, including by working to optimize our supply chain network, pursue cost reductions through our SG&A functions, enhance trade spend processes and tools, and improve productivity.

Although we remain unable to make good faith estimates relating to the entire SCAE Plan, we are reporting on actions initiated through the end of fiscal 2018, including the estimated amounts or range of amounts for each major type of costs expected to be incurred, and the charges that have resulted or will result in cash outflows. As of May 27, 2018, our Board of Directors has approved the incurrence of up to $900.9 million of expenses in connection with the SCAE Plan, including expenses allocated for the Private Brands and Lamb Weston operations. We have incurred or expect to incur approximately $471.6 million of charges ($322.1 million of cash charges and $149.5 million of non-cash charges) for actions identified to date under the SCAE Plan related to our continuing operations. We recognized charges of $38.0 million, $63.6 million, and $281.8 million in relation to the SCAE Plan related to our continuing operations in fiscal 2018, 2017, and 2016, respectively. We expect to incur costs related to the SCAE Plan over a multi-year period.

SEGMENT REVIEW

We reflect our results of operations in five reporting segments: Grocery & Snacks, Refrigerated & Frozen, Foodservice, International, and Commercial.

Grocery & Snacks

The Grocery & Snacks reporting segment principally includes branded, shelf stable food products sold in various retail channels in the United States.

Refrigerated & Frozen

The Refrigerated & Frozen reporting segment principally includes branded, temperature controlled food products sold in various retail channels in the United States.

International

The International reporting segment principally includes branded food products, in various temperature states, sold in various retail and foodservice channels outside of the United States.

Foodservice

The Foodservice reporting segment includes branded and customized food products, including meals, entrees, sauces, and a variety of custom-manufactured culinary products that are packaged for sale to restaurants and other foodservice establishments primarily in the United States.

Commercial

The Commercial reporting segment included commercially branded and private label food and ingredients, which were sold primarily to commercial, restaurant, foodservice, food manufacturing, and industrial customers. The segment's primary food items included a variety of vegetable, spice, and frozen bakery goods, which were sold under brands such as Spicetec Flavors & Seasonings®. The Spicetec and JM Swank businesses were sold in the first quarter of fiscal 2017. These businesses comprise the entire Commercial segment following the presentation of Lamb Weston as discontinued operations.

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Presentation of Derivative Gains (Losses) from Economic Hedges of Forecasted Cash Flows in Segment Results
Derivatives used to manage commodity price risk and foreign currency risk are not designated for hedge accounting treatment. We believe these derivatives provide economic hedges of certain forecasted transactions. As such, these derivatives are generally recognized at fair market value with realized and unrealized gains and losses recognized in general corporate expenses. The gains and losses are subsequently recognized in the operating results of the reporting segments in the period in which the underlying transaction being economically hedged is included in earnings. In the event that management determines a particular derivative entered into as an economic hedge of a forecasted commodity purchase has ceased to function as an economic hedge, we cease recognizing further gains and losses on such derivatives in corporate expense and begin recognizing such gains and losses within segment operating results, immediately.
The following table presents the net derivative gains (losses) from economic hedges of forecasted commodity consumption and the foreign currency risk of certain forecasted transactions associated with continuing operations, under this methodology:

($ in millions)	Fiscal Years Ended May 27, 2018	May 28, 2017	May 29, 2016
Net derivative gains (losses) incurred	$(0.9)	$ 0.6	$(7.4)
Less: Net derivative gains (losses) allocated to reporting segments	(7.1)	5.7	(23.8)
Net derivative gains (losses) recognized in general corporate expenses	$6.2	$ (5.1)	$16.4
Net derivative gains (losses) allocated to Grocery & Snacks	$0.2	$ 3.4	$(14.4)
Net derivative gains (losses) allocated to Refrigerated & Frozen	(0.3)	0.8	(6.2)
Net derivative gains (losses) allocated to International Foods	(6.9)	1.6	(0.5)
Net derivative losses allocated to Foodservice	(0.1)	—	(1.0)
Net derivative losses allocated to Commercial	—	(0.1)	(1.7)
Net derivative gains (losses) included in segment operating profit	$(7.1)	$ 5.7	$(23.8)

As of May 27, 2018, the cumulative amount of net derivative gains from economic hedges that had been recognized in general corporate expenses and not yet allocated to reporting segments was $3.2 million, all of which was incurred during the fiscal year ended May 27, 2018. Based on our forecasts of the timing of recognition of the underlying hedged items, we expect to reclassify to segment operating results gains of $2.5 million in fiscal 2019 and $0.7 million in fiscal 2020 and thereafter.
Fiscal 2018 compared to Fiscal 2017
Net Sales

($ in millions) Reporting Segment	Fiscal 2018 Net Sales	Fiscal 2017 Net Sales	% Inc (Dec)
Grocery & Snacks	$3,287.0	$3,208.8	2 %
Refrigerated & Frozen	2,753.0	2,652.7	4 %
International	843.5	816.0	3 %
Foodservice	1,054.8	1,078.3	(2)%
Commercial	—	71.1	(100)%
Total	$7,938.3	$7,826.9	1 %

Overall, our net sales were $7.94 billion in fiscal 2018, an increase of 1% compared to fiscal 2017.
Grocery & Snacks net sales for fiscal 2018 were $3.29 billion, an increase of $78.2 million, or 2%, compared to fiscal 2017. Results reflected a decrease in volumes of approximately 2% in fiscal 2018 compared to the prior-year period, excluding the impact of acquisitions. The decrease in sales volumes reflected a reduction in promotional intensity, planned discontinuation of certain lower-performing products, retailer inventory reductions, which were higher than anticipated, and deliberate actions to optimize distribution on certain lower-margin products, consistent with the Company's value over volume strategy. Price/

mix was flat compared to the prior-year period as favorable mix improvements from recent innovation and higher net pricing nearly offset continued investments in retailer marketing to drive brand saliency, enhanced distribution, and consumer trial. The acquisition of Angie's Artisan Treats, LLC contributed $68.1 million to Grocery & Snacks net sales during fiscal 2018. The Frontera acquisition contributed $8.6 million and the Thanasi acquisition contributed $66.5 million to Grocery & Snacks net sales during fiscal 2018 through the one-year anniversaries of the acquisitions. The Frontera and Thanasi acquisitions occurred in September 2016 and April 2017, respectively.

Refrigerated & Frozen net sales for fiscal 2018 were $2.75 billion, an increase of $100.3 million, or 4%, compared to fiscal 2017. Results for fiscal 2018 reflected a 3% increase in volume compared to fiscal 2017, excluding the impact of acquisitions. The increase in sales volumes was a result of brand renovation and innovation launches. Price/mix was flat compared to fiscal 2017, as favorability in both net pricing and mix offset continued investment in retailer marketing to drive brand saliency, enhanced distribution, and consumer trial. The acquisition of the Sandwich Bros. of Wisconsin® business contributed $21.3 million to Refrigerated & Frozen's net sales during fiscal 2018. The Frontera acquisition, which occurred in September 2016, and subsequent innovation in the Frontera® brand contributed $4.4 million during fiscal 2018 through the one-year anniversary of the acquisition.

International net sales for fiscal 2018 were $843.5 million, an increase of $27.5 million, or 3%, compared to fiscal 2017. Results for fiscal 2018 reflected a 3% decrease in volume, a 3% increase due to foreign exchange rates, and a 3% increase in price/mix, in each case compared to fiscal 2017. The volume decrease for fiscal 2018 was driven by strategic decisions to eliminate lower margin products and to reduce promotional intensity. The increase in price/mix compared to the prior-year period was driven by improvements in pricing and trade productivity.

Foodservice net sales for fiscal 2018 were $1.05 billion, a decrease of $23.5 million, or 2%, compared to fiscal 2017. Results for fiscal 2018 reflected an 11% decrease in volume, partially offset by a 9% increase in price/mix compared to fiscal 2017. The decrease in volumes compared to the prior-year period primarily reflected the impact of exiting a non-core business, the planned discontinuation of certain lower-performing businesses, and softness in certain categories. The increase in price/mix for fiscal 2018 reflected favorable product and customer mix, the impact of inflation-driven increases in pricing, and the execution of the segment's value over volume strategy.

In the first quarter of fiscal 2017, we divested our Spicetec and JM Swank businesses. These businesses comprise the entire Commercial segment following the presentation of Lamb Weston as discontinued operations. Accordingly, there were no net sales in the Commercial segment after the first quarter of fiscal 2017. These businesses had net sales of $71.1 million in fiscal 2017 prior to the completion of the divestitures.

SG&A Expenses (Includes general corporate expenses)

SG&A expenses totaled $1.32 billion for fiscal 2018, a decrease of $99.1 million compared to fiscal 2017. SG&A expenses for fiscal 2018 reflected the following:

Items impacting comparability of earnings

- charges totaling $151.0 million related to certain litigation matters,
- a charge of $34.9 million related to the early termination of an unfavorable lease contract,
- expenses of $30.2 million in connection with our SCAE Plan,
- expenses of $15.1 million associated with costs incurred for acquisitions and planned divestitures,
- charges of $5.4 million related to pension plan lump-sum settlements and a remeasurement of our salaried and non-qualified pension plan liability, and
- charges totaling $4.8 million related to the impairment of other intangible assets.

Other changes in expenses compared to fiscal 2017

- a decrease in advertising and promotion expense of $49.7 million,
- a decrease in pension and postretirement expense of $19.4 million (excluding the impacts of settlements and remeasurements),

- a decrease in transaction services agreement income of $18.3 million,
- a decrease in incentive compensation expense of $14.6 million,
- a decrease in stock-based compensation expense of $10.4 million,
- a decrease in contract services of $9.4 million,
- a decrease in charitable contributions of $6.7,
- an increase in salaries expense of $19.4 million, and
- an increase in self-insured workers' compensation and product liability expense of $7.0 million.

SG&A expenses for fiscal 2017 included the following items impacting the comparability of earnings:

- charges totaling $237.1 million related to the impairment of goodwill and other intangible assets, primarily in the International segment,
- gains totaling $197.4 million, from the divestiture of the Spicetec and JM Swank businesses,
- charges totaling $93.3 million related to the early retirement of debt,
- a charge of $67.1 million related to the impairment of the Chef Boyardee® brand intangible,
- expenses of $46.4 million in connection with our SCAE Plan,
- charges of $30.9 million related to the planned divestiture of our Wesson® oil business, including an impairment charge of $27.6 million related to the production assets of the business that were not initially included in the assets held for sale,
- an expense of $13.8 million in connection with a salaried pension plan lump sum settlement we completed in fiscal 2017, and
- a benefit of $5.7 million in connection with a legal matter.

Segment Operating Profit (Earnings before general corporate expenses, interest expense, net, income taxes, and equity method investment earnings)

($ in millions) Reporting Segment	Fiscal 2018 Operating Profit	Fiscal 2017 Operating Profit	% Inc (Dec)
Grocery & Snacks	$ 724.8	$ 653.7	11 %
Refrigerated & Frozen	479.4	445.8	8 %
International	86.5	(168.9)	N/A
Foodservice	121.8	105.1	16 %
Commercial	—	202.6	(100)%

Grocery & Snacks operating profit for fiscal 2018 was $724.8 million, an increase of $71.1 million, or 11%, compared to fiscal 2017. Gross profits were $20.2 million lower in fiscal 2018 than in fiscal 2017. The lower gross profit was driven by investments with retailers (i.e., trade spending reflected as a reduction of net sales), as well as higher input costs and transportation expenses, partially offset by supply chain realized productivity. The Frontera acquisition, Thanasi acquisition, and the acquisition of Angie's Artisan Treats, LLC, which occurred in September 2016, April 2017, and October 2017, respectively, contributed $47.4 million to Grocery & Snacks gross profit during fiscal 2018 through the one-year anniversaries of the acquisitions (if reached). Advertising and promotion expenses for fiscal 2018 decreased by $19.5 million compared to fiscal 2017. Operating profit of the Grocery & Snacks segment was impacted by charges totaling $4.0 million in fiscal 2018 for the impairment of our HK Anderson®, Red Fork®, and Salpica® brand assets and $68.3 million in fiscal 2017 primarily for the impairment of our Chef Boyardee® brand asset. Grocery & Snacks also incurred $11.4 million of expenses in fiscal 2018 related to acquisitions and divestitures, charges of $31.4 million in fiscal 2017 related to the pending divestiture of the

Wesson® oil business, and charges of $14.1 million and $25.3 million in connection with our restructuring plans in fiscal 2018 and 2017, respectively.

Refrigerated & Frozen operating profit for fiscal 2018 was $479.4 million, an increase of $33.6 million, or 8%, compared to fiscal 2017. Gross profits were $3.6 million lower in fiscal 2018 than in fiscal 2017, driven by continuing increases in input costs and transportation inflation as well as investments to drive distribution, enhanced shelf presence, and trial, partially offset by increased sales volumes and supply chain realized productivity. The acquisition of the Sandwich Bros. of Wisconsin® business contributed $4.6 million to gross profit in the segment during fiscal 2018. Advertising and promotion expenses for fiscal 2018 decreased by $23.4 million compared to fiscal 2017. Operating profit of the Refrigerated & Frozen segment was impacted by charges totaling approximately $7.7 million in fiscal 2017 related to a product recall, as well as charges of $0.1 million and $6.2 million in connection with our restructuring plans in fiscal 2018 and 2017, respectively.

International operating profit for fiscal 2018 was $86.5 million, compared to an operating loss of $168.9 million for fiscal 2017. The operating loss in fiscal 2017 includes charges totaling $235.9 million for the impairment of goodwill and an intangible brand asset in our Canadian and Mexican operations. Gross profits were $18.6 million higher in fiscal 2018 than in fiscal 2017, as a result of improved price/mix, the favorable impact of foreign exchange, and the planned discontinuations of certain lower-performing products. Operating profit of the International segment was impacted by charges of $1.5 million and $0.9 million in connection with our restructuring plans, in fiscal 2018 and 2017, respectively.

Foodservice operating profit for fiscal 2018 was $121.8 million, an increase of $16.7 million, or 16%, compared to fiscal 2017. Gross profits were $13.9 million higher in fiscal 2018 than in fiscal 2017, primarily reflecting the impact of inflation-driven increases in pricing and supply chain realized productivity, partially offset by lower sales volumes and increased input costs. Operating profit of the Foodservice segment was impacted by charges of $1.8 million in fiscal 2017 in connection with our restructuring plans.

Commercial operating profit was $202.6 million in fiscal 2017. The Company sold the Spicetec and JM Swank businesses in the first quarter of fiscal 2017, recognizing pre-tax gains totaling $197.4 million. The Spicetec and JM Swank businesses comprise the entire Commercial segment following the presentation of Lamb Weston as discontinued operations. There are no further operations in the Commercial segment.

Interest Expense, Net

In fiscal 2018, net interest expense was $158.7 million, a decrease of $36.8 million, or 19%, from fiscal 2017. The decrease reflects the repayment of $550.0 million aggregate principal amount of outstanding senior notes in the first quarter of fiscal 2017, $473.0 million aggregate principal amount of outstanding senior notes in the third quarter of fiscal 2017, $119.6 million aggregate principal amount of outstanding senior notes in the third quarter of fiscal 2018, $70.0 million aggregate principal amount of outstanding senior notes in the fourth quarter of fiscal 2018, as well as the exchange of $1.44 billion of debt in connection with the Spinoff of Lamb Weston during the second quarter of 2017. This was partially offset by the issuance of $500.0 million aggregate principal amount of floating rate notes due 2020 during the second quarter of fiscal 2018 and the borrowing of $300.0 million under our term loan agreement during the fourth quarter of fiscal 2018. For more information about the debt exchange, see Note 4 "Long-Term Debt" to the consolidated financial statements contained in this report.

Income Taxes

Our income tax expense was $174.6 million and $254.7 million in fiscal 2018 and 2017, respectively. The effective tax rate (calculated as the ratio of income tax expense to pre-tax income from continuing operations, inclusive of equity method investment earnings) was approximately 18% and 32% for fiscal 2018 and 2017, respectively.

The Tax Act was enacted into law on December 22, 2017. The changes to U.S. tax law include, but are not limited to:

- reducing the federal statutory income tax rate from 35% to 21%, effective January 1, 2018;
- eliminating the deduction for domestic manufacturing activities, which impacts us beginning in fiscal 2019;
- requiring companies to pay a one-time transition tax on certain unrepatriated earnings of foreign subsidiaries;
- repealing the exception for deductibility of performance-based compensation to covered employees, along with expanding the number of covered employees;
- allowing immediate expensing of machinery and equipment contracted for purchase after September 27, 2017; and

- changing taxation of multinational companies, including a new minimum tax on Global Intangible Low-Taxed Income, a new Base Erosion Anti-Abuse Tax, and a new U.S. corporate deduction for Foreign-Derived Intangible Income, all of which are effective for us beginning in 2019.

As a result of our fiscal year end, the lower U.S. statutory federal income tax rate resulted in a blended U.S. federal statutory rate of 29.3% for the fiscal year ended May 27, 2018. The U.S. federal statutory rate is expected to be 21% for fiscal years beginning after May 27, 2018.

The effective tax rate in fiscal 2018 reflects the following:

- the impact of U.S. tax reform, as noted above,
- an adjustment of valuation allowance associated with the termination of the agreement for the proposed sale of our Wesson® oil business,
- an indirect cost of the pension contribution made on February 26, 2018,
- additional expense related to the settlement of an audit of the impact of a law change in Mexico,
- an income tax benefit allowed upon the vesting/exercise of employee stock compensation awards by our employees, beyond that which is attributable to the original fair value of the awards upon the date of grant, and
- additional expense related to undistributed foreign earnings for which the indefinite reinvestment assertion is no longer made.

The effective tax rate in fiscal 2017 reflects the following:

- additional tax expense associated with non-deductible goodwill sold in connection with the divestitures of the Spicetec and JM Swank businesses,
- additional tax expense associated with non-deductible goodwill in our Mexican and Canadian businesses, for which an impairment charge was recognized,
- an income tax benefit for the adjustment of a valuation allowance associated with the planned divestiture of the Wesson® oil business,
- an income tax benefit for excess tax benefits allowed upon the vesting/exercise of employee stock compensation awards by our employees, beyond that which is attributable to the original fair value of the awards upon the date of grant, and
- an income tax benefit associated with a tax planning strategy that allowed us to utilize certain state tax attributes and certain foreign incentives.

We expect our effective tax rate in fiscal 2019, exclusive of any unusual transactions or tax events, to be approximately 23%-24%.

Equity Method Investment Earnings

We include our share of the earnings of certain affiliates based on our economic ownership interest in the affiliates. Our most significant affiliate is the Ardent Mills joint venture. Our share of earnings from our equity method investment earnings were $97.3 million and $71.2 million for fiscal 2018 and 2017, respectively. A benefit of $4.3 million was included in the earnings of fiscal 2018 in connection with a gain on the substantial liquidation of an international joint venture. In addition, Ardent Mills earnings were higher than they were in the prior-year periods due to more favorable market conditions and continued improvement in operating effectiveness.

Results of Discontinued Operations

Our discontinued operations generated after-tax income of $14.3 million and $102.0 million in fiscal 2018 and 2017, respectively. During fiscal 2018, a $14.5 million income tax benefit was recorded due to an adjustment of the estimated deductibility of the costs incurred associated with effecting the Spinoff of Lamb Weston. The prior-year period results reflected the operations of Lamb Weston through the date of its Spinoff in November 2016. We incurred significant costs associated with effecting the Spinoff of Lamb Weston. These costs are included in results of discontinued operations.

Earnings Per Share

Diluted earnings per share in fiscal 2018 were $1.98, including earnings of $1.95 per diluted share from continuing operations and $0.03 per diluted share from discontinued operations. Diluted earnings per share in fiscal 2017 were $1.46, including earnings of $1.25 per diluted share from continuing operations and $0.21 per diluted share from discontinued operations. See "Items Impacting Comparability" above as several significant items affected the comparability of year-over-year results of operations.

Fiscal 2017 compared to Fiscal 2016

Net Sales

($ in millions) Reporting Segment	Fiscal 2017 Net Sales	Fiscal 2016 Net Sales	% Inc (Dec)
Grocery & Snacks	$3,208.8	$3,377.1	(5)%
Refrigerated & Frozen	2,652.7	2,867.8	(8)%
International	816.0	846.6	(4)%
Foodservice	1,078.3	1,104.5	(2)%
Commercial	71.1	468.1	(85)%
Total	$7,826.9	$8,664.1	(10)%

Overall, our net sales were $7.83 billion in fiscal 2017, a decrease of 10% compared to fiscal 2016.

Grocery & Snacks net sales for fiscal 2017 were $3.21 billion, a decrease of $168.3 million, or 5%, compared to fiscal 2016. Results reflected a decrease in volumes of approximately 5% in fiscal 2017 compared to the prior-year period. The decrease in sales volumes was the result of reduced trade promotions and the planned exit of certain lower-performing products. Price/mix was flat as the continued progress in pricing and trade productivity was fully offset by unfavorable sales mix. The reduced trade promotions and selective base price increases are actions that are intended to build a higher quality revenue base. The Frontera acquisition and the Thanasi acquisition collectively contributed $36.5 million, or 1%, to segment net sales during fiscal 2017.

Refrigerated & Frozen net sales for fiscal 2017 were $2.65 billion, a decrease of $215.1 million, or 8%, compared to fiscal 2016. Results for fiscal 2017 reflected a 9% decrease in volume and a 1% increase in price/mix compared to fiscal 2016. The decrease in sales volumes and improvements in price/mix reflected reduced trade promotions and selective base price increases, together with stock-keeping unit rationalization, which actions were intended to build a higher quality revenue base. Net sales growth was also negatively affected by a transitory increase in the volume of Egg Beaters® in fiscal 2016 as the Company's egg supply was not negatively impacted by the avian influenza outbreak in fiscal 2015.

International net sales for fiscal 2017 were $816.0 million, a decrease of $30.6 million, or 4%, compared to fiscal 2016. Results for fiscal 2017 reflected a 3% decrease in volume, a 3% decrease due to foreign exchange rates, and a 2% increase in price/mix compared to fiscal 2016. The volume decrease for fiscal 2017 was driven by significant shipments in early fiscal 2016 due to recovery from the West Coast port disruptions during fiscal 2015, aggressive pricing actions, reduced trade promotions, and the planned discontinuation of certain lower-margin products.

Foodservice net sales for fiscal 2017 were $1.08 billion, a decrease of $26.2 million, or 2%, compared to fiscal 2016. Results for fiscal 2017 reflected a 4% decrease in volume offset by a 2% increase in price/mix compared to fiscal 2016. The decrease in volumes primarily reflected the impact of exiting a non-core business.

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In the first quarter of fiscal 2017, we divested our Spicetec and JM Swank businesses. These businesses comprise the entire Commercial segment following the presentation of Lamb Weston as discontinued operations. Accordingly, there were no net sales in the Commercial segment after the first quarter of fiscal 2017. These businesses had net sales of $71.1 million in fiscal 2017 prior to the completion of the divestitures. Net sales in the Commercial segment were $468.1 million in fiscal 2016.

SG&A Expenses (Includes general corporate expenses)

SG&A expenses totaled $1.42 billion for fiscal 2017, a decrease of $607.5 million compared to fiscal 2016. SG&A expenses for fiscal 2017 reflected the following:

Items impacting comparability of earnings

- charges totaling $237.1 million related to the impairment of goodwill and other intangible assets, primarily in the International segment,
- gains totaling $197.4 million from the divestiture of the Spicetec and JM Swank businesses,
- a charge of $67.1 million related to the impairment of the Chef Boyardee® brand intangible,
- charges totaling $93.3 million related to the early retirement of debt,
- expenses of $46.4 million in connection with our SCAE Plan,
- charges of $30.9 million related to the planned divestiture of our Wesson® oil business, including an impairment charge of $27.6 million related to the production assets of the business that initially were not included in the assets held for sale,
- an expense of $13.8 million in connection with a salaried pension plan lump sum settlement we completed in fiscal 2017, and
- a benefit of $5.7 million in connection with a legal matter.

Other changes in expenses compared to fiscal 2016

- a decrease in salaries expenses of $104.3 million,
- a decrease in incentive compensation expense of $38.3 million,
- a decrease in pension and postretirement expense of $19.8 million (excluding items impacting the comparability of earnings),
- a decrease in advertising and promotion spending of $18.9 million,
- a decrease in broker commission expense of $18.3 million,
- an increase in stock-based compensation expense of $15.2 million,
- an increase in charitable contributions of $6.3 million, and
- a decrease in self-insured healthcare expenses of $5.7 million.

SG&A expenses for fiscal 2016 included the following items impacting the comparability of earnings:

- a charge of $348.5 million reflecting the year-end write-off of actuarial losses in excess of 10% of our pension liability,
- expenses totaling $232.8 million in connection with our SCAE Plan,
- a charge of $50.1 million related to the impairment of the Chef Boyardee® brand intangible,
- charges of $23.9 million related to the repurchase of certain senior notes, and

• a charge of $5.0 million in connection with a legal matter.

Operating Profit (Earnings before general corporate expenses, interest expense, net, income taxes, and equity method investment earnings)

($ in millions) Reporting Segment	Fiscal 2017 Operating Profit	Fiscal 2016 Operating Profit	% Inc (Dec)
Grocery & Snacks	$ 653.7	$ 592.9	10 %
Refrigerated & Frozen	445.8	420.4	6 %
International	(168.9)	66.7	N/A
Foodservice	105.1	97.7	8 %
Commercial	202.6	45.4	346 %

Grocery & Snacks operating profit for fiscal 2017 was $653.7 million, an increase of $60.8 million, or 10%, compared to fiscal 2016. Gross profits were $36.5 million higher in fiscal 2017 than in fiscal 2016. The higher gross profit was driven by reduced trade promotions, improved plant productivity, and lower commodity input costs, partially offset by lower sales volumes, due in part to pricing actions on certain products. SG&A expenses decreased by $24.3 million in fiscal 2017, as compared to fiscal 2016, largely as a result of cost reductions achieved through our restructuring plans, as well as a $5.6 million reduction in advertising and promotion expenses. Operating profit of the Grocery & Snacks segment was impacted by charges totaling $68.3 million and $50.1 million, primarily for the impairment of our Chef Boyardee® brand asset in fiscal 2017 and 2016, respectively, $31.4 million in charges in fiscal 2017 related to the pending divestiture of the Wesson® oil business, and charges of $25.3 million and $51.8 million in connection with our restructuring plans in fiscal 2017 and 2016, respectively.

Refrigerated & Frozen operating profit for fiscal 2017 was $445.8 million, an increase of $25.4 million, or 6%, compared to fiscal 2016. Gross profits were $24.7 million lower in fiscal 2017 than in fiscal 2016, driven by decreased sales volumes primarily associated with the transitory increase in the volume of Egg Beaters® in fiscal 2016, discussed above, partially offset by the impact of lower commodity input costs, increased net pricing primarily as a result of reduced trade promotions, and improved plant productivity. SG&A expenses decreased by $50.1 million in fiscal 2017, as compared to fiscal 2016, largely as a result of cost reductions achieved through our restructuring plans, as well as a $8.9 million reduction in advertising and promotion expenses. Operating profit of the Refrigerated & Frozen segment was impacted by charges totaling approximately $7.7 million in fiscal 2017 related to a product recall, as well as charges of $6.2 million and $21.1 million in connection with our restructuring plans in fiscal 2017 and 2016, respectively.

International incurred an operating loss for fiscal 2017 of $168.9 million and earned an operating profit of $66.7 million in fiscal 2016. The operating loss in fiscal 2017 includes charges totaling $235.9 million for the impairment of goodwill and an intangible brand asset in our Canadian and Mexican operations. Gross profits were $8.5 million lower in fiscal 2017 than in fiscal 2016, driven by the impact of foreign exchange rates. Operating profits were negatively impacted by $9.9 million from the impact of foreign exchange rates in fiscal 2017 relative to fiscal 2016.

Foodservice operating profit for fiscal 2017 was $105.1 million, an increase of $7.4 million, or 8%, compared to fiscal 2016. Gross profits were $5.6 million lower in fiscal 2017 than in fiscal 2016, driven by volume declines and product supply shortfalls. This was offset by an inventory write-down in fiscal 2016 at a foreign non-core popcorn business that we have since exited. Operating profit of the Foodservice segment was impacted by charges of $1.8 million in fiscal 2017 in connection with our restructuring plans.

Commercial operating profit was $202.6 million in fiscal 2017 and $45.4 million in fiscal 2016. The Company sold the Spicetec and JM Swank businesses in the first quarter of fiscal 2017, recognizing pre-tax gains totaling $197.4 million. The Spicetec and JM Swank businesses comprise the entire Commercial segment following the presentation of Lamb Weston as discontinued operations. There are no further operations in the Commercial segment.

Interest Expense, Net

In fiscal 2017, net interest expense was $195.5 million, a decrease of $100.3 million, or 34%, from fiscal 2016. The decrease reflects the repayment of $2.15 billion, $550 million, and $473 million of debt in the third quarter of fiscal 2016, the first quarter of fiscal 2017, and the third quarter of fiscal 2017, respectively, as well as the exchange of $1.44 billion of debt in connection with the Spinoff of Lamb Weston during the second quarter of 2017.

Income Taxes

Our income tax expense was $254.7 million and $46.4 million in fiscal 2017 and 2016, respectively. The effective tax rate (calculated as the ratio of income tax expense to pre-tax income from continuing operations, inclusive of equity method investment earnings) was approximately 32% for fiscal 2017 and 27% for fiscal 2016.

The effective tax rate in fiscal 2017 reflects the following:

- additional tax expense associated with non-deductible goodwill sold in connection with the divestitures of the Spicetec and JM Swank businesses,
- additional tax expense associated with non-deductible goodwill in our Mexican and Canadian businesses, for which an impairment charge was recognized,
- an income tax benefit for the adjustment of a valuation allowance associated with the planned divestiture of the Wesson® oil business,
- an income tax benefit for excess tax benefits allowed upon the vesting/exercise of employee stock compensation awards by our employees, beyond that which is attributable to the original fair value of the awards upon the date of grant, and
- an income tax benefit associated with a tax planning strategy that allowed us to utilize certain state tax attributes and certain foreign incentives.

The effective tax rate in fiscal 2016 reflects the following:

- additional tax expense related to legal entity changes for a business retained from the Private Brands business,
- a charge for the prior year implementation of a new tax position, and
- an income tax benefit of normal, recurring, income tax credits and deductions combined with a lower pre-tax level of earnings (due in large part to the impact of the write-off of $348.5 million of actuarial losses under our method of accounting for pension benefits).

Equity Method Investment Earnings

We include our share of the earnings of certain affiliates based on our economic ownership interest in the affiliates. Our most significant affiliate is the Ardent Mills joint venture. Our share of earnings from our equity method investment earnings were $71.2 million and $66.1 million for fiscal 2017 and 2016, respectively. The increases are reflective of higher profits from the Ardent Mills joint venture due to more favorable wheat market conditions as well as improved operational effectiveness.

Results of Discontinued Operations

Our discontinued operations generated after-tax income of $102.0 million in fiscal 2017 and an after-tax loss of $794.4 million in fiscal 2016. Results reflected the operations of Lamb Weston through the date of its Spinoff in November 2016, as well as the results of the Private Brands business prior to its divestiture in the second half of fiscal 2016. We incurred significant costs associated with effecting the Spinoff. These costs are included in results of discontinued operations. We recognized a pre-tax charge of $1.92 billion ($1.44 billion after-tax) in fiscal 2016 to write down the goodwill and long-lived assets of the Private Brands business to the final sales price, less costs to sell, and to recognize the final loss.

Earnings (Loss) Per Share
Diluted earnings per share in fiscal 2017 were $1.46, including earnings of $1.25 per diluted share from continuing operations and $0.21 per diluted share from discontinued operations. Diluted loss per share in fiscal 2016 was $1.56, including earnings of $0.29 per diluted share from continuing operations and a loss of $1.85 per diluted share from discontinued operations. See "Items Impacting Comparability" above as several significant items affected the comparability of year-over-year results of operations.

LIQUIDITY AND CAPITAL RESOURCES
Sources of Liquidity and Capital
The primary objective of our financing strategy is to maintain a prudent capital structure that provides us flexibility to pursue our growth objectives. If necessary, we use short-term debt principally to finance ongoing operations, including our seasonal requirements for working capital (accounts receivable, prepaid expenses and other current assets, and inventories, less accounts payable, accrued payroll, and other accrued liabilities), and a combination of equity and long-term debt to finance both our base working capital needs and our non-current assets. We are committed to maintaining an investment grade credit rating.
At May 27, 2018, we had a revolving credit facility (the "Facility") with a syndicate of financial institutions that provides for a maximum aggregate principal amount outstanding at any one time of $1.25 billion (subject to increase to a maximum aggregate principal amount of $1.75 billion with the consent of the lenders). We have historically used a credit facility principally as a back-up for our commercial paper program. As of May 27, 2018, there were no outstanding borrowings under the Facility. On July 11, 2018, subsequent to our fiscal year end, we entered into an amended and restated revolving credit agreement with a syndicate of financial institutions providing for a revolving credit facility in a maximum aggregate principal amount outstanding at any one time of $1.6 billion (subject to increase to a maximum aggregate principal amount of $2.1 billion). It replaces the existing Facility and generally requires our ratio of EBITDA (earnings before interest, taxes, depreciation and amortization) to interest expense to be not less than 3.0 to 1.0 and our ratio of funded debt to EBITDA to not exceed certain specified levels, with each ratio to be calculated on a rolling four-quarter basis.
During the fourth quarter of fiscal 2018, we repaid the remaining principal balance of $70.0 million of our 2.1% senior notes on the maturity date of March 15, 2018.
During the third quarter of fiscal 2018, we entered into a term loan agreement (the "Term Loan Agreement") with a financial institution. The Term Loan Agreement provides for term loans to the Company in an aggregate principal amount not in excess of $300.0 million. During the fourth quarter of fiscal 2018, we borrowed the full amount of the $300.0 million provided for under the Term Loan Agreement. The proceeds from this borrowing were used to make a voluntary pension plan contribution in the amount of $300.0 million. The Term Loan Agreement matures on February 26, 2019. The term loan bears interest at a rate equal to three-month LIBOR plus 0.75% per annum and is fully prepayable without penalty.
During the third quarter of fiscal 2018, we repaid the remaining principal balance of $119.6 million of our 1.9% senior notes on the maturity date of January 25, 2018.
During the third quarter of fiscal 2018, we repaid the remaining capital lease liability balance of $28.5 million in connection with the early exit of an unfavorable lease contract.
During the second quarter of fiscal 2018, we issued $500.0 million aggregate principal amount of floating rate notes due October 9, 2020. The notes bear interest at a rate equal to three-month LIBOR plus 0.50% per annum.
As of May 27, 2018, we had $277.0 million outstanding under our commercial paper program. The highest level of borrowings during fiscal 2018 was $469.7 million. As of May 28, 2017, we had $26.2 million outstanding under our commercial paper program.
As of the end of fiscal 2018, our senior long-term debt ratings were all investment grade. A significant downgrade in our credit ratings would not affect our ability to borrow amounts under the Facility, although borrowing costs would increase. A downgrade of our short-term credit ratings would impact our ability to borrow under our commercial paper program by negatively impacting borrowing costs and causing shorter durations, as well as making access to commercial paper more difficult.

The Company has secured $9.0 billion in fully committed bridge financing from affiliates of Goldman Sachs Group, Inc. in connection with the Merger. The commitments under the committed bridge financing were subsequently reduced by the amounts of a term loan agreement we entered into on July 11, 2018 with a syndicate of financial institutions providing for term loans to us in an aggregate principal amount of up to $1.3 billion. The funding under the term loan agreement is anticipated to occur simultaneously with the closing date of the acquisition. In connection with the merger, we expect to incur up to $8.3 billion of long-term debt (which includes any funding under the new term loan agreement), including for the payment of the cash portion of the merger consideration, the repayment of Pinnacle debt, the refinancing of certain Conagra debt, and the payment of related fees and expenses. The permanent financing is also expected to include approximately $600 million of incremental cash proceeds from the issuance of equity and/or divestitures.

We repurchase shares of our common stock from time to time after considering market conditions and in accordance with repurchase limits authorized by our Board of Directors. The share repurchase authorization has no expiration date. Under the share repurchase authorization, we may repurchase our shares periodically over several years, depending on market conditions and other factors, and may do so in open market purchases or privately negotiated transactions. During fiscal 2018, we repurchased 27.4 million shares of our common stock under this authorization for an aggregate of $967.3 million. In May 2018, our Board of Directors approved an additional $1.0 billion of share repurchases. The Company's total remaining share repurchase authorization as of May 27, 2018, was $1.41 billion. In the fourth quarter of fiscal 2018, we suspended share repurchase activity in light of the pending acquisition of Pinnacle. The Company plans to repurchase shares under its authorized program only at times and in amounts as is consistent with the prioritization of achieving its leverage targets.

On April 20, 2018, the Board of Directors authorized a quarterly dividend payment of $0.2125 per share, which was paid on May 31, 2018 to stockholders of record as of the close of business on April 30, 2018. Subject to market and other conditions and the approval of our Board of Directors, we intend to maintain our quarterly dividend at the current annual rate of $0.85 per share during fiscal 2019. In the future, we expect modest dividend increases while we focus on deleveraging, subject to the approval of our Board of Directors.

During the third quarter of fiscal 2018, we entered into an agreement to sell our Del Monte® processed fruit and vegetable business in Canada to Bonduelle Group. The transaction was completed in the first quarter of fiscal 2019, and was valued at approximately $43.0 million Canadian dollars, which was approximately $34.0 million U.S. dollars at the exchange rate on the date of announcement.

During the fourth quarter of fiscal 2017, we signed an agreement to sell our Wesson® oil business to Smucker for $285 million. During the fourth quarter of fiscal 2018, Conagra Brands and Smucker terminated the agreement. This outcome followed the decision of the Federal Trade Commission, announced on March 5, 2018, to challenge the pending transaction. The Company is still actively marketing the Wesson® oil business and expects to sell it within the next twelve months.

We have access to the $1.25 billion Facility, our commercial paper program, and the capital markets. We believe we also have access to additional bank loan facilities, if needed.

We expect to maintain or have access to sufficient liquidity to finance the cash portion of the merger consideration as well as to either retire or refinance senior debt upon maturity, as market conditions warrant, from operating cash flows, our commercial paper program, proceeds from any divestitures and other disposition transactions, access to capital markets, and our $1.25 billion Facility.

Cash Flows

In fiscal 2018, we used $123.4 million of cash, which was the net result of $954.2 million generated from operating activities, $576.2 million used in investing activities, $506.9 million used in financing activities, and an increase of $5.5 million due to the effects of changes in foreign currency exchange rates.

Cash generated from operating activities of continuing operations totaled $919.7 million in fiscal 2018, as compared to $1.14 billion generated in fiscal 2017. The decrease in operating cash flows was primarily the net result of increased pension plan payments and changes in working capital, offset by reduced income tax and interest payments. Pension plan payments mainly consisted of voluntary contributions totaling $300.0 million and $150.0 million for fiscal 2018 and 2017, respectively. Year-over-year increases in receivables, higher inventory build, and payments made to terminate an unfavorable operating lease negatively impacted operating cash flows for fiscal 2018 compared to fiscal 2017. Income tax payment reductions were driven by the impact of corporate tax rate reductions resulting from the Tax Act signed into law during the third quarter of

fiscal 2018. Significant debt repayments during fiscal 2017 contributed to decreased interest payments in fiscal 2018. Payments related to incentive compensation and our restructuring plans were also reduced for fiscal 2018 compared to fiscal 2017.
Cash generated from operating activities of discontinued operations was $34.5 million and $34.7 million in fiscal 2018 and fiscal 2017, respectively. This primarily reflects the activities of the Lamb Weston business that was spun off on November 9, 2016 and, to a lesser extent, other divested businesses. Operating cash flows of discontinued operations in fiscal 2017 were also impacted by expenses related to the Spinoff.
Cash used in investing activities of continuing operations totaled $576.2 million in fiscal 2018 compared to $65.6 million in fiscal 2017. Investing activities of continuing operations of fiscal 2018 consisted primarily of capital expenditures of $251.6 million and the purchases of the Sandwich Bros. of Wisconsin® business and Angie's Artisan Treats, LLC for a total of $337.1 million, net of cash acquired. Investing activities of continuing operations in fiscal 2017 included the proceeds from the divestitures of the Spicetec and JM Swank businesses totaling $489.0 million in the aggregate, partially offset by capital expenditures of $242.1 million, and acquisitions totaling $325.7 million, including the operating assets of Frontera Foods, Inc. and Red Fork LLC, and the protein-based snacking businesses Thanasi Foods LLC and BIGS LLC.
Cash used in investing activities of discontinued operations in fiscal 2017 resulted primarily from capital expenditures.
Cash used for financing activities of continuing operations totaled $506.9 million in fiscal 2018 compared to $2.41 billion in fiscal 2017. Financing activities of continuing operations for fiscal 2018 consisted primarily of common stock repurchases of $967.3 million, net proceeds from the issuance of long-term debt of $797.0 million, cash dividend payments of $342.3 million, long-term debt repayments totaling $242.3 million, and net short-term borrowings of $249.1 million. Cash used in financing activities of continuing operations in fiscal 2017 reflected debt repayments of $1.06 billion, common stock repurchases totaling $1.0 billion, and dividends paid of $415.0 million, partially offset by employee stock option exercises and the issuance of other stock awards of $73.8 million.
Cash provided by financing activities of discontinued operations principally comprises borrowings by Lamb Weston which were transferred in connection with the Spinoff.
The Company had cash and cash equivalents of $128.0 million at May 27, 2018, and $251.4 million at May 28, 2017, of which $121.6 million at May 27, 2018, and $244.9 million at May 28, 2017, was held in foreign countries. During the second quarter of fiscal 2018, the Company repatriated $151.3 million of cash balances previously deemed to be permanently reinvested outside the U.S. Refer to Note 15 "Pre-tax Income and Income Taxes" to the consolidated financial statements contained in this report for more information related to this repatriation of cash and related adjustments to deferred tax liability, as well as the impacts of the Tax Act on remaining unremitted earnings of our foreign subsidiaries.
Our preliminary estimate of capital expenditures for fiscal 2019 is approximately $350 million, excluding any incremental amounts resulting from the pending acquisition of Pinnacle.
Management believes that the Company's sources of liquidity will be adequate finance the cash portion of the merger consideration, to satisfy working capital needs, repurchase shares of our common stock from time to time, make payments of anticipated quarterly dividends, complete planned capital expenditures, and make any required debt repayments, including by retiring or refinancing senior debt upon maturity (as market conditions warrant), for the foreseeable future.

OFF-BALANCE SHEET ARRANGEMENTS
We use off-balance sheet arrangements (e.g., leases accounted for as operating leases) where sound business principles warrant their use. We also periodically enter into guarantees and other similar arrangements as part of transactions in the ordinary course of business. These are described further in "Obligations and Commitments," below.
Variable Interest Entities Not Consolidated
We lease or leased certain office buildings from entities that we have determined to be variable interest entities. The lease agreements with these entities include fixed-price purchase options for the assets being leased. The lease agreements also contain contingent put options (the "lease put options") that allow or allowed the lessors to require us

to purchase the buildings at the greater of original construction cost, or fair market value, without a lease agreement in place (the "put price") in certain limited circumstances. As a result of substantial impairment charges related to our divested Private Brands operations, these

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lease put options became exercisable. During fiscal 2016, we entered into a series of related transactions in which we exchanged a warehouse we owned in Indiana for two buildings and parcels of land that we leased as part of our Omaha corporate offices. Concurrent with the asset exchange, the leases on the two Omaha corporate buildings, which were subject to contingent put options, were canceled. We recognized aggregate charges of $55.6 million for the early termination of these leases. We also entered into a lease for the warehouse in Indiana and we recorded a financing lease obligation of $74.2 million. During fiscal 2017, one of these lease agreements expired. As a result of this expiration, we reversed the applicable accrual and recognized a benefit of $6.7 million in SG&A expenses. During the third quarter of fiscal 2018, we purchased two buildings that were subject to lease put options and recognized net losses totaling $48.2 million for the early exit of unfavorable lease contracts.

As of May 27, 2018, there was one remaining leased building subject to a lease put option for which the put option price exceeded the estimated fair value of the property by $8.2 million, of which we had accrued $1.2 million. We are amortizing the difference between the put price and the estimated fair value (without a lease agreement in place) of the property over the remaining lease term within SG&A expenses. This lease is accounted for as an operating lease, and accordingly, there are no material assets and liabilities, other than the accrued portion of the put price, associated with this entity included in the Consolidated Balance Sheets. We have determined that we do not have the power to direct the activities that most significantly impact the economic performance of this entity. In making this determination, we have considered, among other items, the terms of the lease agreement, the expected remaining useful life of the asset leased, and the capital structure of the lessor entity.

OBLIGATIONS AND COMMITMENTS

As part of our ongoing operations, we enter into arrangements that obligate us to make future payments under contracts such as lease agreements, debt agreements, and unconditional purchase obligations (i.e., obligations to transfer funds in the future for fixed or minimum quantities of goods or services at fixed or minimum prices, such as "take-or-pay" contracts). The unconditional purchase obligation arrangements are entered into in our normal course of business in order to ensure adequate levels of sourced product are available. Of these items, debt, notes payable, and capital lease obligations, which totaled $3.80 billion as of May 27, 2018, were recognized as liabilities in our Consolidated Balance Sheets. Operating lease obligations and unconditional purchase obligations, which totaled $1.26 billion as of May 27, 2018, were not recognized as liabilities in our Consolidated Balance Sheets, in accordance with U.S. generally accepted accounting principles ("U.S. GAAP").

A summary of our contractual obligations as of May 27, 2018, was as follows:

	Payments Due by Period (in millions)				
Contractual Obligations	Total	Less than 1 Year	1-3 Years	3-5 Years	After 5 Years
Long-term debt	$3,431.7	$300.0	$822.6	$1,087.0	$1,222.1
Capital lease obligations	94.7	7.1	13.5	13.5	60.6
Operating lease obligations	199.1	35.6	47.5	33.7	82.3
Purchase obligations[1] and other contracts	1,127.0	966.7	121.3	37.6	1.4
Notes payable	277.3	277.3	—	—	—
Total	$5,129.8	$1,586.7	$1,004.9	$1,171.8	$1,366.4

[1] Amount includes open purchase orders and agreements, some of which are not legally binding and/or may be cancellable. Such agreements are generally settleable in the ordinary course of business in less than one year.

We are also contractually obligated to pay interest on our long-term debt and capital lease obligations. The weighted-average coupon interest rate of the long-term debt obligations outstanding as of May 27, 2018, was approximately 4.9%.

The operating lease obligations noted in the table above have not been reduced by non-cancellable sublease rentals of $0.5 million.

As of May 27, 2018, we had aggregate unfunded pension obligations totaling $68.5 million. This amount is not included in the table above. In the fourth quarter of fiscal 2018, we made a voluntary pension plan contribution in the amount of $300.0 million. We do not expect to be required to make additional payments to fund these amounts in the foreseeable future. Based on current statutory requirements, we are not obligated to fund any amount to our qualified pension plans during the next twelve months. We estimate that we will make payments of approximately $19.6 million over the next twelve months to fund our pension plans. See Note 19 "Pension and Postretirement Benefits" to the consolidated financial statements and "Critical Accounting Estimates - Employment Related Benefits" contained in this report for further discussion of our pension obligations and factors that could affect estimates of this liability.

As part of our ongoing operations, we also enter into arrangements that obligate us to make future cash payments only upon the occurrence of a future event (e.g., guarantees of debt or lease payments of a third party should the third party be unable to perform). In accordance with U.S. GAAP, the following commercial commitments are not recognized as liabilities in our Consolidated Balance Sheets. A summary of our commitments, including commitments associated with equity method investments, as of May 27, 2018, was as follows:

	Amount of Commitment Expiration Per Period (in millions)				
Other Commercial Commitments	Total	Less than 1 Year	1-3 Years	3-5 Years	After 5 Years
Standby repurchase obligations	$0.9	$ 0.6	$ 0.3	$ —	$ —
Other commitments	6.1	4.1	2.0	—	—
Total	$7.0	$ 4.7	$ 2.3	$ —	$ —

In addition to the commitments included in the table above, as of May 27, 2018, we had $32.4 million of standby letters of credit issued on our behalf. These standby letters of credit are primarily related to our self-insured workers compensation programs and are not reflected in our Consolidated Balance Sheets.

In certain limited situations, we will guarantee an obligation of an unconsolidated entity. We guarantee certain leases resulting from the divestiture of the JM Swank business completed in the first quarter of fiscal 2017. As of May 27, 2018, the remaining terms of these arrangements do not exceed five years and the maximum amount of future payments we have guaranteed was $2.6 million. In addition, we guarantee a certain lease resulting from an exited facility. As of May 27, 2018, the remaining term of this arrangement does not exceed nine years and the maximum amount of future payments we have guaranteed was $21.7 million.

In certain limited situations, we also guarantee obligations of the Lamb Weston business pursuant to guarantee arrangements that existed prior to the Spinoff and remained in place following completion of the Spinoff until such guarantee obligations are substituted for guarantees issued by Lamb Weston. Such guarantee arrangements are described below. Pursuant to the separation and distribution agreement, dated as of November 8, 2016 (the "Separation Agreement"), between us and Lamb Weston, these guarantee arrangements are deemed liabilities of Lamb Weston that were transferred to Lamb Weston as part of the Spinoff. Accordingly, in the event that we are required to make any payments as a result of these guarantee arrangements, Lamb Weston is obligated to indemnify us for any such liability, reduced by any insurance proceeds received by us, in accordance with the terms of the indemnification provisions under the Separation Agreement.

Lamb Weston is a party to a warehouse services agreement with a third-party warehouse provider through July 2035. Under this agreement, Lamb Weston is required to make payments for warehouse services based on the quantity of goods stored and other service factors. We have guaranteed the warehouse provider that we will make the payments required under the agreement in the event that Lamb Weston fails to perform. Minimum payments of $1.5 million per month are required under this agreement. It is not possible to determine the maximum amount of the payment obligations under this agreement. Upon completion of the Spinoff, we recognized a liability for the estimated fair value of this guarantee. As of May 27, 2018, the amount of this guarantee, recorded in other noncurrent liabilities, was $28.1 million.

Lamb Weston is a party to an agricultural sublease agreement with a third party for certain farmland through 2020 (subject, at Lamb Weston's option, to extension for two additional five-year periods). Under the terms of the sublease agreement, Lamb Weston is required to make certain rental payments to the sublessor. We have guaranteed Lamb Weston's performance and the payment of all amounts (including indemnification obligations) owed by Lamb Weston under the sublease agreement, up to a maximum of $75.0 million. We believe the farmland associated with this sublease agreement is readily marketable for lease to other area farming operators. As such, we believe that any financial exposure to the company, in the event that we were required to perform under the guaranty, would be largely mitigated.

The obligations and commitments tables above do not include any reserves for uncertainties in income taxes, as we are unable to reasonably estimate the ultimate amount or timing of settlement of our reserves for income taxes. The liability for gross unrecognized tax benefits at May 27, 2018, was $32.5 million. The net amount of unrecognized tax benefits at May 27, 2018, that, if recognized, would favorably impact our effective tax rate was $27.8 million. Recognition of these tax benefits would have a favorable impact on our effective tax rate.

CRITICAL ACCOUNTING ESTIMATES

The process of preparing financial statements requires the use of estimates on the part of management. The estimates used by management are based on our historical experiences combined with management's understanding of current facts and circumstances. Certain of our accounting estimates are considered critical as they are both important to the portrayal of our financial condition and results and require significant or complex judgment on the part of management. The following is a summary of certain accounting estimates considered critical by management.

Our Audit/Finance Committee has reviewed management's development, selection, and disclosure of the critical accounting estimates.

Marketing Costs—We incur certain costs to promote our products through marketing programs, which include advertising, customer incentives, and consumer incentives. We recognize the cost of each of these types of marketing activities as incurred in accordance with U.S. GAAP. The judgment required in determining marketing costs can be significant. For volume-based incentives provided to customers, management must continually assess the likelihood of the customer achieving the specified targets. Similarly, for consumer coupons, management must estimate the level at which coupons will be redeemed by consumers in the future. Estimates made by management in accounting for marketing costs are based primarily on our historical experience with marketing programs with consideration given to current circumstances and industry trends. As these factors change, management's estimates could change and we could recognize different amounts of marketing costs over different periods of time.

We have recognized reserves of $100.5 million for these marketing costs as of May 27, 2018. Changes in the assumptions used in estimating the cost of any individual customer marketing program (including amounts classified as a revenue reduction) would not result in a material change in our results of operations or cash flows.

Advertising and promotion expenses totaled $278.6 million, $328.3 million, and $347.2 million in fiscal 2018, 2017, and 2016, respectively.

Income Taxes—Our income tax expense is based on our income, statutory tax rates, and tax planning opportunities available in the various jurisdictions in which we operate. Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in determining our income tax expense and in evaluating our tax positions, including evaluating uncertainties. Management reviews tax positions at least quarterly and adjusts the balances as new information becomes available. Deferred income tax assets represent amounts available to reduce income taxes payable on taxable income in future years. Such assets arise because of temporary differences between the tax bases of assets and liabilities and their carrying amounts in our consolidated balance sheets, as well as from net operating loss and tax credit carryforwards. Management evaluates the recoverability of these future tax deductions by assessing the adequacy of future expected taxable income from all sources, including reversal of taxable temporary differences, forecasted operating earnings, and available tax planning strategies. These estimates of future taxable income inherently require significant judgment. Management uses historical experience and short and long-range business forecasts to develop such estimates. Further, we employ various prudent and feasible tax planning strategies to facilitate the recoverability of future deductions. To the extent management does not consider it more likely than not that a deferred tax asset will be recovered, a valuation allowance is established.

Further information on income taxes is provided in Note 15 "Pre-tax Income and Income Taxes" to the consolidated financial statements.

Environmental Liabilities—Environmental liabilities are accrued when it is probable that obligations have been incurred and the associated amounts can be reasonably estimated. Management works with independent third-party specialists in order to effectively assess our environmental liabilities. Management estimates our environmental liabilities based on evaluation of investigatory studies, extent of required clean-up, our known volumetric contribution, other potentially responsible parties, and our experience in remediating sites. Environmental liability estimates may be affected by changing governmental or other external determinations of what constitutes an environmental liability or an acceptable level of clean-up. Management's estimate as to our potential liability is independent of any potential recovery of insurance proceeds or indemnification arrangements. Insurance companies and other indemnitors are notified of any potential claims and periodically updated as to the general status of known claims. We do not discount our environmental liabilities as the timing of the anticipated cash payments is not fixed or readily determinable. To the extent that there are changes in the evaluation factors identified above, management's estimate of environmental liabilities may also change.

We have recognized a reserve of approximately $57.8 million for environmental liabilities as of May 27, 2018. The reserve for each site is determined based on an assessment of the most likely required remedy and a related estimate of the costs required to effect such remedy.

Employment-Related Benefits—We incur certain employment-related expenses associated with pensions, postretirement health care benefits, and workers' compensation. In order to measure the annual expense associated with these employment-related benefits, management must make a variety of estimates including, but not limited to, discount rates used to measure the present value of certain liabilities, assumed rates of return on assets set aside to fund these expenses, compensation increases, employee turnover rates, anticipated mortality rates, anticipated health care costs, and employee accidents incurred but not yet reported to us. The estimates used by management are based on our historical experience as well as current facts and circumstances. We use third-party specialists to assist management in appropriately measuring the expense associated with these employment-related benefits. Different estimates used by management could result in us recognizing different amounts of expense over different periods of time.

Beginning in fiscal 2017, the Company has elected to use a split discount rate (the "spot-rate approach") for the U.S. plans and certain foreign plans. Historically, a single weighted-average discount rate was used in the calculation of service and interest costs, both of which are components of pension benefit costs. The spot-rate approach applies separate discount rates for each projected benefit payment in the calculation of pension service and interest cost. This change is considered a change in accounting estimate and has been applied prospectively. The pre-tax reduction in total pension benefit cost associated with this change in fiscal 2017 was approximately $27.0 million.

We have recognized a pension liability of $171.5 million and $582.2 million, a postretirement liability of $118.2 million and $156.9 million, and a workers' compensation liability of $39.4 million and $41.5 million, as of the end of fiscal 2018 and 2017, respectively. We also have recognized a pension asset of $103.0 million and $17.1 million as of the end of fiscal 2018 and 2017, respectively, as certain individual plans of the Company had a positive funded status. We recognize cumulative changes in the fair value of pension plan assets and net actuarial gains or losses in excess of 10% of the greater of the fair value of plan assets or the plan's projected benefit obligation ("the corridor") in current period expense annually as of our measurement date, which is our fiscal year-end, or when measurement is required otherwise under U.S. GAAP.

We recognized pension expense (benefit), including activities of discontinued operations, from Company plans of $(56.1) million, $(12.9) million, and $370.8 million in fiscal 2018, 2017, and 2016, respectively. Such amounts reflect the year-end write-off of actuarial losses in excess of 10% of our pension liability of $3.4 million, $1.2 million, and $348.5 million in fiscal 2018, 2017, and 2016, respectively. This also reflected expected returns on plan assets of $218.3 million, $207.4 million, and $259.9 million in fiscal 2018, 2017, and 2016, respectively. We contributed $312.6 million, $163.0 million, and $11.5 million to the pension plans of our continuing operations in fiscal 2018, 2017, and 2016, respectively. We anticipate contributing approximately $19.6 million to our pension plans in fiscal 2019.

One significant assumption for pension plan accounting is the discount rate. Historically, we have selected a discount rate each year (as of our fiscal year-end measurement date) for our plans based upon a high-quality corporate bond yield curve for which the cash flows from coupons and maturities match the year-by-year projected benefit cash flows for our pension plans. The corporate bond yield curve is comprised of high-quality fixed income debt instruments (usually Moody's Aa) available at the measurement date. At May 29, 2016, the Company changed to use a spot-rate approach, discussed above. This alternative approach focuses on measuring the service cost and interest cost components of net periodic benefit cost by using individual spot rates derived from a high-quality corporate bond yield curve and matched with separate cash flows for each future year instead of a single weighted-average discount rate approach.

Based on this information, the discount rate selected by us for determination of pension expense was 3.90% for fiscal 2018, 3.83% for fiscal 2017, and 4.10% for fiscal 2016. We selected a weighted-average discount rate of 4.21% and 3.83% for determination of service and interest expense, respectively, for fiscal 2019. A 25 basis point increase in our discount rate assumption as of the end of fiscal 2018 would have resulted in an increase of $3.9 million in our pension expense for fiscal 2018. A 25 basis point decrease in our discount rate assumption as of the end of fiscal 2018 would have resulted in an decrease of $3.0 million in our pension expense for fiscal 2018. For our year-end pension obligation determination, we selected discount rates of 4.14% and 3.90% for fiscal years 2018 and 2017, respectively.

Another significant assumption used to account for our pension plans is the expected long-term rate of return on plan assets. In developing the assumed long-term rate of return on plan assets for determining pension expense, we consider long-term historical returns (arithmetic average) of the plan's investments, the asset allocation among types of investments, estimated long-term returns by investment type from external sources, and the current economic environment. Based on this information, we selected 7.50% for the long-term rate of return on plan assets for determining our fiscal 2018 pension expense. A 25 basis point increase/decrease in our expected long-term rate of return assumption as of the beginning of fiscal 2018 would decrease/increase annual pension expense for our pension plans by $7.3 million.

During fiscal 2018, we approved an amendment of our salaried and non-qualified pension plans. The amendment froze the compensation and service periods used to calculate pension benefits for active employees who participate in those plans. As a result of this amendment, we have changed our salaried and non-qualified pension asset investment strategy to align our related pension plan assets with our projected benefit obligation to reduce volatility. We selected a weighted-average expected rate of return on plan assets of 5.17% to be used to determine our pension expense for fiscal 2019. A 25 basis point increase/decrease in our expected long-term rate of return assumption as of the beginning of fiscal 2019 would decrease/increase annual pension expense for our pension plans by $8.2 million.

The rate of compensation increase is another significant assumption used in the development of accounting information for pension plans. Due to the amendment discussed above, this assumption is no longer applicable for any of our pension plans in fiscal 2019 and thereafter. We selected 3.63% for the rate of compensation increase for determination of pension expense for fiscal year 2018, 3.66% for fiscal 2017, and 3.70% for fiscal 2016. A 25 basis point increase in our rate of compensation increase assumption as of the beginning of fiscal 2018 would increase pension expense for our pension plans by $0.5 million for the year. A 25 basis point decrease in our rate of compensation increase assumption as of the beginning of fiscal 2018 would decrease pension expense for our pension plans by $0.5 million for the year.

In October 2016, The Society of Actuaries' Retirement Plan Experience Committee published updated mortality improvement scales and recommended their use with base mortality tables for the measurement of U.S. pension plan obligations. With the assistance of our third-party actuary, in measuring our pension obligations as of May 28, 2017, we incorporated a revised improvement scale to be used with our current base mortality tables that generally reflect the mortality improvement inherent in these new tables.

During 2018, we conducted a mortality experience study and, with the assistance of our third-party actuary, adopted new company-specific mortality tables used in measuring our pension obligations as of May 27, 2018. In addition, we incorporated a revised mortality improvement scale to be used with the new company-specific mortality tables that reflects the mortality improvement inherent in these tables.

We also provide certain postretirement health care benefits. We recognized postretirement benefit expense (benefit) of $0.7 million, $(1.2) million, and $0.2 million in fiscal 2018, 2017, and 2016, respectively. We reflected liabilities of $118.2 million and $156.9 million in our balance sheets as of May 27, 2018 and May 28, 2017, respectively. We anticipate contributing approximately $16.2 million to our postretirement health care plans in fiscal 2019.

The postretirement benefit expense and obligation are also dependent on our assumptions used for the actuarially determined amounts. These assumptions include discount rates (discussed above), health care cost trend rates, inflation rates, retirement rates, mortality rates (also discussed above), and other factors. The health care cost trend assumptions are developed based on historical cost data, the near-term outlook, and an assessment of likely long-term trends. Assumed inflation rates are based on an evaluation of external market indicators. Retirement and mortality rates are based primarily on actual plan experience. The discount rate we selected for determination of postretirement expense was 3.33% for fiscal 2018, 3.18% for fiscal 2017, and 3.50% for fiscal 2016. We have selected a weighted-average discount rate of 3.81% for determination of postretirement expense for fiscal 2019. A 25 basis point increase/decrease in our discount rate assumption as of the beginning of fiscal 2018 would not have resulted in a material change to postretirement expense for our plans. We have assumed the initial year increase in cost of health care to be 7.87%, with the trend rate decreasing to 4.5% by 2024. A one percentage point change in the assumed health care cost trend rate would have the following effects:

($ in millions)	One Percent

	One Percent Increase	Decrease
Effect on total service and interest cost	$ 0.3	$ (0.3)
Effect on postretirement benefit obligation	3.9	(3.5)

We provide workers' compensation benefits to our employees. The measurement of the liability for our cost of providing these benefits is largely based upon actuarial analysis of costs. One significant assumption we make is the discount rate used to calculate the present value of our obligation. The weighted-average discount rate used at May 27, 2018 was 2.88%. A 25 basis point increase/decrease in the discount rate assumption would not have a material impact on workers' compensation expense or the liability.

Business Combinations, Impairment of Long-Lived Assets (including property, plant and equipment), Identifiable Intangible Assets, and Goodwill—We use the acquisition method in accounting for acquired businesses. Under the acquisition method, our financial statements reflect the operations of an acquired business starting from the closing of the acquisition. The assets acquired and liabilities assumed are recorded at their respective estimated fair values at the date of the acquisition. Any excess of the purchase price over the estimated fair values of the identifiable net assets acquired is recorded as goodwill. Significant judgment is often required in estimating the fair value of assets acquired, particularly intangible assets. As a result, in the case of significant acquisitions we normally obtain the assistance of a third-party valuation specialist in estimating fair values of tangible and intangible assets. The fair value estimates are based on available historical information and on expectations and assumptions about the future, considering the perspective of marketplace participants. While management believes those expectations and assumptions are reasonable, they are inherently uncertain. Unanticipated market or macroeconomic events and circumstances may occur, which could affect the accuracy or validity of the estimates and assumptions.

We reduce the carrying amounts of long-lived assets (including property, plant and equipment) to their fair values when their carrying amount is determined to not be recoverable. We generally compare undiscounted estimated future cash flows of an asset or asset group to the carrying values of the asset or asset group. If the undiscounted estimated future cash flows exceed the carrying values of the asset or asset group, no impairment is recognized. If the undiscounted estimated future cash flows are less than the carrying values of the asset or asset group, we write-down the asset or assets to their estimated fair values. The estimates of fair value are generally in the form of appraisal, or by discounting estimated future cash flows of the asset or asset group.

Determining the useful lives of intangible assets also requires management judgment. Certain brand intangibles are expected to have indefinite lives based on their history and our plans to continue to support and build the acquired brands, while other acquired intangible assets (e.g., customer relationships) are expected to have determinable useful lives. Our estimates of the useful lives of definite-lived intangible assets are primarily based upon historical experience, the competitive and macroeconomic environment, and our operating plans. The costs of definite-lived intangibles are amortized to expense over their estimated life.

We reduce the carrying amounts of indefinite-lived intangible assets, and goodwill to their fair values when the fair value of such assets is determined to be less than their carrying amounts (i.e., assets are deemed to be impaired). Fair value is typically estimated using a discounted cash flow analysis, which requires us to estimate the future cash flows anticipated to be generated by the particular asset being tested for impairment as well as to select a discount rate to measure the present value of the anticipated cash flows. When determining future cash flow estimates, we consider historical results adjusted to reflect current and anticipated operating conditions. Estimating future cash flows requires significant judgment by management in such areas as future economic conditions, industry-specific conditions, product pricing, and necessary capital expenditures. The use of different assumptions or estimates for future cash flows could produce different impairment amounts (or none at all) for long-lived assets and identifiable intangible assets.

In assessing other intangible assets not subject to amortization for impairment, we have the option to perform a qualitative assessment to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of such an intangible asset is less than its carrying amount. If we determine that it is not more likely than not that the fair value of such an intangible asset is less than its carrying amount, then we are not required to perform any additional tests for assessing intangible assets for impairment. However, if we conclude otherwise or elect not to perform the qualitative assessment, then we are required to perform a quantitative impairment test that involves a comparison of the estimated fair value of the intangible asset with its carrying value. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

If we perform a quantitative impairment test in evaluating impairment of our indefinite lived brands/trademarks, we utilize a "relief from royalty" methodology. The methodology determines the fair value of each brand through use of a discounted cash flow model that incorporates an estimated "royalty rate" we would be able to charge a third party for the use of the particular brand. When determining the future cash flow estimates, we must estimate future net sales and a fair market royalty rate for each applicable brand and an appropriate discount rate to measure the present value of the anticipated cash flows.

Estimating future net sales requires significant judgment by management in such areas as future economic conditions, product pricing, and consumer trends. In determining an appropriate discount rate to apply to the estimated future cash flows, we consider the current interest rate environment and our estimated cost of capital.

Goodwill is tested annually for impairment of value and whenever events or changes in circumstances indicate the carrying amount of the asset may be impaired. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include deterioration in general economic conditions, adverse changes in the markets in which an entity operates, increases in input costs that have negative effects on earnings and cash flows, or a trend of negative or declining cash flows over multiple periods, among others. The fair value that could be realized in an actual transaction may differ from that used to evaluate the impairment of goodwill.

In testing goodwill for impairment, we have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not (more than 50%) that the estimated fair value of a reporting unit is less than its carrying amount. If we elect to perform a qualitative assessment and determine that an impairment is more likely than not, we are then required to perform a quantitative impairment test, otherwise no further analysis is required. We also may elect not to perform the qualitative assessment and, instead, proceed directly to the quantitative impairment test.

Under the qualitative assessment, various events and circumstances that would affect the estimated fair value of a reporting unit are identified (similar to impairment indicators above). Furthermore, management considers the results of the most recent two-step quantitative impairment test completed for a reporting unit and compares the weighted average cost of capital between the current and prior years for each reporting unit.

Under the quantitative impairment test, the evaluation involves comparing the current fair value of each reporting unit to its carrying value, including goodwill. Fair value is typically estimated using a discounted cash flow analysis, which requires us to estimate the future cash flows anticipated to be generated by the reporting unit being tested for impairment as well as to select a risk-adjusted discount rate to measure the present value of the anticipated cash flows. When determining future cash flow estimates, we consider historical results adjusted to reflect current and anticipated operating conditions. We estimate cash flows for the reporting unit over a discrete period (typically four or five years) and the terminal period (considering expected long term growth rates and trends). Estimating future cash flows requires significant judgment by management in such areas as future economic conditions, industry-specific conditions, product pricing, and necessary capital expenditures. The use of different assumptions or estimates for future cash flows or significant changes in risk-adjusted discount rates due to changes in market conditions could produce substantially different estimates of the fair value of the reporting unit.

Prior to the fourth quarter of fiscal 2017, if the carrying value of a reporting unit exceeded its fair value, we completed a second step of the test to determine the amount of goodwill impairment loss, if any, to be recognized. In the second step, we estimated an implied fair value of the reporting unit's goodwill by allocating the fair value of the reporting unit to all of the assets and liabilities other than goodwill (including any unrecognized intangible assets). The impairment loss was equal to the excess of the carrying value of the goodwill over the implied fair value of that goodwill. As a result of adopting Accounting Standards Update ("ASU") 2017-04, Simplifying the Test for Goodwill Impairment, beginning in the fourth quarter of fiscal 2017, if the carrying value of a reporting unit exceeds its fair value, we recognize an impairment loss equal to the difference between the carrying value and estimated fair value of the reporting unit.

In the first quarter of fiscal 2017, in anticipation of the Spinoff, we changed our reporting segments. In accordance with applicable accounting guidance, we were required to determine new reporting units at a lower level (at the operating segment or one level lower, as applicable). When such a determination was made, we were required to perform a goodwill impairment analysis for each of the old and new reporting units.

We performed an assessment of impairment of goodwill for the new Canadian reporting unit within the new International reporting segment. Estimating the fair value of individual reporting units requires us to make assumptions and estimates regarding our future plans and future industry and economic conditions. We estimated the future cash flows of the Canadian reporting unit and calculated the net present value of those estimated cash flows using a risk adjusted discount rate in order to estimate the fair value of each reporting unit from the perspective of a market participant. We used discount rates and terminal growth rates of 7.5% and 2%, respectively, to calculate the present value of estimated future cash flows. We then compared the estimated fair value of the reporting unit to the historical carrying value (including allocated assets and liabilities of certain shared and Corporate functions), and determined that the fair value of the reporting unit was less than the carrying value in the first quarter of fiscal 2017. With the assistance of a third-party valuation specialist, we estimated the fair value of the assets and liabilities of this reporting unit in order to determine the implied fair value of goodwill. We recognized an impairment charge for the difference between the implied fair value of goodwill and the carrying value of goodwill. Accordingly, during the first quarter of fiscal 2017, we recorded charges totaling $139.2 million for the impairment of goodwill. The remaining goodwill balance of the Canadian reporting unit as of May 27, 2018 was $37.6 million.

As part of the assessment of the fair value of each asset and liability within the Canadian reporting unit, with the assistance of the third-party valuation specialist, we estimated the fair value of a Canadian brand to be less than its carrying value. In accordance with applicable accounting guidance, we recognized an impairment charge of $24.4 million to write down the intangible asset to its estimated fair value.

We also performed an assessment of impairment of goodwill for the new Mexican reporting unit within the International reporting segment using similar methods to those described above. We used discount rates and terminal growth rates of 8.5% and 3%, respectively, to calculate the present value of estimated future cash flows. We determined that the estimated fair value of this reporting unit exceeded the carrying value of its net assets by approximately 5%. Accordingly, we did not recognize an impairment of the goodwill in the Mexican reporting unit.

During the second quarter of fiscal 2017, as a result of further deterioration in forecasted sales and profits primarily due to foreign exchange rates, we performed an additional assessment of impairment of goodwill for the new Mexican reporting unit. We used discount rates and terminal growth rates of 8.5% and 3%, respectively, to calculate the present value of estimated future cash flows. We then compared the estimated fair value of the reporting unit to the historical carrying value (including allocated assets and liabilities of certain shared and Corporate functions), and determined that the fair value of the reporting unit was less than the carrying value in the second quarter of fiscal 2017. With the assistance of a third-party valuation specialist, we estimated the fair value of the assets and liabilities of this reporting unit in order to determine the implied fair value of goodwill. We recognized an impairment charge for the difference between the implied fair value of goodwill and the carrying value of goodwill. Accordingly, during the second quarter of fiscal 2017, we recorded charges totaling $43.9 million for the impairment of goodwill.

During the fourth quarter of fiscal 2017, in conjunction with our annual impairment testing, we adopted ASU 2017-04, Simplifying the Test for Goodwill Impairment. As a result of further deterioration in forecasted sales and profits, we performed an additional assessment of impairment of goodwill for the new Mexican reporting unit. We used discount rates and terminal growth rates of 9.0% and 3.0%, respectively, to calculate the present value of estimated future cash flows. We then compared the estimated fair value of the reporting unit to the historical carrying value (including allocated assets and liabilities of certain shared and Corporate functions), and determined that the fair value of the reporting unit was less than the carrying value in the fourth quarter of fiscal 2017. With the assistance of a third-party valuation specialist, we estimated the fair value of the reporting unit. We recognized an impairment charge of $15.8 million, equal to the difference between the carrying value and estimated fair value of the reporting unit. The remaining goodwill balance of the Mexican reporting unit as of May 27, 2018 was $118.5 million.

In fiscal 2018, we elected to perform a quantitative impairment test for indefinite lived intangibles. During fiscal 2018, we recognized impairment charges of $4.0 million for our HK Anderson®, Red Fork®, and Salpica® brands in our Grocery & Snacks segment. We also recognized an impairment charge of $0.8 million for our Aylmer® brand in our International segment.

In fiscal 2017, we elected to perform a quantitative impairment test for indefinite lived intangibles. During fiscal 2017, we recognized impairment charges of $7.1 million for our Del Monte® brand and $5.5 million for our Aylmer® brand in our International segment. We also recognized impairment charges of $67.1 million for our Chef Boyardee® brand and $1.1 million for our Fiddle Faddle® brand in our Grocery & Snacks segment.

In fiscal 2016, we elected to perform a quantitative impairment test for indefinite lived intangibles. During fiscal 2016, we recognized impairment charges of $50.1 million in our Grocery & Snacks segment for our Chef Boyardee® brand.

We completed the divestiture of our Private Brands operations in the third quarter of fiscal 2016. In fiscal 2016, we recognized charges of $1.92 billion ($1.44 billion after-tax) to write-down the goodwill and long-lived assets of the Private Brands business.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP. On July 9, 2015, the FASB deferred the effective date of the new revenue recognition standard by one year. The updated standard is effective for fiscal years beginning after December 15, 2017. Based on the FASB's ASU, we will apply the new revenue standard in our fiscal year 2019. Entities will have the option to adopt the ASU using either the full retrospective or modified retrospective transition method. We have concluded our assessment of the new standard and will be adopting the provisions of the ASU utilizing the modified retrospective transition method. The adoption of ASU 2014-09 will not have a material impact on our consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities, which addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The effective date for this standard is for fiscal years beginning after December 31, 2017. We do not expect ASU 2016-01 to have a material impact to our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases, Topic 842, which requires lessees to reflect most leases on their balance sheet as assets and obligations. The effective date for the standard is for fiscal years beginning after December 15, 2018. Early adoption is permitted. We are evaluating the effect that this standard will have on our consolidated financial statements and related disclosures. The standard is to be applied under the modified retrospective method, with elective reliefs, which requires application of the new guidance for all periods presented.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments, which clarifies how companies present and classify certain cash receipts and cash payments in the statement of cash flows. The effective date for the standard is for fiscal years beginning after December 15, 2017. We do not expect ASU 2016-15 to have a material impact to our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows: Restricted Cash, which provides amendments to current guidance to address the classifications and presentation of changes in restricted cash in the statement of cash flows. The effective date for the standard is for fiscal years beginning after December 15, 2017. We do not expect ASU 2016-18 to have a material impact to our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, Business Combinations: Clarifying the Definition of a Business, which provides a new framework for determining whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The effective date for the standard is for fiscal years beginning after December 15, 2017. We do not expect ASU 2017-01 to have a material impact to our consolidated financial statements.

In March 2017, the FASB issued ASU 2017-07, Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost, which requires companies to present the service cost component of net benefit cost in the same line items in which they report compensation cost. Companies will present all other components of net benefit cost outside a subtotal of operating income, if presented, or disclosed separately. Also, only the service cost component may be eligible for capitalization where applicable. The amendments in this ASU should be applied retrospectively for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the income statement and prospectively for the capitalization of service cost components. The effective date for the standard is for fiscal years beginning after December 15, 2017. We will adopt ASU 2017-07 in our fiscal 2019. The estimated impact is a reclassification of a benefit of $80.4 million, a benefit of $55.2 million, and a charge of $303.8 million to non-operating income (expense) for fiscal 2018, 2017, and 2016, respectively.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities, which improves the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements and make certain targeted improvements to simplify the application of the hedge accounting guidance in current U.S. GAAP. The amendments in this update better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and presentation of hedge results. The effective date for the standard is for fiscal years beginning after December 15, 2018. Early adoption is permitted. We plan to early adopt this ASU at the beginning of our fiscal 2019. We do not expect ASU 2017-12 to have a material impact to our consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The principal market risks affecting us during fiscal 2018 and 2017 were exposures to price fluctuations of commodity and energy inputs, interest rates, and foreign currencies.

Commodity Market Risk

We purchase commodity inputs such as wheat, corn, oats, soybean meal, soybean oil, meat, dairy products, nuts, sugar, natural gas, electricity, and packaging materials to be used in our operations. These commodities are subject to price fluctuations that may create price risk. We enter into commodity hedges to manage this price risk using physical forward contracts or derivative instruments. We have policies governing the hedging instruments our businesses may use. These policies include limiting the dollar risk exposure for each of our businesses. We also monitor the amount of associated counter-party credit risk for all non-exchange-traded transactions.

Interest Rate Risk

We may use interest rate swaps to manage the effect of interest rate changes on the fair value of our existing debt as well as the forecasted interest payments for the anticipated issuance of debt.

As of May 27, 2018 and May 28, 2017, the fair value of our long-term debt (including current installments) was estimated at $3.76 billion and $3.32 billion, respectively, based on current market rates. As of May 27, 2018 and May 28, 2017, a 1% increase in interest rates would decrease the fair value of our fixed rate debt by approximately $168.1 million and $197.8 million, respectively, while a 1% decrease in interest rates would increase the fair value of our fixed rate debt by approximately $185.7 million and $219.4 million, respectively.

Foreign Currency Risk

In order to reduce exposures for our processing activities related to changes in foreign currency exchange rates, we may enter into forward exchange or option contracts for transactions denominated in a currency other than the functional currency for certain of our operations. This activity primarily relates to economically hedging against foreign currency risk in purchasing inventory and capital equipment, sales of finished goods, and future settlement of foreign denominated assets and liabilities.

Value-at-Risk (VaR)

We employ various tools to monitor our derivative risk, including value-at-risk ("VaR") models. We perform simulations using historical data to estimate potential losses in the fair value of current derivative positions. We use price and volatility information for the prior 90 days in the calculation of VaR that is used to monitor our daily risk. The purpose of this measurement is to provide a single view of the potential risk of loss associated with derivative positions at a given point in time based on recent changes in market prices. Our model uses a 95% confidence level. Accordingly, in any given one day time period, losses greater than the amounts included in the table below are expected to occur only 5% of the time. We include commodity swaps, futures, and options and foreign exchange forwards, swaps, and options in this calculation. The following table provides an overview of our average daily VaR for our energy, agriculture, and foreign exchange positions (including discontinued operations) for fiscal 2018 and 2017.

	Fair Value Impact	
In Millions	Average During the Fiscal Year Ended May 27, 2018	Average During the Fiscal Year Ended May 28, 2017
Processing Activities		
Energy commodities	$ 0.2	$ 0.4
Agriculture commodities	0.4	0.5
Foreign exchange	0.7	0.3

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
Conagra Brands, Inc. and Subsidiaries
Consolidated Statements of Operations
(in millions, except per share amounts)

	For the Fiscal Years Ended May		
	2018	2017	2016
Net sales	$7,938.3	$7,826.9	$8,664.1
Costs and expenses:			
Cost of goods sold	5,586.8	5,484.8	6,234.9
Selling, general and administrative expenses	1,318.0	1,417.1	2,024.6
Interest expense, net	158.7	195.5	295.8
Income from continuing operations before income taxes and equity method investment earnings	874.8	729.5	108.8
Income tax expense	174.6	254.7	46.4
Equity method investment earnings	97.3	71.2	66.1
Income from continuing operations	797.5	546.0	128.5
Income (loss) from discontinued operations, net of tax	14.3	102.0	(794.4)
Net income (loss)	$811.8	$648.0	$(665.9)
Less: Net income attributable to noncontrolling interests	3.4	8.7	11.1
Net income (loss) attributable to Conagra Brands, Inc.	$808.4	$639.3	$(677.0)
Earnings (loss) per share — basic			
Income from continuing operations attributable to Conagra Brands, Inc. common stockholders	$1.97	$1.26	$0.29
Income (loss) from discontinued operations attributable to Conagra Brands, Inc. common stockholders	0.03	0.22	(1.86)
Net income (loss) attributable to Conagra Brands, Inc. common stockholders	$2.00	$1.48	$(1.57)
Earnings (loss) per share — diluted			
Income from continuing operations attributable to Conagra Brands, Inc. common stockholders	$1.95	$1.25	$0.29
Income (loss) from discontinued operations attributable to Conagra Brands, Inc. common stockholders	0.03	0.21	(1.85)
Net income (loss) attributable to Conagra Brands, Inc. common stockholders	$1.98	$1.46	$(1.56)

The accompanying Notes are an integral part of the consolidated financial statements.

Conagra Brands, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income (Loss)
(in millions)

	For the Fiscal Years Ended May								
	2018			2017			2016		
	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount	Pre-Tax Amount	Tax (Expense) Benefit	After-Tax Amount
Net income (loss)	$972.3	$(160.5)	$811.8	$989.2	$(341.2)	$648.0	$(1,033.6)	$367.7	$(665.9)
Other comprehensive income (loss):									
Derivative adjustments:									
Unrealized derivative adjustments	2.9	(0.9)	2.0	(1.0)	0.4	(0.6)	—	—	—
Reclassification for derivative adjustments included in net income	0.1	—	0.1	(0.2)	0.1	(0.1)	(2.1)	0.8	(1.3)
Unrealized gains on available-for-sale securities	1.1	(0.3)	0.8	0.5	(0.2)	0.3	0.1	—	0.1
Currency translation adjustment:									
Unrealized currency translation gains (losses)	0.8	(0.1)	0.7	(13.6)	0.2	(13.4)	(58.9)	—	(58.9)
Reclassification for currency translation losses included in net income	—	—	—	—	—	—	73.4	—	73.4
Pension and post-employment benefit obligations:									
Unrealized pension and post-employment benefit obligations	157.3	(45.0)	112.3	209.2	(80.6)	128.6	(37.7)	14.8	(22.9)
Reclassification for pension and post-employment benefit obligations included in net income	0.9	(0.2)	0.7	10.4	(4.0)	6.4	(14.5)	4.9	(9.6)
Comprehensive income (loss)	1,135.4	(207.0)	928.4	1,194.5	(425.3)	769.2	(1,073.3)	388.2	(685.1)
Comprehensive income attributable to noncontrolling interests	0.7	(1.2)	(0.5)	12.6	(0.7)	11.9	7.8	(0.9)	6.9
Comprehensive income (loss) attributable to Conagra Brands, Inc.	$1,134.7	$(205.8)	$928.9	$1,181.9	$(424.6)	$757.3	$(1,081.1)	$389.1	$(692.0)

The accompanying Notes are an integral part of the consolidated financial statements.

Conagra Brands, Inc. and Subsidiaries
Consolidated Balance Sheets
(in millions, except share data)

	May 27, 2018	May 28, 2017
ASSETS		
Current assets		
Cash and cash equivalents	$128.0	$251.4
Receivables, less allowance for doubtful accounts of $2.0 and $3.1	582.6	563.4
Inventories	997.1	927.9
Prepaid expenses and other current assets	186.8	228.7
Current assets held for sale	44.4	41.8
Total current assets	1,938.9	2,013.2
Property, plant and equipment		
Land and land improvements	108.6	103.2
Buildings, machinery and equipment	3,238.8	3,140.9
Furniture, fixtures, office equipment and other	628.9	724.2
Construction in progress	85.9	124.9
	4,062.2	4,093.2
Less accumulated depreciation	(2,442.1)	(2,460.1)
Property, plant and equipment, net	1,620.1	1,633.1
Goodwill	4,502.5	4,295.3
Brands, trademarks and other intangibles, net	1,284.5	1,223.7
Other assets	906.3	790.6
Noncurrent assets held for sale	137.2	140.4
	$10,389.5	$10,096.3
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Notes payable	$277.3	$28.2
Current installments of long-term debt	307.0	199.0
Accounts payable	915.1	773.1
Accrued payroll	163.9	167.6
Other accrued liabilities	672.9	552.6
Total current liabilities	2,336.2	1,720.5
Senior long-term debt, excluding current installments	3,035.6	2,573.3
Subordinated debt	195.9	195.9
Other noncurrent liabilities	1,065.2	1,528.8
Total liabilities	6,632.9	6,018.5
Commitments and contingencies (Note 17)		
Common stockholders' equity		
Common stock of $5 par value, authorized 1,200,000,000 shares; issued 567,907,172	2,839.7	2,839.7
Additional paid-in capital	1,180.0	1,171.9
Retained earnings	4,744.9	4,247.0
Accumulated other comprehensive loss	(110.5)	(212.9)
Less treasury stock, at cost, 177,078,193 and 151,387,209 common shares	(4,977.9)	(4,054.9)
Total Conagra Brands, Inc. common stockholders' equity	3,676.2	3,990.8
Noncontrolling interests	80.4	87.0
Total stockholders' equity	3,756.6	4,077.8
	$10,389.5	$10,096.3

The accompanying Notes are an integral part of the consolidated financial statements.

Conagra Brands, Inc. and Subsidiaries
Consolidated Statements of Common Stockholders' Equity
(in millions)

	Conagra Brands, Inc. Stockholders' Equity							
	Common Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Noncontrolling Interests	Total Equity
Balance at May 31, 2015	567.9	$2,839.7	$1,049.4	$4,331.1	$ (329.5)	$(3,364.7)	$ 84.0	$4,610.0
Stock option and incentive plans			91.7	(1.2)		228.5		319.0
Currency translation adjustment					18.7		(4.2)	14.5
Unrealized gain on securities					0.1			0.1
Derivative adjustment, net of reclassification adjustment					(1.3)			(1.3)
Activities of noncontrolling interests			(4.8)				1.4	(3.4)
Pension and postretirement healthcare benefits					(32.5)			(32.5)
Dividends declared on common stock; $1.00 per share				(434.6)				(434.6)
Net loss attributable to Conagra Brands, Inc.				(677.0)				(677.0)
Balance at May 29, 2016	567.9	2,839.7	1,136.3	3,218.3	(344.5)	(3,136.2)	81.2	3,794.8
Stock option and incentive plans			36.4	(1.3)		81.3		116.4
Adoption of ASU 2016-09				(3.9)				(3.9)
Spinoff of Lamb Weston				783.3	13.6			796.9
Currency translation adjustment, net					(16.6)		3.2	(13.4)
Repurchase of common shares						(1,000.0)		(1,000.0)
Unrealized gain on securities					0.3			0.3
Derivative adjustment, net of reclassification adjustment					(0.7)			(0.7)
Activities of noncontrolling interests			(0.8)				2.6	1.8
Pension and postretirement healthcare benefits					135.0			135.0
Dividends declared on common stock; $0.90 per share				(388.7)				(388.7)
Net income attributable to Conagra Brands, Inc.				639.3				639.3
Balance at May 28, 2017	567.9	2,839.7	1,171.9	4,247.0	(212.9)	(4,054.9)	87.0	4,077.8
			10.0	(0.8)		44.3	0.2	53.7

Stock option and incentive plans								
Spinoff of Lamb Weston				14.8				14.8
Adoption of ASU 2018-02				17.4	(17.4)			—
Currency translation adjustment, net					4.6		(3.9)	0.7
Repurchase of common shares						(967.3)		(967.3)
Unrealized gain on securities					0.8			0.8
Derivative adjustment, net of reclassification adjustment					2.1			2.1
Activities of noncontrolling interests			(1.9)		(0.7)		(2.9)	(5.5)
Pension and postretirement healthcare benefits					113.0			113.0
Dividends declared on common stock; $0.85 per share				(341.9)				(341.9)
Net income attributable to Conagra Brands, Inc.				808.4				808.4
Balance at May 27, 2018	567.9	$2,839.7	$1,180.0	$4,744.9	$ (110.5)	$(4,977.9)	$ 80.4	$3,756.6

The accompanying Notes are an integral part of the consolidated financial statements.

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Conagra Brands, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(in millions)

	For the Fiscal Years Ended May		
	2018	2017	2016
Cash flows from operating activities:			
Net income (loss)	$811.8	$648.0	$(665.9)
Income (loss) from discontinued operations	14.3	102.0	(794.4)
Income from continuing operations	797.5	546.0	128.5
Adjustments to reconcile income from continuing operations to net cash flows from operating activities:			
Depreciation and amortization	257.0	268.0	278.5
Asset impairment charges	14.7	343.3	62.6
Gain on divestitures	—	(197.4)	—
Lease cancellation expense	48.2	—	55.6
Loss on extinguishment of debt	—	93.3	23.9
Significant litigation accruals	151.0	—	—
Earnings of affiliates in excess of distributions	(34.8)	(3.0)	(25.7)
Stock-settled share-based payments expense	37.9	36.1	41.8
Contributions to pension plans	(312.6)	(163.0)	(11.5)
Pension expense (benefit)	(56.1)	(21.4)	358.1
Other items	(34.0)	39.9	53.6
Change in operating assets and liabilities excluding effects of business acquisitions and dispositions:			
Receivables	(4.7)	104.7	(156.8)
Inventories	(62.8)	123.3	66.1
Deferred income taxes and income taxes payable, net	10.5	52.3	(264.9)
Prepaid expenses and other current assets	3.2	15.0	10.8
Accounts payable	144.9	71.0	(118.3)
Accrued payroll	(8.0)	(52.4)	68.9
Other accrued liabilities	(32.2)	(114.9)	54.3
Net cash flows from operating activities - continuing operations	919.7	1,140.8	625.5
Net cash flows from operating activities - discontinued operations	34.5	34.7	633.7
Net cash flows from operating activities	954.2	1,175.5	1,259.2
Cash flows from investing activities:			
Additions to property, plant and equipment	(251.6)	(242.1)	(277.5)
Sale of property, plant and equipment	8.0	13.2	35.7
Proceeds from divestitures	—	489.0	—
Purchase of business and intangible assets	(337.1)	(325.7)	(10.4)
Other items	4.5	—	0.3
Net cash flows from investing activities - continuing operations	(576.2)	(65.6)	(251.9)
Net cash flows from investing activities - discontinued operations	—	(123.7)	2,379.3
Net cash flows from investing activities	(576.2)	(189.3)	2,127.4
Cash flows from financing activities:			
Net short-term borrowings	249.1	14.3	9.5
Issuance of long-term debt, net of debt issuance costs	797.0	—	—
Repayment of long-term debt	(242.3)	(1,064.5)	(2,523.2)
Payment of intangible asset financing arrangement	(14.4)	(14.9)	—

Repurchase of Conagra Brands, Inc. common shares	(967.3)	(1,000.0)	—
Sale of Conagra Brands, Inc. common shares	—	—	8.6
Cash dividends paid	(342.3)	(415.0)	(432.5)
Exercise of stock options and issuance of other stock awards, including tax withholdings	14.9	73.8	208.4
Other items	(1.6)	(1.9)	—
Net cash flows from financing activities - continuing operations	(506.9)	(2,408.2)	(2,729.2)
Net cash flows from financing activities - discontinued operations	—	839.1	(4.0)
Net cash flows from financing activities	(506.9)	(1,569.1)	(2,733.2)
Effect of exchange rate changes on cash and cash equivalents	5.5	(0.2)	(2.0)
Net change in cash and cash equivalents	(123.4)	(583.1)	651.4
Add: Cash balance included in assets held for sale and discontinued operations at beginning of period	—	36.4	49.0
Less: Cash balance included in assets held for sale and discontinued operations at end of period	—	—	36.4
Cash and cash equivalents at beginning of year	251.4	798.1	134.1
Cash and cash equivalents at end of year	$128.0	$251.4	$798.1

The accompanying Notes are an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements
Fiscal Years Ended May 27, 2018, May 28, 2017, and May 29, 2016
(columnar dollars in millions, except per share amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fiscal Year — The fiscal year of Conagra Brands, Inc. ("Conagra Brands", "Company", "we", "us", or "our") ends the last Sunday in May. The fiscal years for the consolidated financial statements presented consist of 52-week periods for fiscal years 2018, 2017, and 2016.

Basis of Consolidation — The consolidated financial statements include the accounts of Conagra Brands, Inc. and all majority-owned subsidiaries. In addition, the accounts of all variable interest entities for which we have been determined to be the primary beneficiary are included in our consolidated financial statements from the date such determination is made. All significant intercompany investments, accounts, and transactions have been eliminated.

On November 9, 2016, we completed the spinoff of Lamb Weston Holdings, Inc. ("Lamb Weston") through a distribution of 100% of our interest in Lamb Weston to holders of shares of our common stock as of November 1, 2016 (the "Spinoff"). In accordance with U.S. generally accepted accounting principles ("U.S. GAAP"), the results of operations of the Lamb Weston operations are presented as discontinued operations and, as such, have been excluded from continuing operations and segment results for all periods presented (see Note 6 for additional discussion).

Investments in Unconsolidated Affiliates — The investments in, and the operating results of, 50%-or-less-owned entities not required to be consolidated are included in the consolidated financial statements on the basis of the equity method of accounting or the cost method of accounting, depending on specific facts and circumstances.

We review our investments in unconsolidated affiliates for impairment whenever events or changes in business circumstances indicate that the carrying amount of the investments may not be fully recoverable. Evidence of a loss in value that is other than temporary includes, but is not limited to, the absence of an ability to recover the carrying amount of the investment, the inability of the investee to sustain an earnings capacity which would justify the carrying amount of the investment, or, where applicable, estimated sales proceeds which are insufficient to recover the carrying amount of the investment. Management's assessment as to whether any decline in value is other than temporary is based on our ability and intent to hold the investment and whether evidence indicating the carrying value of the investment is recoverable within a reasonable period of time outweighs evidence to the contrary. Management generally considers our investments in equity method investees to be strategic long-term investments. Therefore, management completes its assessments with a long-term viewpoint. If the fair value of the investment is determined to be less than the carrying value and the decline in value is considered to be other than temporary, an appropriate write-down is recorded based on the excess of the carrying value over the best estimate of fair value of the investment.

Cash and Cash Equivalents — Cash and all highly liquid investments with an original maturity of three months or less at the date of acquisition, including short-term time deposits and government agency and corporate obligations, are classified as cash and cash equivalents.

Receivables — Receivables from customers generally do not bear interest. Terms and collection vary by location and channel. The allowance for doubtful accounts represents our estimate of probable non-payments and credit losses in our existing receivables, as determined based on a review of past due balances and other specific account data. Account balances are written off against the allowance when we deem them uncollectible.

Notes to Consolidated Financial Statements - (Continued)
Fiscal Years Ended May 27, 2018, May 28, 2017, and May 29, 2016
(columnar dollars in millions except per share amounts)

The following table details the balances of our allowance for doubtful accounts and changes therein:

	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Other	Deductions from Reserves	Balance at Close of Period
Year ended May 27, 2018	$ 3.1	0.8	—	1.9 [2]	$ 2.0
Year ended May 28, 2017	$ 3.2	1.0	—	1.1 [2]	$ 3.1
Year ended May 29, 2016	$ 3.0	1.1	(0.1) [1]	0.8 [2]	$ 3.2

[1] Primarily translation incurred during fiscal 2016.
[2] Bad debts charged off and adjustments to previous reserves, less recoveries.

Inventories — We use the lower of cost (determined using the first-in, first-out method) or market for valuing inventories.

Property, Plant and Equipment — Property, plant and equipment are carried at cost. Depreciation has been calculated using the straight-line method over the estimated useful lives of the respective classes of assets as follows:

Land improvements	1 - 40 years
Buildings	15 - 40 years
Machinery and equipment	3 - 20 years
Furniture, fixtures, office equipment and other	5 - 15 years

We review property, plant and equipment for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. Recoverability of an asset considered "held-and-used" is determined by comparing the carrying amount of the asset to the undiscounted net cash flows expected to be generated from the use of the asset. If the carrying amount is greater than the undiscounted net cash flows expected to be generated by the asset, the asset's carrying amount is reduced to its estimated fair value. An asset considered "held-for-sale" is reported at the lower of the asset's carrying amount or fair value.

Goodwill and Other Identifiable Intangible Assets — Goodwill and other identifiable intangible assets with indefinite lives (e.g., brands or trademarks) are not amortized and are tested annually for impairment of value and whenever events or changes in circumstances indicate the carrying amount of the asset may be impaired. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include deterioration in general economic conditions, adverse changes in the markets in which an entity operates, increases in input costs that have negative effects on earnings and cash flows, or a trend of negative or declining cash flows over multiple periods, among others. The fair value that could be realized in an actual transaction may differ from that used to evaluate the impairment of goodwill and other intangible assets.

In testing goodwill for impairment, we have the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not (more than 50%) that the estimated fair value of a reporting unit is less than its carrying amount. If we elect to perform a qualitative assessment and determine that an impairment is more likely than not, we are then required to perform a quantitative impairment test, otherwise no further analysis is required. We also may elect not to perform the qualitative assessment and, instead, proceed directly to the quantitative impairment test.

Under the goodwill qualitative assessment, various events and circumstances that would affect the estimated fair value of a reporting unit are identified (similar to impairment indicators above). Furthermore, management considers the results of the most recent quantitative impairment test completed for a reporting unit and compares the weighted average cost of capital between the current and prior years for each reporting unit.

Under the goodwill quantitative impairment test, the evaluation of impairment involves comparing the current fair value of each reporting unit to its carrying value, including goodwill. We estimate the fair value using level 3 inputs as defined by the fair value hierarchy. Refer to Note 20 for the definition of the levels in the fair value hierarchy. The inputs used to calculate

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Notes to Consolidated Financial Statements - (Continued)
Fiscal Years Ended May 27, 2018, May 28, 2017, and May 29, 2016
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the fair value include a number of subjective factors, such as estimates of future cash flows, estimates of our future cost structure, discount rates for our estimated cash flows, required level of working capital, assumed terminal value, and time horizon of cash flow forecasts. Prior to the fourth quarter of fiscal 2017, if the carrying value of a reporting unit exceeded its fair value, we completed a second step of the test to determine the amount of goodwill impairment loss, if any, to be recognized. In the second step, we estimated an implied fair value of the reporting unit's goodwill by allocating the fair value of the reporting unit to all of the assets and liabilities other than goodwill (including any unrecognized intangible assets). The impairment loss was equal to the excess of the carrying value of the goodwill over the implied fair value of that goodwill. Beginning in the fourth quarter of fiscal 2017, if the carrying value of a reporting unit exceeds its fair value, we recognize an impairment loss equal to the difference between the carrying value and estimated fair value of the reporting unit.

In assessing other intangible assets not subject to amortization for impairment, we have the option to perform a qualitative assessment to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of such an intangible asset is less than its carrying amount. If we determine that it is not more likely than not that the fair value of such an intangible asset is less than its carrying amount, then we are not required to perform any additional tests for assessing intangible assets for impairment. However, if we conclude otherwise or elect not to perform the qualitative assessment, then we are required to perform a quantitative impairment test that involves a comparison of the estimated fair value of the intangible asset with its carrying value. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. In fiscal 2018, 2017, and 2016 we elected to perform a quantitative impairment test for other intangible assets not subject to amortization. The estimates of fair value of intangible assets not subject to amortization are determined using a "relief from royalty" methodology, which is used in estimating the fair value of our brands/trademarks. Discount rate assumptions are based on an assessment of the risk inherent in the projected future cash flows generated by the respective intangible assets. Also subject to judgment are assumptions about royalty rates.

Identifiable intangible assets with definite lives (e.g., licensing arrangements with contractual lives or customer relationships) are amortized over their estimated useful lives and tested for impairment whenever events or changes in circumstances indicate the carrying amount of the asset may be impaired. Identifiable intangible assets with definite lives are evaluated for impairment using a process similar to that used in evaluating elements of property, plant and equipment. If impaired, the asset is written down to its fair value.

Refer to Note 9 for discussion of the impairment charges related to goodwill and intangible assets in fiscal 2018, 2017, and 2016.

Fair Values of Financial Instruments — Unless otherwise specified, we believe the carrying value of financial instruments approximates their fair value.

Environmental Liabilities — Environmental liabilities are accrued when it is probable that obligations have been incurred and the associated amounts can be reasonably estimated. We use third-party specialists to assist management in appropriately measuring the obligations associated with environmental liabilities. Such liabilities are adjusted as new information develops or circumstances change. We do not discount our environmental liabilities as the timing of the anticipated cash payments is not fixed or readily determinable. Management's estimate of our potential liability is independent of any potential recovery of insurance proceeds or indemnification arrangements. We do not reduce our environmental liabilities for potential insurance recoveries.

Employment-Related Benefits — Employment-related benefits associated with pensions, postretirement health care benefits, and workers' compensation are expensed as such obligations are incurred. The recognition of expense is impacted by estimates made by management, such as discount rates used to value these liabilities, future health care costs, and employee accidents incurred but not yet reported. We use third-party specialists to assist management in appropriately measuring the obligations associated with employment-related benefits.

We recognize changes in the fair value of pension plan assets and net actuarial gains or losses in excess of 10% of the greater of the market-related value of plan assets or the plan's projected benefit obligation (the "corridor") in current period expense annually as of our measurement date, which is our fiscal year-end, or when measurement is required otherwise under generally accepted accounting principles.

Notes to Consolidated Financial Statements - (Continued)
Fiscal Years Ended May 27, 2018, May 28, 2017, and May 29, 2016
(columnar dollars in millions except per share amounts)

Revenue Recognition — Revenue is recognized when title and risk of loss are transferred to customers upon delivery based on terms of sale and collectability is reasonably assured. Revenue is recognized as the net amount to be received after deducting estimated amounts for discounts, trade allowances, and returns of damaged and out-of-date products.
Shipping and Handling — Amounts billed to customers related to shipping and handling are included in net sales. Shipping and handling costs are included in cost of goods sold.
Marketing Costs — We promote our products with advertising, consumer incentives, and trade promotions. Such programs include, but are not limited to, discounts, coupons, rebates, and volume-based incentives. Advertising costs are expensed as incurred. Consumer incentives and trade promotion activities are recorded as a reduction of revenue or as a component of cost of goods sold based on amounts estimated as being due to customers and consumers at the end of the period, based principally on historical utilization and redemption rates. Advertising and promotion expenses totaled $278.6 million, $328.3 million, and $347.2 million in fiscal 2018, 2017, and 2016, respectively, and are included in selling, general and administrative ("SG&A") expenses.
Research and Development — We incurred expenses of $47.3 million, $44.6 million, and $59.6 million for research and development activities in fiscal 2018, 2017, and 2016, respectively.
Comprehensive Income — Comprehensive income includes net income, currency translation adjustments, certain derivative-related activity, changes in the value of available-for-sale investments, and changes in prior service cost and net actuarial gains (losses) from pension (for amounts not in excess of the 10% "corridor") and postretirement health care plans. On foreign investments we deem to be essentially permanent in nature, we do not provide for taxes on currency translation adjustments arising from converting an investment denominated in a foreign currency to U.S. dollars. When we determine that a foreign investment, as well as undistributed earnings, are no longer permanent in nature, estimated taxes will be provided for the related deferred tax liability (asset), if any, resulting from currency translation adjustments.
The following table details the accumulated balances for each component of other comprehensive income (loss), net of tax:

	2018	2017	2016
Currency translation losses, net of reclassification adjustments	$(94.7)	$(98.6)	$(95.2)
Derivative adjustments, net of reclassification adjustments	1.0	(1.1)	(0.4)
Unrealized gains (losses) on available-for-sale securities	0.6	(0.3)	(0.6)
Pension and post-employment benefit obligations, net of reclassification adjustments	(17.4)	(112.9)	(248.3)
Accumulated other comprehensive loss [1]	$(110.5)	$(212.9)	$(344.5)

[1] Net of stranded tax effects from change in tax rate as a result of the early adoption of ASU 2018-02 in the amount of $17.4 million which has been reclassified to retained earnings.

Notes to Consolidated Financial Statements - (Continued)
Fiscal Years Ended May 27, 2018, May 28, 2017, and May 29, 2016
(columnar dollars in millions except per share amounts)

The following table summarizes the reclassifications from accumulated other comprehensive loss into income (loss):

	2018	2017	2016	Affected Line Item in the Consolidated Statement of Operations[1]
Net derivative adjustment, net of tax:				
Cash flow hedges	$0.1	$(0.2)	$(2.1)	Interest expense, net
	0.1	(0.2)	(2.1)	Total before tax
	—	0.1	0.8	Income tax expense
	$0.1	$(0.1)	$(1.3)	Net of tax
Amortization of pension and postretirement healthcare liabilities:				
Net prior service benefit	$(0.4)	$(3.9)	$(5.1)	