ALTRIA GROUP, INC.
Form 10-Q
October 26, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2017
OR

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

For the transition period from to
Commission File Number 1-08940
Altria Group, Inc.
(Exact name of registrant as specified in its charter)

Virginia	13-3260245
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6601 West Broad Street, Richmond, Virginia	23230
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (804) 274-2200
Former name, former address and former fiscal year, if changed since last report

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 Web site, 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 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.

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 Exchange Act). Yes ¨ No þ

At October 16, 2017, there were 1,908,189,678 shares outstanding of the registrant's common stock, par value $0.33 1/3 per share.

Table of Contents

ALTRIA GROUP, INC.
TABLE OF CONTENTS

2

Table of Contents

PART I - FINANCIAL INFORMATION
Item 1. Financial Statements.
Altria Group, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(in millions of dollars)
(Unaudited)

	September 30, 2017	December 31, 2016
Assets		
Cash and cash equivalents	$ 2,582	$ 4,569
Receivables	148	151
Inventories:		
Leaf tobacco	784	892
Other raw materials	180	164
Work in process	432	512
Finished product	591	483
	1,987	2,051
Other current assets	439	489
Total current assets	5,156	7,260
Property, plant and equipment, at cost	4,846	4,835
Less accumulated depreciation	2,939	2,877
	1,907	1,958
Goodwill	5,307	5,285
Other intangible assets, net	12,196	12,036
Investment in AB InBev	18,213	17,852
Finance assets, net	901	1,028
Other assets	480	513
Total Assets	$ 44,160	$ 45,932

See notes to condensed consolidated financial statements.

Table of Contents

Altria Group, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets (Continued)
(in millions of dollars, except share and per share data)
(Unaudited)

	September 30, 2017	December 31, 2016
Liabilities		
Accounts payable	$ 270	$ 425
Accrued liabilities:		
Marketing	759	747
Employment costs	152	289
Settlement charges	3,383	3,701
Other	834	1,025
Dividends payable	1,264	1,188
Total current liabilities	6,662	7,375
Long-term debt	13,890	13,881
Deferred income taxes	8,234	8,416
Accrued pension costs	611	805
Accrued postretirement health care costs	2,185	2,217
Other liabilities	372	427
Total liabilities	31,954	33,121
Contingencies (Note 9)		
Redeemable noncontrolling interest	37	38
Stockholders’ Equity		
Common stock, par value $0.33 1/3 per share (2,805,961,317 shares issued)	935	935
Additional paid-in capital	5,940	5,893
Earnings reinvested in the business	38,542	36,906
Accumulated other comprehensive losses	(1,946)	(2,052)
Cost of repurchased stock (896,340,584 shares at September 30, 2017 and 862,689,093 shares at December 31, 2016)	(31,305)	(28,912)
Total stockholders’ equity attributable to Altria Group, Inc.	12,166	12,770
Noncontrolling interests	3	3
Total stockholders’ equity	12,169	12,773
Total Liabilities and Stockholders’ Equity	$ 44,160	$ 45,932

See notes to condensed consolidated financial statements.

Table of Contents

Altria Group, Inc. and Subsidiaries
Condensed Consolidated Statements of Earnings
(in millions of dollars, except per share data)
(Unaudited)

	For the Nine Months Ended September 30,	
	2017	2016
Net revenues	$19,475	$19,492
Cost of sales	5,699	5,841
Excise taxes on products	4,695	4,888
Gross profit	9,081	8,763
Marketing, administration and research costs	1,664	1,871
Asset impairment and exit costs	24	123
Operating income	7,393	6,769
Interest and other debt expense, net	525	571
Loss on early extinguishment of debt	—	823
Earnings from equity investment in AB InBev/SABMiller	(332)	(564)
Gain on AB InBev/SABMiller business combination	(445)	(205)
Earnings before income taxes	7,645	6,144
Provision for income taxes	2,386	2,178
Net earnings	5,259	3,966
Net earnings attributable to noncontrolling interests	(3)	(3)
Net earnings attributable to Altria Group, Inc.	$5,256	$3,963
Per share data:		
Basic and diluted earnings per share attributable to Altria Group, Inc.	$2.72	$2.02
Dividends declared	$1.88	$1.74

See notes to condensed consolidated financial statements.

Table of Contents

Altria Group, Inc. and Subsidiaries
Condensed Consolidated Statements of Earnings
(in millions of dollars, except per share data)
(Unaudited)

	For the Three Months Ended September 30,	
	2017	2016
Net revenues	$6,729	$6,905
Cost of sales	1,940	2,043
Excise taxes on products	1,606	1,712
Gross profit	3,183	3,150
Marketing, administration and research costs	568	766
Asset impairment and exit costs	8	2
Operating income	2,607	2,382
Interest and other debt expense, net	169	179
Loss on early extinguishment of debt	—	823
Earnings from equity investment in AB InBev/SABMiller	(169)	(299)
Gain on AB InBev/SABMiller business combination	(37)	(48)
Earnings before income taxes	2,644	1,727
Provision for income taxes	777	633
Net earnings	1,867	1,094
Net earnings attributable to noncontrolling interests	(1)	(1)
Net earnings attributable to Altria Group, Inc.	$1,866	$1,093
Per share data:		
Basic and diluted earnings per share attributable to Altria Group, Inc.	$0.97	$0.56
Dividends declared	$0.66	$0.61

See notes to condensed consolidated financial statements.

Table of Contents

Altria Group, Inc. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Earnings
(in millions of dollars)
(Unaudited)

	For the Nine Months Ended September 30,	
	2017	2016
Net earnings	$5,259	$3,966
Other comprehensive earnings (losses), net of deferred income taxes:		
Currency translation adjustments	1	1
Benefit plans	96	(116)
AB InBev/SABMiller	9	117
Other comprehensive earnings, net of deferred income taxes	106	2
Comprehensive earnings	5,365	3,968
Comprehensive earnings attributable to noncontrolling interests	(3)	(3)
Comprehensive earnings attributable to Altria Group, Inc.	$5,362	$3,965

See notes to condensed consolidated financial statements.

Table of Contents

Altria Group, Inc. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Earnings
(in millions of dollars)
(Unaudited)

	For the Three Months Ended September 30,	
	2017	2016
Net earnings	$1,867	$1,094
Other comprehensive earnings (losses), net of deferred income taxes:		
Benefit plans	31	28
AB InBev/SABMiller	(139)	34
Other comprehensive (losses) earnings, net of deferred income taxes	(108)	62
Comprehensive earnings	1,759	1,156
Comprehensive earnings attributable to noncontrolling interests	(1)	(1)
Comprehensive earnings attributable to Altria Group, Inc.	$1,758	$1,155

See notes to condensed consolidated financial statements.

Table of Contents

Altria Group, Inc. and Subsidiaries
Condensed Consolidated Statements of Stockholders' Equity
for the Year Ended December 31, 2016 and
the Nine Months Ended September 30, 2017
(in millions of dollars, except per share data)
(Unaudited)

	Attributable to Altria Group, Inc.						
	Common Stock	Additional Paid-in Capital	Earnings Reinvested in the Business	Accumulated Other Comprehensive Losses	Cost of Repurchased Stock	Non-controlling Interests	Total Stockholders' Equity
Balances, December 31, 2015	$935	$ 5,813	$ 27,257	$ (3,280)	$ (27,845)	$ (7)	$ 2,873
Net earnings [1]	—	—	14,239	—	—	—	14,239
Other comprehensive earnings, net of deferred income taxes	—	—	—	1,228	—	—	1,228
Stock award activity	—	90	—	—	(37)	—	53
Cash dividends declared ($2.35 per share)	—	—	(4,590)	—	—	—	(4,590)
Repurchases of common stock	—	—	—	—	(1,030)	—	(1,030)
Other	—	(10)	—	—	—	10	—
Balances, December 31, 2016	935	5,893	36,906	(2,052)	(28,912)	3	12,773
Net earnings [1]	—	—	5,256	—	—	—	5,256
Other comprehensive earnings, net of deferred income taxes	—	—	—	106	—	—	106
Stock award activity	—	47	—	—	(34)	—	13
Cash dividends declared ($1.88 per share)	—	—	(3,620)	—	—	—	(3,620)
Repurchases of common stock	—	—	—	—	(2,359)	—	(2,359)
Balances, September 30, 2017	$935	$ 5,940	$ 38,542	$ (1,946)	$ (31,305)	$ 3	$ 12,169

(1) Amounts attributable to noncontrolling interests for the nine months ended September 30, 2017 and for the year ended December 31, 2016 exclude net earnings of $3 million and $5 million, respectively, due to the redeemable noncontrolling interest related to Stag's Leap Wine Cellars, which is reported in the mezzanine equity section on the condensed consolidated balance sheets at September 30, 2017 and December 31, 2016.

See notes to condensed consolidated financial statements.

Table of Contents

Altria Group, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
(in millions of dollars)
(Unaudited)

	For the Nine Months Ended September 30, 2017	2016
Cash Provided by (Used in) Operating Activities		
Net earnings	$5,259	$3,966
Adjustments to reconcile net earnings to operating cash flows:		
Depreciation and amortization	155	149
Deferred income tax benefit	(223)	(69)
Earnings from equity investment in AB InBev/SABMiller	(332)	(564)
Dividends from AB InBev/SABMiller	434	403
Gain on AB InBev/SABMiller business combination	(445)	(205)
Asset impairment and exit costs, net of cash paid	(30)	71
Loss on early extinguishment of debt	—	823
Cash effects of changes:		
Receivables	4	(21)
Inventories	67	54
Accounts payable	(154)	(102)
Income taxes	341	(122)
Accrued liabilities and other current assets	(525)	(257)
Accrued settlement charges	(318)	(161)
Pension plan contributions	(18)	(520)
Pension provisions and postretirement, net	(70)	(56)
Other	20	141
Net cash provided by operating activities	4,165	3,530
Cash Provided by (Used in) Investing Activities		
Capital expenditures	(151)	(128)
Proceeds from finance assets	133	207
Other	(184)	(44)
Net cash (used in) provided by investing activities	(202)	35
Cash Provided by (Used in) Financing Activities		
Long-term debt issued	—	1,976
Long-term debt repaid	—	(933)
Repurchases of common stock	(2,359)	(512)
Dividends paid on common stock	(3,544)	(3,321)
Premiums and fees related to early extinguishment of debt	—	(809)
Other	(47)	(37)
Net cash used in financing activities	(5,950)	(3,636)
Cash and cash equivalents:		
Decrease	(1,987)	(71)
Balance at beginning of period	4,569	2,369
Balance at end of period	$2,582	$2,298

See notes to condensed consolidated financial statements.

10

Table of Contents
Altria Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1. Background and Basis of Presentation:

Background

At September 30, 2017, Altria Group, Inc.’s wholly-owned subsidiaries included Philip Morris USA Inc. (“PM USA”), which is engaged in the manufacture and sale of cigarettes in the United States; John Middleton Co. (“Middleton”), which is engaged in the manufacture and sale of machine-made large cigars and pipe tobacco and is a wholly-owned subsidiary of PM USA; Sherman Group Holdings, LLC and its subsidiaries (“Nat Sherman”), which are engaged in the manufacture and sale of super premium cigarettes and the sale of premium cigars; and UST LLC (“UST”), which through its wholly-owned subsidiaries, including U.S. Smokeless Tobacco Company LLC (“USSTC”) and Ste. Michelle Wine Estates Ltd. (“Ste. Michelle”), is engaged in the manufacture and sale of smokeless tobacco products and wine. Altria Group, Inc.’s other operating companies included Nu Mark LLC (“Nu Mark”), a wholly-owned subsidiary that is engaged in the manufacture and sale of innovative tobacco products, and Philip Morris Capital Corporation (“PMCC”), a wholly-owned subsidiary that maintains a portfolio of finance assets, substantially all of which are leveraged leases. Other Altria Group, Inc. wholly-owned subsidiaries included Altria Group Distribution Company, which provides sales, distribution and consumer engagement services to certain Altria Group, Inc. operating subsidiaries, and Altria Client Services LLC, which provides various support services in areas, such as legal, regulatory, finance, human resources and external affairs, to Altria Group, Inc. and its subsidiaries. Altria Group, Inc.’s access to the operating cash flows of its wholly-owned subsidiaries consists of cash received from the payment of dividends and distributions, and the payment of interest on intercompany loans by its subsidiaries. At September 30, 2017, Altria Group, Inc.’s principal wholly-owned subsidiaries were not limited by long-term debt or other agreements in their ability to pay cash dividends or make other distributions with respect to their equity interests.

At September 30, 2016, Altria Group, Inc. had an approximate 27% ownership of SABMiller plc (“SABMiller”), which Altria Group, Inc. accounted for under the equity method of accounting. In October 2016, Anheuser-Busch InBev SA/NV (“Legacy AB InBev”) completed its business combination with SABMiller, and Altria Group, Inc. received cash and shares representing a 9.6% ownership in the combined company (the “Transaction”). The newly formed Belgian company, which retained the name Anheuser-Busch InBev SA/NV (“AB InBev”), became the holding company for the combined businesses. Subsequently, Altria Group, Inc. purchased approximately 12 million ordinary shares of AB InBev, increasing Altria Group, Inc.’s ownership to approximately 10.2% at December 31, 2016. At September 30, 2017, Altria Group, Inc. had an approximate 10.2% ownership of AB InBev, which Altria Group, Inc. accounts for under the equity method of accounting using a one-quarter lag. For the nine and three months ended September 30, 2017, Altria Group, Inc. recorded a pre-tax gain of $445 million and $37 million, respectively, related to the completion of AB InBev’s planned divestitures of certain SABMiller assets and businesses resulting from Legacy AB InBev obtaining necessary regulatory clearances to proceed with the Transaction (“AB InBev divestitures”). For the nine and three months ended September 30, 2016, Altria Group, Inc. recorded a pre-tax gain of $205 million and $48 million, respectively, for the change in the fair value of the derivative financial instruments that it entered into in connection with the Transaction (“derivative financial instruments”). The pre-tax gains related to the AB InBev divestitures and the derivative financial instruments were included in gain on AB InBev/SABMiller business combination in Altria Group, Inc.’s condensed consolidated statements of earnings. Altria Group, Inc. receives cash dividends on its interest in AB InBev if and when AB InBev pays such dividends.

Dividends and Share Repurchases

During the third quarter of 2017, Altria Group, Inc.’s Board of Directors (the “Board of Directors”) approved an 8.2% increase in the quarterly dividend rate to $0.66 per share of Altria Group, Inc. common stock versus the previous rate of $0.61 per share. The current annualized dividend rate is $2.64 per share. Future dividend payments remain subject to the discretion of the Board of Directors.

In July 2015, the Board of Directors authorized a $1.0 billion share repurchase program that it expanded to $3.0 billion in October 2016 and to $4.0 billion in July 2017 (as expanded, the “July 2015 share repurchase program”). At September 30, 2017, Altria Group, Inc. had approximately $576 million remaining in the July 2015 share repurchase program. The timing of share repurchases under this program depends upon marketplace conditions and other factors, and the program remains subject to the discretion of the Board of Directors.

Table of Contents
Altria Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Altria Group, Inc.'s share repurchase activity was as follows:

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2017	2016	2017	2016
	(in millions, except per share data)			
Total number of shares repurchased	33.2	8.1	11.1	2.6
Aggregate cost of shares repurchased	$2,359	$512	$759	$171
Average price per share of shares repurchased	$70.97	$63.28	$67.99	$66.23

Basis of Presentation

The interim condensed consolidated financial statements of Altria Group, Inc. are unaudited. It is the opinion of Altria Group, Inc.'s management that all adjustments necessary for a fair statement of the interim results presented have been reflected in the interim condensed consolidated financial statements. All such adjustments were of a normal recurring nature. Net revenues and net earnings for any interim period are not necessarily indicative of results that may be expected for the entire year.

These statements should be read in conjunction with the consolidated financial statements and related notes, which appear in Altria Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2016.

On January 1, 2017, Altria Group, Inc. adopted Accounting Standards Update ("ASU") No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU No. 2016-09") and ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory ("ASU No. 2015-11").

ASU No. 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The adoption of ASU No. 2016-09 did not have a material impact on Altria Group, Inc.'s condensed consolidated financial statements. The portions of the guidance that have an impact on Altria Group, Inc.'s condensed consolidated financial statements have been adopted prospectively, with the exception of the classification of employee taxes paid by Altria Group, Inc. on the condensed consolidated statements of cash flows related to shares withheld by Altria Group, Inc. for tax withholding purposes, which has been adopted retrospectively. Altria Group, Inc. has made an accounting policy election to continue to estimate the number of share-based awards that are expected to vest, which includes estimating forfeitures. Certain prior-year amounts in the condensed consolidated statements of cash flows have been reclassified to conform with the current year's presentation due to Altria Group, Inc.'s adoption of ASU No. 2016-09.

ASU No. 2015-11 requires inventory that is measured using the first-in, first-out ("FIFO") or average cost methods to be measured at the lower of cost and net realizable value. Previous guidance required inventory that was measured using the FIFO or average cost methods to be measured at the lower of cost or market. The adoption of this guidance did not have a material impact on Altria Group, Inc.'s condensed consolidated financial statements.

For a description of recently issued accounting guidance applicable to, but not yet adopted by, Altria Group, Inc., see Note 11. Recent Accounting Guidance Not Yet Adopted.

Table of Contents
Altria Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 2. Asset Impairment, Exit and Implementation Costs:

Pre-tax asset impairment, exit and implementation costs consisted of the following:

	For the Nine Months Ended September 30, 2017			For the Nine Months Ended September 30, 2016		
	Asset Impairment and Exit Costs	Implementation Costs	Total	Asset Impairment and Exit Costs [(1)]	Implementation Costs	Total
	(in millions)					
Smokeable products	$2	$ 17	$ 19	$99	$ 6	$105
Smokeless products	22	30	52	13	1	14
All other	—	—	—	6	—	6
General corporate	—	—	—	5	—	5
Total	$24	$ 47	$ 71	$123	$ 7	$130

[(1)] Includes termination and curtailment costs of $20 million. See Note 3. Benefit Plans.

	For the Three Months Ended September 30, 2017			For the Three Months Ended September 30, 2016		
	Asset Impairment and Exit Costs	Implementation Costs	Total	Asset Impairment and Exit Costs	Implementation Costs	Total
	(in millions)					
Smokeable products	$—	$ 5	$ 5	$ 1	$ 3	$ 4
Smokeless products	8	2	10	—	1	1
All other	—	—	—	1	—	1
Total	$8	$ 7	$ 15	$ 2	$ 4	$ 6

The movement in the restructuring liabilities (excluding termination and curtailment costs), substantially all of which are severance liabilities, was as follows:

	For the Nine Months Ended September 30, 2017
	(in millions)
Balances at December 31, 2016	$ 79
Charges	17
Cash spent	(54)

Balances at September 30, 2017	$	42

The pre-tax asset impairment, exit and implementation costs shown above for 2017 and 2016 related to the facilities consolidation and productivity initiative, respectively, are discussed below.

Facilities Consolidation

In October 2016, Altria Group, Inc. announced the consolidation of certain of its operating companies' manufacturing facilities to streamline operations and achieve greater efficiencies. Middleton will transfer its Limerick, Pennsylvania operations to the Manufacturing Center site in Richmond, Virginia ("Richmond Manufacturing Center"). USSTC is in the process of transferring its Franklin Park, Illinois operations to its Nashville, Tennessee facility and the Richmond Manufacturing Center. Separation benefits are being paid to non-relocating employees. The consolidation is expected to be completed by the first quarter of 2018.

As a result of the consolidation, Altria Group, Inc. expects to record total pre-tax charges of approximately $150 million, or $0.05 per share. Of this amount, during 2016, Altria Group, Inc. incurred pre-tax charges of $71 million, or approximately $0.03 per share, and recorded $71 million during the first nine months of 2017. The total estimated charges relate primarily to accelerated depreciation and asset impairment ($55 million), employee separation costs ($45 million) and other exit and implementation costs ($50 million). Approximately $90 million of the total pre-tax charges are expected to result in cash expenditures.

For the nine and three months ended September 30, 2017, Altria Group, Inc. incurred pre-tax asset impairment, exit and implementation costs of $71 million and $15 million, respectively. The pre-tax implementation costs were included in cost of sales in Altria Group, Inc.'s condensed consolidated statements of earnings. Total pre-tax charges incurred since the inception of the consolidation through September 30, 2017 were $142 million.

Cash payments related to the consolidation of $46 million were made during the nine months ended September 30, 2017, for total cash payments of $51 million since inception.

Productivity Initiative

In January 2016, Altria Group, Inc. announced a productivity initiative designed to maintain its operating companies' leadership and cost competitiveness. The initiative reduces spending on certain selling, general and administrative infrastructure and implements a leaner organizational structure. As a result of the initiative, for the nine and three months ended September 30, 2016, Altria Group, Inc. incurred pre-tax asset impairment, exit and implementation costs of $130 million and $6 million, respectively. At December 31, 2016, total pre-tax charges related to this initiative were substantially completed.

Cash payments related to the initiative of $31 million were made during the nine months ended September 30, 2017, for total cash payments of $105 million since inception.

Note 3. Benefit Plans:

Components of Net Periodic Benefit (Income) Cost

Net periodic benefit (income) cost consisted of the following:

	For the Nine Months Ended September 30,				For the Three Months Ended September 30,			
	Pension		Postretirement		Pension		Postretirement	
	2017	2016	2017	2016	2017	2016	2017	2016
	(in millions)							
Service cost	$57	$55	$ 12	$ 12	$19	$18	$ 3	$ 4
Interest cost	216	211	57	58	72	70	17	18
Expected return on plan assets	(451)	(416)	—	—	(151)	(139)	—	—
Amortization:								
Net loss	147	130	19	19	49	43	3	3
Prior service cost (credit)	3	4	(28)	(29)	1	2	(9)	(10)
Termination and curtailment	—	20	—	—	—	—	—	—
Net periodic benefit (income) cost	$(28)	$4	$ 60	$ 60	$(10)	$(6)	$ 14	$ 15

Termination and curtailment costs shown in the table above relate to the productivity initiative discussed in Note 2. Asset Impairment, Exit and Implementation Costs.

In August 2017, the Board of Directors approved a voluntary, limited-time offer to approximately 8,200 former employees with vested benefits in the Altria Retirement Plan who have not commenced receiving benefit payments and who meet certain other conditions. Eligible participants can make a one-time election to receive their pension benefit as a single lump sum payment or as a monthly annuity. Eligible participants who wish to receive the lump sum payment or monthly annuity must make an election by November 3, 2017. Lump sum payments will be made in December 2017 and monthly annuity payments will begin on January 1, 2018. Payments will be made from the Altria Retirement Plan’s assets. If the lump sum acceptance rate results in settlement accounting, a one-time charge will be recorded in the fourth quarter of 2017.

Table of Contents
Altria Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Employer Contributions

Altria Group, Inc. makes contributions to the pension plans to the extent that the contributions are tax deductible and pays benefits that relate to plans for salaried employees that cannot be funded under Internal Revenue Service (“IRS”) regulations. Employer contributions of $18 million were made to Altria Group, Inc.’s pension plans during the nine months ended September 30, 2017. Altria Group, Inc. anticipates making additional employer contributions to its pension plans during the remainder of 2017 of up to $10 million, based on current tax law. However, this estimate is subject to change as a result of changes in tax and other benefit laws, as well as asset performance significantly above or below the assumed long-term rate of return on pension assets, or changes in interest rates.

Note 4. Earnings Per Share:

Basic and diluted earnings per share (“EPS”) were calculated using the following:

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2017	2016	2017	2016
	(in millions)			
Net earnings attributable to Altria Group, Inc.	$5,256	$3,963	$1,866	$1,093
Less: Distributed and undistributed earnings attributable to unvested restricted shares and restricted stock units	(7)	(6)	(2)	(1)
Earnings for basic and diluted EPS	$5,249	$3,957	$1,864	$1,092
Weighted-average shares for basic and diluted EPS	1,927	1,954	1,915	1,952

Note 5. Other Comprehensive Earnings/Losses:

The following tables set forth the changes in each component of accumulated other comprehensive losses, net of deferred income taxes, attributable to Altria Group, Inc.:

	For the Nine Months Ended September 30, 2017			
	Currency Translation Adjustments	Benefit Plans	AB InBev	Accumulated Other Comprehensive Losses
	(in millions)			
Balances, December 31, 2016	$(4)	$(2,048)	$ —	$ (2,052)
Other comprehensive earnings before reclassifications	1	—	9	10
Deferred income taxes	—	—	(3)	(3)
Other comprehensive earnings before reclassifications, net of deferred income taxes	1	—	6	7
Amounts reclassified to net earnings	—	154	5	159
Deferred income taxes	—	(58)	(2)	(60)

Amounts reclassified to net earnings, net of deferred income taxes	—	96	3		99
Other comprehensive earnings, net of deferred income taxes	1	96	9	(1)	106
Balances, September 30, 2017	$(3)	$(1,952)	$ 9		$ (1,946)

15

Table of Contents
Altria Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

	For the Three Months Ended September 30, 2017			
	Currency Translation Adjustments	Benefit Plans	AB InBev	Accumulated Other Comprehensive Losses
	(in millions)			
Balances, June 30, 2017	$(3)	$(1,983)	$148	$ (1,838)
Other comprehensive losses before reclassifications	—	—	(216)	(216)
Deferred income taxes	—	—	75	75
Other comprehensive losses before reclassifications, net of deferred income taxes	—	—	(141)	(141)
Amounts reclassified to net earnings	—	48	3	51
Deferred income taxes	—	(17)	(1)	(18)
Amounts reclassified to net earnings, net of deferred income taxes	—	31	2	33
Other comprehensive earnings (losses), net of deferred income taxes	—	31	(139) [1]	(108)
Balances, September 30, 2017	$(3)	$(1,952)	$9	$ (1,946)

[1] For the nine and three months ended September 30, 2017, other comprehensive earnings/losses related to Altria Group, Inc.'s investment in AB InBev consisted primarily of currency translation adjustments.

	For the Nine Months Ended September 30, 2016			
	Currency Translation Adjustments	Benefit Plans	SABMiller	Accumulated Other Comprehensive Losses
	(in millions)			
Balances, December 31, 2015	$(5)	$(2,010)	$(1,265)	$ (3,280)
Other comprehensive earnings (losses) before reclassifications	1	(318)	158	(159)
Deferred income taxes	—	122	(56)	66
Other comprehensive earnings (losses) before reclassifications, net of deferred income taxes	1	(196)	102	(93)
Amounts reclassified to net earnings	—	127	24	151
Deferred income taxes	—	(47)	(9)	(56)
Amounts reclassified to net earnings, net of deferred income taxes	—	80	15	95
Other comprehensive earnings (losses), net of deferred income taxes	1	(116)	117 [2]	2

Balances, September 30, 2016	$(4)	$(2,126)	$(1,148)	$ (3,278)

Table of Contents
Altria Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

	For the Three Months Ended September 30, 2016			
	Currency Translation Adjustments	Benefit Plans	SABMiller	Accumulated Other Comprehensive Losses
	(in millions)			
Balances, June 30, 2016	$(4)	$(2,154)	$(1,182)	$(3,340)
Other comprehensive earnings before reclassifications	—	—	48	48
Deferred income taxes	—	—	(17)	(17)
Other comprehensive earnings before reclassifications, net of deferred income taxes	—	—	31	31
Amounts reclassified to net earnings	—	42	5	47
Deferred income taxes	—	(14)	(2)	(16)
Amounts reclassified to net earnings, net of deferred income taxes	—	28	3	31
Other comprehensive earnings, net of deferred income taxes	—	28	34 [2]	62
Balances, September 30, 2016	$(4)	$(2,126)	$(1,148)	$(3,278)

[2] For the nine and three months ended September 30, 2016, other comprehensive earnings/losses related to Altria Group, Inc.'s investment in SABMiller consisted primarily of currency translation adjustments.

The following table sets forth pre-tax amounts by component, reclassified from accumulated other comprehensive losses to net earnings:

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2017	2016	2017	2016
	(in millions)			
Benefit Plans: [1]				
Net loss	$179	$162	$56	$50
Prior service cost/credit	(25)	(35)	(8)	(8)
	154	127	48	42
AB InBev/SABMiller [2]	5	24	3	5
Pre-tax amounts reclassified from accumulated other comprehensive losses to net earnings	$159	$151	$51	$47

[1] Amounts are included in net defined benefit plan costs. For further details, see Note 3. Benefit Plans.

(2) Amounts are included in earnings from equity investment in AB InBev/SABMiller.

Table of Contents

Altria Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 6. Segment Reporting:

The products of Altria Group, Inc.'s subsidiaries include smokeable tobacco products, consisting of cigarettes manufactured and sold by PM USA and Nat Sherman, machine-made large cigars and pipe tobacco manufactured and sold by Middleton and premium cigars sold by Nat Sherman; smokeless tobacco products manufactured and sold by USSTC; and wine produced and/or distributed by Ste. Michelle. The products and services of these subsidiaries constitute Altria Group, Inc.'s reportable segments of smokeable products, smokeless products and wine. The financial services and the innovative tobacco products businesses are included in all other.

Altria Group, Inc.'s chief operating decision maker (the "CODM") reviews operating companies income to evaluate the performance of, and allocate resources to, the segments. Operating companies income for the segments is defined as operating income before general corporate expenses and amortization of intangibles. Interest and other debt expense, net, and provision for income taxes are centrally managed at the corporate level and, accordingly, such items are not presented by segment since they are excluded from the measure of segment profitability reviewed by the CODM. Segment data were as follows:

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2017	2016	2017	2016
	(in millions)			
Net revenues:				
Smokeable products	$17,355	$17,398	$5,975	$6,147
Smokeless products	1,580	1,530	550	528
Wine	471	498	181	182
All other	69	66	23	48
Net revenues	$19,475	$19,492	$6,729	$6,905
Earnings before income taxes:				
Operating companies income (loss):				
Smokeable products	$6,564	$5,955	$2,290	$2,086
Smokeless products	951	930	352	312
Wine	82	100	36	38
All other	(31)	(46)	(10)	8
Amortization of intangibles	(15)	(15)	(5)	(5)
General corporate expenses	(158)	(150)	(56)	(57)
Corporate asset impairment and exit costs	—	(5)	—	—
Operating income	7,393	6,769	2,607	2,382
Interest and other debt expense, net	(525)	(571)	(169)	(179)
Loss on early extinguishment of debt	—	(823)	—	(823)
Earnings from equity investment in AB InBev/SABMiller	332	564	169	299
Gain on AB InBev/SABMiller business combination	445	205	37	48
Earnings before income taxes	$7,645	$6,144	$2,644	$1,727

Table of Contents
Altria Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

The comparability of operating companies income for the reportable segments was affected by the following:

Tobacco and Health Litigation Items - Pre-tax charges related to certain tobacco and health litigation items were recorded in Altria Group, Inc.'s condensed consolidated statements of earnings as follows:

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2017	2016	2017	2016
	(in millions)			
Smokeable products segment	$16	$72	$ —	$45
Interest and other debt expense, net	2	16	—	—
Total	$18	$88	$ —	$45

During the second quarter of 2017, PM USA recorded pre-tax charges related to four Engle progeny cases of $15 million in marketing, administration and research costs and $2 million in interest costs related to those cases. For further discussion, see Smoking and Health Litigation in Note 9. Contingencies.
During the third quarter of 2016, PM USA recorded a pre-tax charge related to the Miner case of $45 million in marketing, administration and research costs. During the first quarter of 2016, PM USA recorded pre-tax charges, primarily related to the Aspinall case, of $26 million in marketing, administration and research costs and $12 million in interest costs. For further discussion, see "Lights/Ultra Lights" Cases - State Trial Court Class Certification Settlements in Note 9. Contingencies.
Smokeless Products Recall - During the first quarter of 2017, USSTC voluntarily recalled certain smokeless tobacco products manufactured at its Franklin Park, Illinois facility due to a product tampering incident (the "Recall"). USSTC estimates that the Recall-related costs and the share impact from the Recall reduced smokeless products segment operating companies income by approximately $60 million in the first quarter of 2017.
Asset Impairment, Exit and Implementation Costs - See Note 2. Asset Impairment, Exit and Implementation Costs for a breakdown of these costs by segment.
Note 7. Debt:

At September 30, 2017 and December 31, 2016, Altria Group, Inc. had no short-term borrowings.

Long-term Debt

Altria Group, Inc.'s estimate of the fair value of its debt is based on observable market information derived from a third-party pricing source and is classified in Level 2 of the fair value hierarchy. The aggregate fair value of Altria Group, Inc.'s total long-term debt at September 30, 2017 and December 31, 2016, was $15.3 billion and $15.1 billion, respectively, as compared with its carrying value of $13.9 billion for each period.

During the third quarter of 2016, Altria Group, Inc. issued $0.5 billion aggregate principal amount of 2.625% senior unsecured notes due 2026 and $1.5 billion aggregate principal amount of 3.875% senior unsecured notes due 2046. The net proceeds from the issuance of these senior unsecured notes were added to Altria Group, Inc.'s general funds and were used to repurchase certain of its senior unsecured notes in connection with the debt tender offer discussed below and for other general corporate purposes, including voluntary contributions to Altria Group, Inc.'s pension plans.

During the third quarter of 2016, Altria Group, Inc. purchased for cash $441 million aggregate principal amount of its 9.95% senior unsecured notes due 2038, and $492 million aggregate principal amount of its 10.20% senior unsecured notes due 2039 in a debt tender offer. As a result of the debt tender offer, during the third quarter of 2016, Altria Group, Inc. recorded a pre-tax loss on early extinguishment of debt of $823 million, which included premiums and fees of $809 million and the write-off of related unamortized debt discounts and debt issuance costs of $14 million.

Table of Contents
Altria Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 8. Income Taxes:

The income tax rate of 29.4% for the three months ended September 30, 2017 decreased 7.3 percentage points from the three months ended September 30, 2016. This decrease was due primarily to the following:

- tax benefits of $232 million for the release of a valuation allowance related to deferred income tax assets for foreign tax credit carryforwards, which Altria Group, Inc. determined are more-likely-than-not to be fully utilized based upon new information received from AB InBev in the third quarter of 2017; and
- tax benefits of $36 million in 2017 for the reversal of tax accruals no longer required;

partially offset by:

- tax expense of $114 million in 2017 for tax reserves related to the calculation of certain foreign tax credits.

The income tax rate of 31.2% for the nine months ended September 30, 2017 decreased 4.2 percentage points from the nine months ended September 30, 2016. This decrease was due primarily to the items discussed above and tax benefits of $152 million related primarily to the effective settlement in June 2017 of the IRS audit of Altria Group, Inc. and its consolidated subsidiaries' 2010-2013 tax years.

Altria Group, Inc. is subject to income taxation in many jurisdictions. Uncertain tax positions reflect the difference between tax positions taken or expected to be taken on income tax returns and the amounts recognized in the financial statements. Resolution of the related tax positions with the relevant tax authorities may take many years to complete, and such timing is not entirely within the control of Altria Group, Inc. At September 30, 2017, Altria Group, Inc.'s total unrecognized tax benefits were $194 million. The amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate at September 30, 2017 was $126 million, along with $68 million affecting deferred taxes. It is reasonably possible that within the next 12 months certain examinations will be resolved, which could result in a decrease in unrecognized tax benefits of approximately $7 million. At December 31, 2016, Altria Group, Inc.'s total unrecognized tax benefits were $169 million. The amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate at December 31, 2016 was $67 million, along with $102 million affecting deferred taxes.

Note 9. Contingencies:

Legal proceedings covering a wide range of matters are pending or threatened in various United States and foreign jurisdictions against Altria Group, Inc. and its subsidiaries, including PM USA and UST and its subsidiaries, as well as their respective indemnitees. Various types of claims may be raised in these proceedings, including product liability, consumer protection, antitrust, tax, contraband shipments, patent infringement, employment matters, claims for contribution and claims of competitors or distributors.

Litigation is subject to uncertainty and it is possible that there could be adverse developments in pending or future cases. An unfavorable outcome or settlement of pending tobacco-related or other litigation could encourage the commencement of additional litigation. Damages claimed in some tobacco-related and other litigation are or can be significant and, in certain cases, have ranged in the billions of dollars. The variability in pleadings in multiple jurisdictions, together with the actual experience of management in litigating claims, demonstrate that the monetary relief that may be specified in a lawsuit bears little relevance to the ultimate outcome. In certain cases, plaintiffs claim that defendants' liability is joint and several. In such cases, Altria Group, Inc. or its subsidiaries may face the risk that one or more co-defendants decline or otherwise fail to participate in the bonding required for an appeal or to pay their proportionate or jury-allocated share of a judgment. As a result, Altria Group, Inc. or its subsidiaries under certain circumstances may have to pay more than their proportionate share of any bonding- or judgment-related amounts. Furthermore, in those cases where plaintiffs are successful, Altria Group, Inc. or its subsidiaries may also be required to pay interest and attorneys' fees.

Although PM USA has historically been able to obtain required bonds or relief from bonding requirements in order to prevent plaintiffs from seeking to collect judgments while adverse verdicts have been appealed, there remains a risk that such relief may not be obtainable in all cases. This risk has been substantially reduced given that 47 states and Puerto Rico limit the dollar amount of bonds or require no bond at all. As discussed below, however, tobacco litigation plaintiffs have challenged the constitutionality of Florida's bond cap statute in several cases and plaintiffs may challenge state bond cap statutes in other

Table of Contents
Altria Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

jurisdictions as well. Such challenges may include the applicability of state bond caps in federal court. States, including Florida, may also seek to repeal or alter bond cap statutes through legislation. Although Altria Group, Inc. cannot predict the outcome of such challenges, it is possible that the consolidated results of operations, cash flows or financial position of Altria Group, Inc., or one or more of its subsidiaries, could be materially affected in a particular fiscal quarter or fiscal year by an unfavorable outcome of one or more such challenges.

Altria Group, Inc. and its subsidiaries record provisions in the condensed consolidated financial statements for pending litigation when they determine that an unfavorable outcome is probable and the amount of the loss can be reasonably estimated. At the present time, while it is reasonably possible that an unfavorable outcome in a case may occur, except to the extent discussed elsewhere in this Note 9. Contingencies: (i) management has concluded that it is not probable that a loss has been incurred in any of the pending tobacco-related cases; (ii) management is unable to estimate the possible loss or range of loss that could result from an unfavorable outcome in any of the pending tobacco-related cases; and (iii) accordingly, management has not provided any amounts in the condensed consolidated financial statements for unfavorable outcomes, if any. Litigation defense costs are expensed as incurred.

Altria Group, Inc. and its subsidiaries have achieved substantial success in managing litigation. Nevertheless, litigation is subject to uncertainty and significant challenges remain. It is possible that the consolidated results of operations, cash flows or financial position of Altria Group, Inc., or one or more of its subsidiaries, could be materially affected in a particular fiscal quarter or fiscal year by an unfavorable outcome or settlement of certain pending litigation. Altria Group, Inc. and each of its subsidiaries named as a defendant believe, and each has been so advised by counsel handling the respective cases, that it has valid defenses to the litigation pending against it, as well as valid bases for appeal of adverse verdicts. Each of the companies has defended, and will continue to defend, vigorously against litigation challenges. However, Altria Group, Inc. and its subsidiaries may enter into settlement discussions in particular cases if they believe it is in the best interests of Altria Group, Inc. to do so.

Overview of Altria Group, Inc. and/or PM USA Tobacco-Related Litigation

Types and Number of Cases

Claims related to tobacco products generally fall within the following categories: (i) smoking and health cases alleging personal injury brought on behalf of individual plaintiffs; (ii) smoking and health cases primarily alleging personal injury or seeking court-supervised programs for ongoing medical monitoring and purporting to be brought on behalf of a class of individual plaintiffs, including cases in which the aggregated claims of a number of individual plaintiffs are to be tried in a single proceeding; (iii) health care cost recovery cases brought by governmental (both domestic and foreign) plaintiffs seeking reimbursement for health care expenditures allegedly caused by cigarette smoking and/or disgorgement of profits; (iv) class action suits alleging that the uses of the terms “Lights” and “Ultra Lights” constitute deceptive and unfair trade practices, common law or statutory fraud, unjust enrichment, breach of warranty or violations of the Racketeer Influenced and Corrupt Organizations Act (“RICO”); and (v) other tobacco-related litigation described below. Plaintiffs’ theories of recovery and the defenses raised in pending smoking and health, health care cost recovery and “Lights/Ultra Lights” cases are discussed below.

The table below lists the number of certain tobacco-related cases pending in the United States against PM USA and, in some instances, Altria Group, Inc. as of October 23, 2017, October 24, 2016 and October 26, 2015:

	October 23, 2017	October 24, 2016	October 26, 2015

Individual Smoking and Health Cases [1]	87	66	65
Smoking and Health Class Actions and Aggregated Claims Litigation [2]	4	5	5
Health Care Cost Recovery Actions [3]	1	1	1
"Lights/Ultra Lights" Class Actions	4	9	12

[1] Does not include 2,423 cases brought by flight attendants seeking compensatory damages for personal injuries allegedly caused by exposure to environmental tobacco smoke ("ETS"). The flight attendants allege that they are members of an ETS smoking and health class action in Florida, which was settled in 1997 (Broin). The terms of the court-approved settlement in that case allowed class members to file individual lawsuits seeking compensatory damages, but prohibited them from seeking punitive damages. Also, does not include individual smoking and health cases brought by or on behalf of plaintiffs in Florida state and federal courts following the decertification of the Engle case (discussed below in Smoking and Health Litigation - Engle Class Action).

(2) Includes as one case the 600 civil actions (of which 344 were actions against PM USA) that were to be tried in a single proceeding in West Virginia (In re: Tobacco Litigation). The West Virginia Supreme Court of Appeals ruled that the United States Constitution did not preclude a trial in two phases in this case. Issues related to defendants' conduct and whether punitive damages are permissible were tried in the first phase. Trial in the first phase of this case began in April 2013. In May 2013, the jury returned a verdict in favor of defendants on the claims for design defect, negligence, failure to warn, breach of warranty, and concealment and declined to find that the defendants' conduct warranted punitive damages. Plaintiffs prevailed on their claim that ventilated filter cigarettes should have included use instructions for the period 1964 - 1969. The second phase will consist of trials to determine liability and compensatory damages. In November 2014, the West Virginia Supreme Court of Appeals affirmed the final judgment. In July 2015, the trial court entered an order that will result in the entry of final judgment in favor of defendants and against all but 30 plaintiffs who potentially have a claim against one or more defendants that may be pursued in a second phase of trial. The court intends to try the claims of these 30 plaintiffs in six consolidated trials, each with a group of five plaintiffs. PM USA is a defendant in nine of the remaining 30 cases. The first trial is currently scheduled to begin May 1, 2018. Dates for the five remaining consolidated trials have not been scheduled. The parties have agreed to resolve the cases for an immaterial amount and have so notified the court together with a motion that the court vacate the May trial date.
(3) See Health Care Cost Recovery Litigation - Federal Government's Lawsuit below.

International Tobacco-Related Cases

As of October 23, 2017, PM USA is a named defendant in 10 health care cost recovery actions in Canada, eight of which also name Altria Group, Inc. as a defendant. PM USA and Altria Group, Inc. are also named defendants in seven smoking and health class actions filed in various Canadian provinces. See Guarantees and Other Similar Matters below for a discussion of the Distribution Agreement between Altria Group, Inc. and Philip Morris International Inc. ("PMI") that provides for indemnities for certain liabilities concerning tobacco products.

Tobacco-Related Cases Set for Trial

As of October 23, 2017, seven Engle progeny cases are set for trial through December 31, 2017. There are no other individual smoking and health cases and no "Lights/Ultra Lights" class actions against PM USA set for trial during this period. Cases against other companies in the tobacco industry may be scheduled for trial during this period. Trial dates are subject to change.

Trial Results

Since January 1999, excluding the Engle progeny cases (separately discussed below), verdicts have been returned in 62 smoking and health, "Lights/Ultra Lights" and health care cost recovery cases in which PM USA was a defendant. Verdicts in favor of PM USA and other defendants were returned in 41 of the 62 cases. These 41 cases were tried in Alaska (1), California (7), Florida (10), Louisiana (1), Massachusetts (2), Mississippi (1), Missouri (4), New Hampshire (1), New Jersey (1), New York (5), Ohio (2), Pennsylvania (1), Rhode Island (1), Tennessee (2) and West Virginia (2). A motion for a new trial was granted in one of the cases in Florida and in the case in Alaska. In the Alaska case (Hunter), the trial court withdrew its order for a new trial upon PM USA's motion for reconsideration. In December 2015, the Alaska Supreme Court reversed the trial court decision and remanded the case with directions for the trial court to reassess whether to grant a new trial. In March 2016, the trial court granted a new trial and PM USA filed a petition for review of that order with the Alaska Supreme Court, which the court denied in July 2016. The retrial began in October 2016. In November 2016, the court declared a mistrial after the jury failed to reach a verdict.

The plaintiff subsequently moved for a new trial. In October 2017, the trial court vacated the October 16, 2017 trial date. A new date for trial has not been set. See Types and Number of Cases above for a discussion of the trial results in In re: Tobacco Litigation (West Virginia consolidated cases).

Of the 21 non-Engle progeny cases in which verdicts were returned in favor of plaintiffs, 18 have reached final resolution.

As of October 23, 2017, 114 state and federal Engle progeny cases involving PM USA have resulted in verdicts since the Florida Supreme Court’s Engle decision as follows: 62 verdicts were returned in favor of plaintiffs; 45 verdicts were returned in favor of PM USA. Five verdicts that were initially returned in favor of plaintiff were reversed post-trial or on appeal and remain pending and two verdicts in favor of PM USA were reversed for a new trial. See Smoking and Health Litigation - Engle Progeny Trial Court Results below for a discussion of these verdicts.

Judgments Paid and Provisions for Tobacco and Health Litigation Items (Including Engle Progeny Litigation)

After exhausting all appeals in those cases resulting in adverse verdicts associated with tobacco-related litigation, since October 2004, PM USA has paid in the aggregate judgments and settlements (including related costs and fees) totaling approximately $490 million and interest totaling approximately $184 million as of September 30, 2017. These amounts include payments for

Engle progeny judgments (and related costs and fees) totaling approximately $99 million, interest totaling approximately $22 million and payment of approximately $43 million in connection with the Federal Engle Agreement, discussed below.

The changes in Altria Group, Inc.'s accrued liability for tobacco and health litigation items, including related interest costs, for the periods specified below are as follows:

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2017	2016	2017	2016
	(in millions)			
Accrued liability for tobacco and health litigation items at beginning of period	$47	$132	$ 47	$ 30
Pre-tax charges for:				
Tobacco and health judgments	16	5	—	—
Related interest costs	2	6	—	—
Agreement to resolve Aspinall including related interest costs	—	32	—	—
Agreement to resolve Miner	—	45	—	45
Payments	(18)	(145)	—	—
Accrued liability for tobacco and health litigation items at end of period	$47	$75	$ 47	$ 75

The accrued liability for tobacco and health litigation items, including related interest costs, was included in liabilities on Altria Group, Inc.'s condensed consolidated balance sheets. Pre-tax charges for tobacco and health judgments and the agreements to resolve the Aspinall case (excluding related interest costs of approximately $10 million) and the Miner case were included in marketing, administration and research costs on Altria Group, Inc.'s condensed consolidated statements of earnings. Pre-tax charges for related interest costs were included in interest and other debt expense, net on Altria Group, Inc.'s condensed consolidated statements of earnings.

Security for Judgments

To obtain stays of judgments pending current appeals, as of September 30, 2017, PM USA has posted various forms of security totaling approximately $61 million, the majority of which has been collateralized with cash deposits that are included in other assets on the condensed consolidated balance sheet.

Smoking and Health Litigation

Overview

Plaintiffs' allegations of liability in smoking and health cases are based on various theories of recovery, including negligence, gross negligence, strict liability, fraud, misrepresentation, design defect, failure to warn, nuisance, breach of express and implied warranties, breach of special duty, conspiracy, concert of action, violations of deceptive trade practice laws and consumer protection statutes, and claims under the federal and state anti-racketeering statutes.

Plaintiffs in the smoking and health cases seek various forms of relief, including compensatory and punitive damages, treble/multiple damages and other statutory damages and penalties, creation of medical monitoring and smoking cessation funds, disgorgement of profits, and injunctive and equitable relief. Defenses raised in these cases include lack of proximate cause, assumption of the risk, comparative fault and/or contributory negligence, statutes of limitations and preemption by the Federal Cigarette Labeling and Advertising Act.

Non-Engle Progeny Litigation

Summarized below are the non-Engle progeny smoking and health cases pending during 2017 in which a verdict was returned in favor of plaintiff and against PM USA. Charts listing certain verdicts for plaintiffs in the Engle progeny cases can be found in Smoking and Health Litigation - Engle Progeny Trial Results below.

Gentile: In October 2017, a jury in a Florida state court returned a verdict in favor of plaintiff, awarding approximately $7.1 million in compensatory damages and allocating 75% of the fault to PM USA (an amount of approximately $5.3 million).

Bullock: In December 2015, a jury in the U.S. District Court for the Central District of California returned a verdict in favor of plaintiff, awarding $900,000 in compensatory damages. In January 2016, the plaintiff moved for a new trial, which the district court denied in February 2016. In March 2016, PM USA filed a notice of appeal to the U.S. Court of Appeals for the Ninth Circuit and plaintiff cross-appealed. Oral argument is scheduled for November 7, 2017.

Federal Government's Lawsuit: See Health Care Cost Recovery Litigation - Federal Government's Lawsuit below for a discussion of the verdict and post-trial developments in the United States of America health care cost recovery case.

Engle Class Action

In July 2000, in the second phase of the Engle smoking and health class action in Florida, a jury returned a verdict assessing punitive damages totaling approximately $145 billion against various defendants, including $74 billion against PM USA. Following entry of judgment, PM USA appealed.

In May 2001, the trial court approved a stipulation providing that execution of the punitive damages component of the Engle judgment will remain stayed against PM USA and the other participating defendants through the completion of all judicial review. As a result of the stipulation, PM USA placed $500 million into an interest-bearing escrow account that, regardless of the outcome of the judicial review, was to be paid to the court and the court was to determine how to allocate or distribute it consistent with Florida Rules of Civil Procedure. In May 2003, the Florida Third District Court of Appeal reversed the judgment entered by the trial court and instructed the trial court to order the decertification of the class. Plaintiffs petitioned the Florida Supreme Court for further review.

In July 2006, the Florida Supreme Court ordered that the punitive damages award be vacated, that the class approved by the trial court be decertified and that members of the decertified class could file individual actions against defendants within one year of issuance of the mandate. The court further declared the following Phase I findings are entitled to res judicata effect in such individual actions brought within one year of the issuance of the mandate: (i) that smoking causes various diseases; (ii) that nicotine in cigarettes is addictive; (iii) that defendants' cigarettes were defective and unreasonably dangerous; (iv) that defendants concealed or omitted material information not otherwise known or available knowing that the material was false or misleading or failed to disclose a material fact concerning the health effects or addictive nature of smoking; (v) that defendants agreed to misrepresent information regarding the health effects or addictive nature of cigarettes with the intention of causing the public to rely on this information to their detriment; (vi) that defendants agreed to conceal or omit information regarding the health effects of cigarettes or their addictive nature with the intention that smokers would rely on the information to their detriment; (vii) that all defendants sold or supplied cigarettes that were defective; and (viii) that defendants were negligent. The court also reinstated compensatory damages awards totaling approximately $6.9 million to two individual plaintiffs and found that a third plaintiff's claim was barred by the statute of limitations. In February 2008, PM USA paid approximately $3 million, representing its share of compensatory damages and interest, to the two individual plaintiffs identified in the Florida Supreme Court's order.

In August 2006, PM USA sought rehearing from the Florida Supreme Court on parts of its July 2006 opinion, including the ruling (described above) that certain jury findings have res judicata effect in subsequent individual trials timely brought by Engle class members. The rehearing motion also asked, among other things, that legal errors that were raised but not expressly ruled upon in the Florida Third District Court of Appeal or in the Florida Supreme Court now be addressed. Plaintiffs also filed a motion for rehearing in August 2006 seeking clarification of the applicability of the statute of limitations to non-members of the decertified class. In December 2006, the Florida Supreme Court refused to revise its July 2006 ruling, except that it revised the set of Phase I findings entitled to res judicata effect by excluding finding (v) listed above (relating to agreement to misrepresent information), and added the finding that defendants sold or supplied cigarettes that, at the time of sale or supply, did not conform to the representations of fact made by defendants. In January 2007, the Florida Supreme Court issued the mandate from its revised opinion. Defendants then filed a motion with the Florida Third District Court of Appeal requesting that the court address legal errors that were previously raised by defendants but have not yet been addressed either by the Florida Third District Court of Appeal or by the Florida Supreme Court. In February 2007, the Florida Third District Court of Appeal denied defendants' motion. In May 2007, defendants' motion for a partial stay of the mandate pending the completion

Table of Contents
Altria Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

of appellate review was denied by the Florida Third District Court of Appeal. In May 2007, defendants filed a petition for writ of certiorari with the United States Supreme Court, which the United States Supreme Court denied later in 2007.

In February 2008, the trial court decertified the class, except for purposes of the May 2001 bond stipulation, and formally vacated the punitive damages award pursuant to the Florida Supreme Court's mandate. In April 2008, the trial court ruled that certain defendants, including PM USA, lacked standing with respect to allocation of the funds escrowed under the May 2001 bond stipulation and would receive no credit at that time from the $500 million paid by PM USA against any future punitive damages awards in cases brought by former Engle class members.

In May 2008, the trial court, among other things, decertified the limited class maintained for purposes of the May 2001 bond stipulation and, in July 2008, severed the remaining plaintiffs' claims except for those of Howard Engle. The only remaining plaintiff in the Engle case, Howard Engle, voluntarily dismissed his claims with prejudice.

Engle Progeny Cases

The deadline for filing Engle progeny cases, as required by the Florida Supreme Court's Engle decision, expired in January 2008. As of October 23, 2017, approximately 2,500 state court cases were pending against PM USA or Altria Group, Inc. asserting individual claims by or on behalf of approximately 3,200 state court plaintiffs. Because of a number of factors, including, but not limited to, docketing delays, duplicated filings and overlapping dismissal orders, these numbers are estimates. While the Federal Engle Agreement (discussed below) resolved nearly all Engle progeny cases pending in federal court, as of October 23, 2017, approximately 12 cases were pending against PM USA in federal court representing the cases excluded from that agreement.

Agreement to Resolve Federal Engle Progeny Cases

In 2015, PM USA, R.J. Reynolds Tobacco Company ("R.J. Reynolds") and Lorillard Tobacco Company ("Lorillard") resolved approximately 415 pending federal Engle progeny cases (the "Federal Engle Agreement"). Under the terms of the Federal Engle Agreement, PM USA paid approximately $43 million. Federal cases that were in trial and those that previously reached final verdict were not included in the Federal Engle Agreement.

Engle Progeny Trial Results

As of October 23, 2017, 114 federal and state Engle progeny cases involving PM USA have resulted in verdicts since the Florida Supreme Court Engle decision. Sixty-two verdicts were returned in favor of plaintiffs and five verdicts (Skolnick, Calloway, Pollari, Caprio and Oshinsky-Blacker) that were initially returned in favor of plaintiffs were reversed post-trial or on appeal and remain pending. Skolnick was remanded for a new trial; Calloway was reversed and remanded for a new trial on an appellate finding that improper arguments by plaintiff's counsel deprived defendants of a fair trial; Pollari was reversed and remanded for a new trial on an appellate finding that the trial court erred in admitting certain materials into evidence that deprived defendants of a fair trial; Caprio was reversed post-trial after defendants agreed to voluntarily dismiss their appeal in exchange for a full retrial; and Oshinsky-Blacker was reversed post-trial based on plaintiff's counsel's improper arguments at trial.

Forty-five verdicts were returned in favor of PM USA, of which 36 were state cases (Gelep, Kalyvas, Gil de Rubio, Warrick, Willis, Russo (formerly Frazier), C. Campbell, Rohr, Espinosa, Oliva, Weingart, Junious, Szymanski, Hancock, LaMotte, J. Campbell, Dombey, Haldeman, Blasco, Gonzalez, Banks, Surico, Baum, Bishop, Vila, McMannis, Suarez, Shulman, Ewing, E. Smith, Mooney, Chacon, Dubinsky, Lima, Kogan and Pearson) and 9 were federal cases (Gollihue, McCray, Denton, Wilder, Jacobson, Reider, Davis, Starbuck and Sowers). In addition, there have been a number of mistrials, only some of which have resulted in new trials as of October 23, 2017. Two verdicts (D. Cohen and Collar) that were returned in favor of PM USA were subsequently reversed for new trials. The juries in the Reider and Banks cases returned zero damages verdicts in favor of PM USA. The juries in the Weingart and Hancock cases returned verdicts against PM USA awarding no damages, but the trial court in each case granted an additur.

The charts below list the verdicts and post-trial developments in certain Engle progeny cases in which verdicts were returned in favor of plaintiffs (including Hancock, where the verdict originally was returned in favor of PM USA). The first chart lists such cases that are pending as of October 23, 2017; the second chart lists such cases that were pending within the previous 12 months, but that are now concluded.

Table of Contents
Altria Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Currently-Pending Engle Cases

Plaintiff: Wallace
Date: October 2017

Verdict:
A Brevard County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds awarding compensatory damages of $12 million and allocating 66% of the fault to PM USA (an amount of approximately $7.9 million). The jury also awarded plaintiff $16 million in punitive damages against PM USA.

Plaintiff: L. Martin
Date: May 2017

Verdict:
A Miami-Dade County jury returned a verdict in favor of plaintiff and against PM USA awarding compensatory damages of $1.1 million and allocating 55% of the fault to PM USA (an amount of $605,000). The jury also awarded plaintiff $1.3 million in punitive damages against PM USA.

Post-Trial Developments:
In May 2017, PM USA filed various post-trial motions, including motions to set aside the verdict and for a new trial. In June 2017, the trial court entered final judgment in favor of plaintiff with a deduction for plaintiff's comparative fault. In August 2017, the court denied PM USA's post-trial motions and PM USA filed a notice of appeal and posted a bond in the amount of approximately $1.9 million. In September 2017, plaintiff cross-appealed.

Plaintiff: Sommers
Date: April 2017

Verdict:
A Miami-Dade County jury returned a verdict in favor of plaintiff and against PM USA awarding compensatory damages of $1 million and allocating 40% of the fault to PM USA. The court dismissed the punitive damages claim prior to trial.

Post-Trial Developments:
In April 2017, PM USA filed motions for a new trial and for a directed verdict, and plaintiff filed a motion for a new trial on punitive damages.

Plaintiff: Santoro
Date: March 2017

Verdict:
A Broward County jury returned a verdict in favor of plaintiff and against PM USA, R.J. Reynolds and Liggett Group LLC ("Liggett Group") awarding compensatory damages of $1.6 million and allocating 28% of the fault to PM USA (an amount of approximately $450,000). The jury also awarded plaintiff $100,000 in punitive damages against PM USA.

Post-Trial Developments:

In April 2017, the trial court entered final judgment in favor of plaintiff with a deduction for plaintiff's comparative fault and defendants filed various post-trial motions, including motions to set aside the verdict and for a new trial.

Plaintiff: J. Brown
Date: February 2017

Verdict:
A Pinellas County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds awarding compensatory damages of $5.4 million and allocating 35% of the fault to PM USA. The jury also awarded plaintiff $200,000 in punitive damages against PM USA.

Post-Trial Developments:
In March 2017, defendants filed various post-trial motions, including motions to set aside the verdict and for a new trial. The

court ruled that it will not apply the comparative fault reduction to the compensatory damages. In August 2017, the trial court denied defendants' post-trial motions and entered final judgment in favor of plaintiff. In September 2017, defendants filed a notice of appeal to the Florida Second District Court of Appeal and posted a bond in the amount of $2.5 million.

Plaintiff: Pardue
Date: December 2016

Verdict:
An Alachua County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds awarding compensatory damages of approximately $5.9 million and allocating 25% of the fault to PM USA. The jury also awarded plaintiff $6.75 million in punitive damages against PM USA.

Post-Trial Developments:
In December 2016, the trial court entered final judgment in favor of plaintiff without a deduction for plaintiff's comparative fault. In January 2017, PM USA and R.J. Reynolds filed various post-trial motions, including motions to set aside the verdict and for a new trial or, in the alternative, for remittitur of the jury's damages awards. In February 2017, the court granted defendants' alternative motion for remittitur, reducing the compensatory damages award against PM USA and R.J. Reynolds to approximately $5.2 million. Also in February 2017, defendants filed a renewed motion to alter or amend the judgment, which the court denied in April 2017. In March 2017, defendants filed a notice of appeal to the Florida First District Court of Appeal and plaintiff cross-appealed. In April 2017, PM USA posted a bond in the amount of $2.5 million.

Plaintiff: S. Martin
Date: November 2016

Verdict:
A Broward County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds awarding compensatory damages of approximately $5.4 million and allocating 46% of the fault to PM USA (an amount of approximately $2.48 million). The jury also awarded plaintiff $450,000 in punitive damages against PM USA.

Post-Trial Developments:
In December 2016, the trial court entered final judgment in favor of plaintiff with a deduction for plaintiff's comparative fault and PM USA and R.J. Reynolds filed various post-trial motions, including motions to set aside the verdict and for a new trial. In January 2017, the trial court denied all post-trial motions. In February 2017, defendants filed a notice of appeal to the Florida Fourth District Court of Appeal and plaintiff cross-appealed. Also in February 2017, PM USA posted a bond in the amount of $2.9 million.

Plaintiff: Howles
Date: November 2016

Verdict:
A Broward County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds awarding compensatory damages of $4 million and allocating 50% of the fault to PM USA (an amount of $2 million). The jury also awarded plaintiff $3 million in punitive damages against PM USA.

Post-Trial Developments:
In November 2016, PM USA and R.J. Reynolds filed various post-trial motions, including motions to set aside the verdict and for a new trial, which the court denied in December 2016. Also in December 2016, defendants filed a notice of appeal to the Florida Fourth District Court of Appeal.

Plaintiff: Oshinsky-Blacker
Date: September 2016

Verdict:
A Broward County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds awarding compensatory damages of $6.155 million and allocating 60% of the fault to PM USA (an amount of $3.7 million). The jury also awarded plaintiff $1 million in punitive damages against PM USA.

Altria Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Post-Trial Developments:
In October 2016, PM USA and R.J. Reynolds filed motions to set aside the verdict and for a directed verdict. In March 2017, the trial court vacated the verdict, ordered a new trial based on plaintiff's counsel's improper arguments at trial and denied defendants' remaining post-trial motions. Also in March 2017, plaintiff filed a notice of appeal with the Florida Fourth District Court of Appeal and defendants cross-appealed.

Plaintiff: Sermons
Date: July 2016

Verdict:
A Duval County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds awarding compensatory damages of $65,000 and allocating 15% of the fault to PM USA (an amount of $9,750). The jury also awarded plaintiff $51,225 in punitive damages against PM USA.

Post-Trial Developments:
In July 2016, plaintiff filed a motion for a new trial or, in the alternative, for an additur.

Plaintiff: Purdo
Date: April 2016

Verdict:
A Palm Beach County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds awarding compensatory damages of $21 million and allocating 12% of the fault to PM USA (an amount of $2.52 million). The jury also awarded plaintiff $6.25 million in punitive damages against each defendant.

Post-Trial Developments:
In May 2016, PM USA and R.J. Reynolds filed various post-trial motions, including motions to set aside the verdict and for a new trial, all of which the court denied and entered final judgment in favor of plaintiff with a deduction for plaintiff's comparative fault. In June 2016, defendants filed a notice of appeal to the Florida Fourth District Court of Appeal and PM USA posted a bond in the amount of approximately $1.5 million. In August 2017, the Florida Fourth District Court of Appeal affirmed the final judgment in favor of plaintiff. In September 2017, defendants petitioned the Florida Fourth District Court of Appeal for panel rehearing or for rehearing en banc, which the court denied in October 2017.

Plaintiff: McCall
Date: March 2016

Verdict:
A Broward County jury returned a verdict in favor of plaintiff and against PM USA awarding compensatory damages of $350,000 and allocating 25% of the fault to PM USA (an amount of $87,500).

Post-Trial Developments:
In March 2016, PM USA filed a motion to set aside the verdict and to enter judgment in its favor, which the court denied in May 2016. Also in March 2016, plaintiff filed a motion for a new trial on punitive damages, citing the Soffer decision (allowing Engle progeny plaintiffs to seek punitive damages on their negligence and strict liability claims) discussed below under Engle Progeny Appellate Issues, which the court granted in May 2016. In June 2016,

PM USA filed a notice of appeal to the Florida Fourth District Court of Appeal and plaintiff cross-appealed.

Plaintiff: Ahrens
Date: February 2016

Verdict:
A Pinellas County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds awarding $9 million in compensatory damages and allocating 24% of the fault to PM USA. The jury also awarded plaintiff $2.5 million in punitive damages against each defendant.

Post-Trial Developments:
In February 2016, the trial court entered final judgment against PM USA and R.J. Reynolds without any deduction for

plaintiff’s comparative fault and defendants filed various post-trial motions, including motions to set aside the verdict and for a new trial. In March 2016, the trial court denied defendants’ post-trial motions. In April 2016, defendants filed a notice of appeal to the Florida Second District Court of Appeal and PM USA posted a bond in the amount of $2.5 million. In May 2017, the Florida Second District Court of Appeal issued a per curiam affirmance of the final judgment against defendants and defendants filed a motion for rehearing. In July 2017, the Second District Court of Appeal withdrew its prior decision and replaced it with a written opinion affirming the trial court’s judgment, but certifying to the Florida Supreme Court a conflict with Schoeff, discussed below under Engle Progeny Appellate Issues. In August 2017, defendants filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court and the Florida Supreme Court stayed the case pending Schoeff.

Plaintiff: Ledoux
Date: December 2015

Verdict:
A Miami-Dade County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds awarding $10 million in compensatory damages and allocating 47% of the fault to PM USA. The jury also awarded plaintiff $12.5 million in punitive damages against each defendant.

Post-Trial Developments:
In January 2016, PM USA and R.J. Reynolds filed various post-trial motions, including motions to set aside the verdict and for a new trial, and the trial court entered final judgment against PM USA and R.J. Reynolds without any deduction for plaintiff’s comparative fault. In February 2016, the trial court denied defendants’ post-trial motions. In March 2016, defendants filed a notice of appeal to the Florida Third District Court of Appeal and PM USA posted a bond in the amount of $2.5 million. In October 2017, the Florida Third District Court of Appeal affirmed the final judgment in favor of plaintiff.

Plaintiff: Barbose
Date: November 2015

Verdict:
A Pasco County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds awarding $10 million in compensatory damages and allocating 42.5% of the fault to PM USA. The jury also awarded plaintiff $500,000 in punitive damages against each defendant.

Post-Trial Developments:
In November 2015, the court entered final judgment in favor of plaintiff without any deduction for plaintiff’s comparative fault and in December 2015, PM USA and R.J. Reynolds filed various post-trial motions, including motions to set aside the verdict and for a new trial, which the court denied in January 2016. In February 2016, PM USA posted a bond in the amount of $2.5 million and filed a notice of appeal to the Florida Second District Court of Appeal. In August 2017, the Florida Second District Court of Appeal issued a per curiam affirmance of the final judgment against defendants and defendants filed a motion seeking a written opinion with a citation to Schoeff, discussed below under Engle Progeny Appellate Issues. In October 2017, the Florida Second District Court of Appeal issued a written opinion with a citation to Schoeff.

Plaintiff: Tognoli
Date: November 2015

Verdict:
A Broward County jury returned a verdict in favor of plaintiff and against PM USA awarding $1.05 million in compensatory damages and allocating 15% of the fault to PM USA (an amount of $157,500).

Post-Trial Developments:
In December 2015, PM USA filed a motion to set aside the verdict and for judgment in accordance with its motion for directed verdict. In January 2016, the trial court entered final judgment against PM USA with a deduction for plaintiff's comparative fault and plaintiff filed an appeal to the Florida Fourth District Court of Appeal. Additionally, the trial court denied PM USA's post-trial motions and PM USA cross-appealed. In June 2017, the Florida Fourth District Court of Appeal issued a per curiam affirmance of the final judgment against PM USA. In July 2017, plaintiff filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court and, in August 2017, the Florida Supreme Court stayed the case pending Schoeff, discussed below under Engle Progeny Appellate Issues.

Table of Contents
Altria Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Plaintiff: Danielson
Date: November 2015

Verdict:
An Escambia County jury returned a verdict in favor of plaintiff and against PM USA awarding $325,000 in compensatory damages and allocating 49% of the fault to PM USA. The jury also awarded plaintiff $325,000 in punitive damages.

Post-Trial Developments:
In November 2015, plaintiff filed a motion to enforce the parties' pretrial stipulation of $2.3 million in economic damages, which the trial court granted. The plaintiff also filed a motion for an additur or, in the alternative, for a new trial and PM USA filed post-trial motions, including a motion concerning the proper form of judgment and for a new trial. In December 2015, the trial court granted plaintiff's motion for a new trial on damages and denied PM USA's post-trial motions. In January 2016, PM USA filed a notice of appeal to the Florida First District Court of Appeal. In July 2017, the Florida First District Court of Appeal affirmed the trial court's order granting a new trial on non-economic compensatory damages, but reinstated the jury's punitive damages award.

Plaintiff: Marchese
Date: October 2015

Verdict:
A Broward County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds awarding $1 million in compensatory damages and allocating 22.5% of the fault to PM USA (an amount of $225,000). The jury also awarded plaintiff $250,000 in punitive damages against each defendant.

Post-Trial Developments:
In October 2015, defendants filed various post-trial motions, including motions to set aside the verdict and for a new trial. In November 2015, the court entered final judgment in favor of plaintiff. In May 2016, the court denied defendants' post-trial motions and amended the final judgment to apply the comparative fault deduction. In June 2016, defendants filed a notice of appeal to the Florida Fourth District Court of Appeal and plaintiff cross-appealed. Also in June 2016, PM USA posted a bond in the amount of approximately $475,000.

Plaintiff: Duignan
Date: September 2015

Verdict:
A Pinellas County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds awarding $6 million in compensatory damages and allocating 37% of the fault to PM USA. The jury also awarded plaintiff $3.5 million in punitive damages against PM USA.

Post-Trial Developments:
In September 2015, the trial court entered final judgment without any deduction for plaintiff's comparative fault, and PM USA filed various post-trial motions, including motions to set aside the verdict and for a new trial, which the court denied in October 2015. In November 2015, PM USA and R.J. Reynolds filed a notice of appeal to the Florida Second District Court of Appeal and PM USA posted a bond in the amount of approximately $2.7 million.

Plaintiff: Cooper
Date: September 2015

Verdict:
A Broward County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds awarding $4.5 million in compensatory damages and allocating 10% of the fault to PM USA (an amount of $450,000).

Post-Trial Developments:
In September 2015, defendants filed various post-trial motions, including motions to set aside the verdict and for a directed verdict. In January 2016, the trial court denied PM USA's post-trial motions. In February 2016, the trial court entered final judgment in favor of plaintiff, reducing the compensatory damages award against PM USA to approximately $300,000. In March 2016, PM USA and R.J. Reynolds filed a notice of appeal in the Florida Fourth District Court of Appeal and plaintiff

cross-appealed. Also in March 2016, PM USA posted a bond in the amount of approximately $300,000.

Plaintiff: Jordan
Date: August 2015

Verdict:
A Duval County jury returned a verdict in favor of plaintiff and against PM USA awarding approximately $7.8 million in compensatory damages and allocating 60% of the fault to PM USA. The jury also awarded approximately $3.2 million in punitive damages.

Post-Trial Developments:
In August 2015, the trial court entered final judgment without any deduction for plaintiff's comparative fault, but reduced the compensatory damages to approximately $6.4 million. PM USA filed various post-trial motions, including motions to set aside the verdict and for a new trial, which the court denied in December 2015. PM USA subsequently filed a notice of appeal to the Florida First District Court of Appeal and plaintiff cross-appealed.

Plaintiff: McCoy
Date: July 2015

Verdict:
A Broward County jury returned a verdict in favor of plaintiff and against PM USA, R.J. Reynolds and Lorillard awarding $1.5 million in compensatory damages and allocating 20% of the fault to PM USA (an amount of $300,000). The jury also awarded $3 million in punitive damages against each defendant.

Post-Trial Developments:
In July 2015, defendants filed various post-trial motions, including motions to set aside the verdict and for a new trial. In August 2015, the trial court entered final judgment without any deduction for plaintiff's comparative fault. In January 2016, the trial court denied defendants' post-trial motions and amended the final judgment to apply the comparative fault deduction. Subsequently, defendants filed a notice of appeal to the Florida Fourth District Court of Appeal, PM USA posted a bond in the amount of approximately $1.65 million and plaintiff filed a notice of cross-appeal.

Plaintiff: M. Brown
Date: May 2015

Verdict:
In May 2015, a Duval County jury returned a verdict in favor of plaintiff and against PM USA in a partial retrial. In 2013, a jury returned a partial verdict against PM USA, but was deadlocked as to (i) the amount of compensatory damages, (ii) whether punitive damages should be awarded and, if so, (iii) the amount of punitive damages. In the partial retrial, the jury was asked to address these issues. In May 2015, the jury awarded $6.375 million in compensatory damages, but did not award any punitive damages.

Post-Trial Developments:
In May 2015, the trial court entered final judgment without any deduction for plaintiff's comparative fault, and PM USA posted a bond in the amount of $5 million. Additionally, PM USA filed post-trial motions, including motions to set aside the verdict and for a new trial, as well as filed a notice of appeal to the Florida First District Court of Appeal.

In August 2015, the trial court denied the last of PM USA's post-trial motions and plaintiff cross-appealed.

Plaintiff: Gore
Date: March 2015

Verdict:
An Indian River County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds awarding $2 million in compensatory damages and allocating 23% of the fault to PM USA (an amount of $460,000).

Post-Trial Developments:
In April 2015, defendants filed post-trial motions, including motions to set aside the verdict and for a new trial. In September 2015, the trial court entered final judgment with a deduction for plaintiff's comparative fault. In October 2015, defendants filed

Table of Contents
Altria Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

a notice of appeal to the Florida Fourth District Court of Appeal and plaintiff cross-appealed. PM USA subsequently posted a bond in the amount of $460,000.

Plaintiff: Pollari
Date: March 2015

Verdict:
A Broward County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds awarding $10 million in compensatory damages and allocating 42.5% of the fault to PM USA (an amount of $4.25 million). The jury also awarded $1.5 million in punitive damages against each defendant.

Post-Trial Developments:
In April 2015, defendants filed post-trial motions, including motions to set aside the verdict and for a new trial, and the trial court entered final judgment without any deduction for plaintiff's comparative fault. In January 2016, the trial court denied defendants' post-trial motions and amended the final judgment to apply the comparative fault deduction. Also in January 2016, defendants filed a notice of appeal to the Florida Fourth District Court of Appeal and PM USA posted a bond in the amount of $2.5 million. In February 2016, plaintiff cross-appealed. In August 2017, the Florida Fourth District Court of Appeal reversed the original judgment against PM USA and ordered a new trial on an appellate finding that the trial court erred in admitting certain materials into evidence that deprived defendants of a fair trial. In September 2017, plaintiff moved for rehearing, rehearing en banc, or certification of a question to the Florida Supreme Court.

Plaintiff: Zamboni
Date: February 2015

Verdict:
A jury in the U.S. District Court for the Middle District of Florida returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds awarding $340,000 in compensatory damages and allocating 10% of the fault to PM USA (an amount of $34,000).

Post-Trial Developments:
In April 2015, PM USA and R.J. Reynolds filed a motion for judgment in defendants' favor in accordance with the Eleventh Circuit's decision in Graham, discussed below under Engle Progeny Appellate Issues. In June 2015, the trial court stayed the case pending the Eleventh Circuit's final disposition in the Graham case.

Plaintiff: Caprio
Date: February 2015

Verdict:
A Broward County jury returned a partial verdict in favor of plaintiff and against PM USA, R.J. Reynolds, Lorillard and Liggett Group. The jury found against defendants on class membership, allocating 25% of the fault to PM USA. The jury also found $559,172 in economic damages. The jury deadlocked with respect to the intentional torts, certain elements of compensatory damages and punitive damages.

Post-Trial Developments:

In March 2015, PM USA filed post-trial motions, including motions to set aside the partial verdict and for a new trial. In May 2015, the court denied all of PM USA's post-trial motions and defendants filed a notice of appeal to the Florida Fourth District Court of Appeal. In January 2017, the defendants agreed to voluntarily dismiss their appeal in exchange for a full retrial and the court dismissed the appeal.

Plaintiff: McKeever
Date: February 2015

Verdict:
A Broward County jury returned a verdict in favor of plaintiff and against PM USA awarding approximately $5.8 million in compensatory damages and allocating 60% of the fault to PM USA. The jury also awarded plaintiff approximately $11.63 million in punitive damages. However, the jury found in favor of PM USA on the statute of repose defense to plaintiff's intentional tort and punitive damages claims.

Post-Trial Developments:
In March 2015, PM USA filed various post-trial motions, including motions to set aside the verdict and motions for a new trial. In April 2015, the trial court entered final judgment without any deduction for plaintiff's comparative fault. In June 2015, the trial court denied PM USA's post-trial motions, and PM USA posted a bond in the amount of $5 million. PM USA also filed a notice of appeal to the Florida Fourth District Court of Appeal in June 2015. In January 2017, the Florida Fourth District Court of Appeal issued a decision largely affirming the trial court's judgment against PM USA, but remanded the case to the trial court to amend the final judgment to apply the comparative fault deduction to the compensatory damages award. In February 2017, PM USA filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court. In March 2017, the Florida Supreme Court stayed the appeal pending its decisions in Marotta and Schoeff, discussed below under Engle Progeny Appellate Issues.

Plaintiff: D. Brown
Date: January 2015

Verdict:
A jury in the U.S. District Court for the Middle District of Florida returned a verdict against PM USA awarding plaintiff approximately $8.3 million in compensatory damages and allocating 55% of the fault to PM USA. The jury also awarded plaintiff $9 million in punitive damages.

Post-Trial Developments:
In February 2015, the trial court entered final judgment without any deduction for plaintiff's comparative fault. In March 2015, PM USA filed various post-trial motions, including motions to alter or amend the judgment and for a new trial or, in the alternative, remittitur of the damages awards, all of which the court denied. In July 2015, PM USA filed a notice of appeal to the U.S. Court of Appeals for the Eleventh Circuit. In August 2015, the Court of Appeals granted PM USA's motion to stay the appeal pending final disposition in the Graham case, discussed below under Engle Progeny Appellate Issues.

Plaintiff: Allen
Date: November 2014

Verdict:
A Duval County jury returned a verdict against PM USA and R.J. Reynolds awarding plaintiff approximately $3.1 million in compensatory damages and allocating 6% of the fault to PM USA. The jury also awarded approximately $7.76 million in punitive damages against each defendant. This was a retrial of a 2011 trial that awarded plaintiff $6 million in compensatory damages and $17 million in punitive damages against each defendant.

Post-Trial Developments:
In December 2014, defendants filed various post-trial motions, including motions to set aside the verdict and motions for a new trial, which the court denied in July 2015. In August 2015, the trial court entered final judgment without any deduction for plaintiff's comparative fault. Defendants filed a notice of appeal to the Florida First District Court of Appeal in September 2015 and PM USA posted a bond in the amount of approximately $2.5 million. In February 2017, the Florida First District Court of Appeal affirmed the trial court's judgment. In March 2017, defendants filed a motion for rehearing en banc with the Florida First District Court of Appeal or for certification to the Florida Supreme Court. In June 2017, the Florida First District Court of Appeal granted defendants' motion for rehearing en banc. In October 2017, the Florida First District Court of Appeal dissolved the en banc proceeding.

Plaintiff: Perrotto
Date: November 2014

Verdict:
A Palm Beach County jury returned a verdict against PM USA, R.J. Reynolds, Lorillard and Liggett Group awarding plaintiff approximately $4.1 million in compensatory damages and allocating 25% of the fault to PM USA (an amount of approximately $1.02 million).

Post-Trial Developments:
In December 2014, plaintiff filed a motion for a new trial. In May 2016, the court granted plaintiff's motion for a new trial on punitive damages, citing the Soffer decision, discussed below under Engle Progeny Appellate Issues. In September 2016, the

court denied defendants' post-trial motions.

Plaintiff: Boatright
Date: November 2014

Verdict:
A Polk County jury returned a verdict against PM USA and Liggett Group awarding plaintiff $15 million in compensatory damages and allocating 85% of the fault to PM USA (an amount of approximately $12.75 million). In addition, in November 2014, the jury awarded plaintiff approximately $19.7 million in punitive damages against PM USA and $300,000 in punitive damages against Liggett Group.

Post-Trial Developments:
In November 2014, PM USA filed various post-trial motions and, in January 2015, the trial court denied PM USA's motions for a new trial and for remittitur, but entered final judgment with a deduction for plaintiff's comparative fault. In February 2015, defendants filed a notice of appeal to the Florida Second District Court of Appeal and plaintiff cross-appealed. PM USA posted a bond in the amount of $3.98 million. In April 2017, the Florida Second District Court of Appeal rejected PM USA's grounds for appeal and affirmed the judgment, but ruled that the trial court should not have applied the comparative fault deduction. The court remanded the case to the trial court to amend the judgment to award plaintiff the full amount of the jury's compensatory damages award and also separately ruled that plaintiff is entitled to attorneys' fees. In May 2017, defendants filed notices to invoke the discretionary jurisdiction of the Florida Supreme Court on the merits and on the attorneys' fees issue. The Florida Supreme Court stayed consideration of its jurisdiction on the merits appeal pending its ruling in Schoeff, discussed below under Engle Progeny Appellate Issues.

Plaintiff: Kerrivan
Date: October 2014

Verdict:
A jury in the U.S. District Court for the Middle District of Florida returned a verdict against PM USA and R.J. Reynolds awarding plaintiff $15.8 million in compensatory damages and allocating 50% of the fault to PM USA. The jury also awarded plaintiff $25.3 million in punitive damages and allocated $15.7 million to PM USA.

Post-Trial Developments:
The trial court entered final judgment without any deduction for plaintiff's comparative fault. In December 2014, defendants filed various post-trial motions, including a renewed motion for judgment or for a new trial. Plaintiff agreed to waive the bond for the appeal. In May 2015, the trial court deferred further briefing on the post-trial motions pending the Eleventh Circuit's final disposition in the Graham and Searcy cases, discussed below under Engle Progeny Appellate Issues. In June 2017, the trial court lifted the stay on the post-trial motions.

Plaintiff: Lourie
Date: October 2014

Verdict:
A Hillsborough County jury returned a verdict against PM USA, R.J. Reynolds and Lorillard awarding plaintiff approximately $1.37 million in compensatory damages and allocating 27% of the fault to PM USA (an amount of approximately $370,000).

Post-Trial Developments:
In October 2014, defendants filed a motion for judgment and a motion for a new trial. In November 2014, the trial court denied defendants' post-trial motions and entered final judgment with a deduction for plaintiff's comparative fault. Later in November 2014, defendants filed a notice of appeal to the Florida Second District Court of Appeal, and PM USA posted a bond in the amount of $370,318. In August 2016, the Florida Second District Court of Appeal affirmed the judgment entered in favor of the plaintiff. In September 2016, defendants filed a petition to invoke the discretionary jurisdiction of the Florida Supreme Court and the Florida Supreme Court stayed the proceedings pending final disposition in the Marotta case, discussed below under Engle Progeny Appellate Issues. In June 2017, the Florida Supreme Court denied PM USA's petition to invoke the court's discretionary jurisdiction. In the second quarter of 2017, PM USA recorded a provision on its condensed consolidated balance sheet of approximately $2.3 million for the judgment plus interest and associated costs. In September 2017, defendants filed a petition for writ of certiorari with the United States Supreme Court on due process and federal preemption grounds.

Plaintiff: Berger
Date: September 2014

Verdict:
A jury in the U.S. District Court for the Middle District of Florida returned a verdict against PM USA awarding plaintiff $6.25 million in compensatory damages and allocating 60% of the fault to PM USA. The jury also awarded $20.76 million in punitive damages.

Post-Trial Developments:
The trial court entered final judgment in September 2014 without any deduction for plaintiff’s comparative fault. In October 2014, plaintiff agreed to waive the bond for the appeal. Also in October 2014, PM USA filed a motion for a new trial or, in the alternative, remittitur of the jury’s damages awards. In April 2015, the trial court granted PM USA’s post-verdict motion in part and vacated the punitive damages award. In November 2015, the court entered final judgment with a deduction for plaintiff’s comparative fault. In April 2016, plaintiff filed a motion to reinstate the jury’s punitive damages award or, alternatively, for a new trial on punitive damages, citing the Soffer decision, discussed below under Engle Progeny Appellate Issues. Also in April 2016, PM USA filed a motion to stay post-trial proceedings pending the Eleventh Circuit’s final disposition in the Graham case, discussed below under Engle Progeny Appellate Issues. In May 2016, (i) the trial court denied PM USA’s remaining post-trial motions and (ii) PM USA filed a notice of appeal to the U.S. Court of Appeals for the Eleventh Circuit and a motion to stay the appeal pending Graham, which the court granted in June 2016. In August 2016, the trial court denied plaintiff’s motion to reinstate the jury’s punitive damages or to order a new trial and, in September 2016, plaintiff cross-appealed. In June 2017, the U.S. Court of Appeals for the Eleventh Circuit lifted the stay on the post-trial motions.

Plaintiff: Harris
Date: July 2014

Verdict:
The U.S. District Court for the Middle District of Florida returned a verdict in favor of plaintiff and against PM USA, R.J. Reynolds and Lorillard awarding approximately $1.73 million in compensatory damages and allocating 15% of the fault to PM USA.

Post-Trial Developments:
Defendants filed motions for a defense verdict because the jury’s findings indicated that plaintiff was not a member of the Engle class. In December 2014, the trial court entered final judgment without any deduction for plaintiff’s comparative fault and, in January 2015, defendants filed a renewed motion for judgment as a matter of law or, in the alternative, a motion for a new trial. Defendants also filed a motion to alter or amend the final judgment. In April 2015, the trial court stayed the post-trial proceedings pending the Eleventh Circuit’s final disposition in the Graham case, discussed below under Engle Progeny Appellate Issues.

Plaintiff: Griffin
Date: June 2014

Verdict:
A jury in the U.S. District Court for the Middle District of Florida returned a verdict in favor of plaintiff and against PM USA awarding approximately $1.27 million in compensatory damages and allocating 50% of the fault to PM USA (an amount of approximately $630,000).

Post-Trial Developments:
The trial court entered final judgment against PM USA in July 2014 with a deduction for plaintiff's comparative fault. In August 2014, PM USA filed a motion to amend the judgment to reduce plaintiff's damages by the amount paid by collateral sources, which the court denied in September 2014. In October 2014, PM USA posted a bond in the amount of $640,543 and filed a notice of appeal to the U.S. Court of Appeals for the Eleventh Circuit. In May 2015, the Eleventh Circuit stayed the appeal pending final disposition in the Graham case, discussed below under Engle Progeny Appellate Issues. In the second quarter of 2017, PM USA recorded a provision on its condensed consolidated balance sheet of approximately $1.1 million for the judgment plus interest and associated costs.

Table of Contents
Altria Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Plaintiff: Burkhart
Date: May 2014

Verdict:
A jury in the U.S. District Court for the Middle District of Florida returned a verdict in favor of plaintiff and against PM USA, R.J. Reynolds and Lorillard awarding $5 million in compensatory damages and allocating 15% of the fault to PM USA. The jury also awarded plaintiff $2.5 million in punitive damages, allocating $750,000 to PM USA.

Post-Trial Developments:
In July 2014, defendants filed post-trial motions, including a renewed motion for judgment or, alternatively, for a new trial or remittitur of the damages awards, which the court denied in September 2014. The trial court entered final judgment without any deduction for plaintiff's comparative fault. In October 2014, defendants filed a notice of appeal to the U.S. Court of Appeals for the Eleventh Circuit. In April 2017, the Eleventh Circuit stayed the appeal pending final disposition in the Graham case, discussed below under Engle Progeny Appellate Issues.

Plaintiff: Skolnick
Date: June 2013

Verdict:
A Palm Beach County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds. The jury awarded plaintiff $2.555 million in compensatory damages and allocated 30% of the fault to each defendant (an amount of $766,500).

Post-Trial Developments:
In June 2013, defendants and plaintiff filed post-trial motions. The trial court entered final judgment with a deduction for plaintiff's comparative fault. In November 2013, the trial court denied plaintiff's post-trial motion and, in December 2013, denied defendants' post-trial motions. Defendants filed a notice of appeal to the Florida Fourth District Court of Appeal, and plaintiff cross-appealed in December 2013. Also in December 2013, PM USA posted a bond in the amount of $766,500. In July 2015, the District Court of Appeal reversed the compensatory damages award and ordered judgment in favor of defendants on the strict liability and negligence claims, but remanded plaintiff's conspiracy and concealment claims for a new trial. In August 2015, defendants filed a motion for rehearing, and plaintiff filed a motion for clarification, which the District Court of Appeal denied in September 2015.

Plaintiff: Starr-Blundell
Date: June 2013

Verdict:
A Duval County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds. The jury awarded plaintiff $500,000 in compensatory damages and allocated 10% of the fault to each defendant (an amount of $50,000).

Post-Trial Developments:
In June 2013, the defendants filed a motion to set aside the verdict and to enter judgment in accordance with their motion for directed verdict or, in the alternative, for a new trial, which was denied in October 2013. In November 2013, the trial court entered final judgment with a deduction for plaintiff's comparative fault. In December 2013, plaintiff filed a notice of appeal to the Florida First District Court of Appeal. Plaintiff agreed to waive the bond for the appeal. In May 2015, the Florida First District Court of Appeal affirmed the final judgment. In June 2015, plaintiff

filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court. In July 2015, the Florida Supreme Court stayed the case pending the outcome of Soffer, discussed below under Engle Progeny Appellate Issues. In April 2016, the Florida Supreme Court ordered defendants to show cause as to why the case should not be remanded in light of the Soffer decision. In the first quarter of 2016, PM USA recorded a provision on its condensed consolidated balance sheet of approximately $55,000 for the judgment plus interest and associated costs. In May 2016, the Florida Supreme Court accepted jurisdiction of plaintiff's petition for review and remanded the case for reconsideration in light of the Soffer decision. In September 2016, the Florida First District Court of Appeal further remanded the case in light of Soffer.

Table of Contents
Altria Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Plaintiff: Graham
Date: May 2013

Verdict:
A jury in the U.S. District Court for the Middle District of Florida returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds. The jury awarded $2.75 million in compensatory damages and allocated 10% of the fault to PM USA (an amount of $275,000).

Post-Trial Developments:
In June 2013, defendants filed several post-trial motions, including motions for judgment as a matter of law and for a new trial, which the trial court denied in September 2013. The trial court entered final judgment with a deduction for plaintiff's comparative fault. In October 2013, defendants filed a notice of appeal to the U.S. Court of Appeals for the Eleventh Circuit arguing that Engle progeny plaintiffs' product liability claims are impliedly preempted by federal law, and PM USA posted a bond in the amount of $277,750. In April 2015, the U.S. Court of Appeals for the Eleventh Circuit found in favor of defendants on the basis of federal preemption, reversed the trial court's denial of judgment as a matter of law, and plaintiff filed a petition for rehearing en banc or panel rehearing. In January 2016, the Eleventh Circuit granted a rehearing en banc on both the preemption and due process issues. In May 2017, the U.S. Court of Appeals for the Eleventh Circuit affirmed the final judgment entered in plaintiff's favor, rejecting defendants' preemption and due process arguments. In the second quarter of 2017, PM USA recorded a provision on its condensed consolidated balance sheet of approximately $500,000 for the judgment plus interest and associated costs. In September 2017, defendants filed a petition for writ of certiorari with the United States Supreme Court on due process and federal preemption grounds.

Plaintiff: Searcy
Date: April 2013

Verdict:
A jury in the U.S. District Court for the Middle District of Florida returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds. The jury awarded $6 million in compensatory damages (allocating 30% of the fault to each defendant) and $10 million in punitive damages against each defendant.

Post-Trial Developments:
In June 2013, the trial court entered final judgment without any deduction for plaintiff's comparative fault. In July 2013, defendants filed various post-trial motions, including motions requesting reductions in damages. In September 2013, the district court reduced the compensatory damages award to $1 million and the punitive damages award to $1.67 million against each defendant. The district court denied all other post-trial motions. Plaintiff filed a motion to reconsider the district court's remittitur and, in the alternative, to certify the issue to the U.S. Court of Appeals for the Eleventh Circuit, both of which the court denied in October 2013. In November 2013, defendants filed a notice of appeal to the U.S. Court of Appeals for the Eleventh Circuit. In December 2013, defendants filed an amended notice of appeal after the district court corrected a clerical error in the final judgment, and PM USA posted a bond in the amount of approximately $2.2 million.

Plaintiff: Calloway
Date: May 2012

Verdict:

A Broward County jury returned a verdict in favor of plaintiff and against PM USA, R.J. Reynolds, Lorillard and Liggett Group. The jury awarded approximately $21 million in compensatory damages and allocated 25% of the fault against PM USA. The jury also awarded approximately $17 million in punitive damages against PM USA, approximately $17 million in punitive damages against R.J. Reynolds, approximately $13 million in punitive damages against Lorillard and approximately $8 million in punitive damages against Liggett Group.

Post-Trial Developments:
In May and June 2012, defendants filed motions to set aside the verdict and for a new trial. In August 2012, the trial court denied the remaining post-trial motions, reduced the compensatory damages to $16.1 million and entered final judgment without any deduction for plaintiff's comparative fault. In September 2012, PM USA posted a bond in an amount of $1.5 million and defendants filed a notice of appeal to the Florida Fourth District Court of Appeal. In August 2013, plaintiff filed a motion to determine the sufficiency of the bond in the trial court on the ground that the bond cap statute is unconstitutional,

which the court denied. In January 2016, a panel of the Florida Fourth District Court of Appeal vacated the punitive damages award and remanded the case for retrial on plaintiff's claims of concealment and conspiracy, and punitive damages. The court also found that the trial court should have applied the comparative fault deduction, reducing the compensatory damages against PM USA to $4.025 million. In February 2016, defendants and plaintiff filed respective motions for rehearing and rehearing en banc. In March 2016, plaintiff filed a notice of supplemental authority citing the Soffer decision, discussed below under Engle Progeny Appellate Issues. In September 2016, the Florida Fourth District Court of Appeal, ruling en banc, reversed the judgment against PM USA and R.J. Reynolds in its entirety on the grounds that improper arguments by plaintiff's counsel deprived defendants of a fair trial, and ordered a new trial. In October 2016, plaintiff filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court, which the court denied in March 2017. In June 2017, plaintiff filed a petition for writ of certiorari with the United States Supreme Court seeking review of the 2016 en banc ruling by the Florida Fourth District Court of Appeal, which the court denied in October 2017.

Plaintiff: Putney
Date: April 2010

Verdict:
A Broward County jury returned a verdict in favor of plaintiff and against PM USA, R.J. Reynolds and Liggett Group. The jury awarded approximately $15.1 million in compensatory damages and allocated 15% of the fault to PM USA (an amount of approximately $2.3 million). The jury also awarded $2.5 million in punitive damages against PM USA.

Post-Trial Developments:
In August 2010, the trial court entered final judgment with a deduction for plaintiff's comparative fault. PM USA filed its notice of appeal to the Florida Fourth District Court of Appeal and, in November 2010, posted a $1.6 million bond. In June 2013, the Fourth District Court of Appeal reversed and remanded the case for further proceedings, holding that the trial court erred in (1) not reducing the compensatory damages award as excessive and (2) not instructing the jury on the statute of repose in connection with plaintiff's conspiracy claim that resulted in the $2.5 million punitive damages award. In July 2013, plaintiff filed a motion for rehearing, which the Fourth District Court of Appeal denied in August 2013. In September 2013, both parties filed notices to invoke the discretionary jurisdiction of the Florida Supreme Court. In December 2013, the Florida Supreme Court stayed the appeal pending the outcome of the Hess case. In April 2015, the Florida Supreme Court rejected the statute of repose defense in Hess, and PM USA moved for a rehearing. In September 2015, the Florida Supreme Court denied PM USA's rehearing petition in Hess. In February 2016, the Florida Supreme Court upheld the trial court's decision in favor of plaintiff and, in March 2016, clarified that its February 2016 order reinstated the trial court's decision on the statute of repose only. In August 2016, the Florida Fourth District Court of Appeal reinstated the jury's punitive damages verdict and reaffirmed that the compensatory damages award was excessive, remanding the case to the trial court to reduce the compensatory damages. In May 2017, the trial court ruled that the 2010 jury award of $15.1 million in compensatory damages was excessive and reduced the award to $225,000. In June 2017, plaintiff requested a new trial on compensatory damages.

Plaintiff: Naugle
Date: November 2009

Verdict:
A Broward County jury returned a verdict in favor of plaintiff and against PM USA. The jury awarded approximately $56.6 million in compensatory damages and $244 million in punitive damages. The jury allocated 90% of the fault to PM USA.

Post-Trial Developments:
In March 2010, the trial court entered final judgment reflecting a reduced award of approximately $13 million in compensatory damages and $26 million in punitive damages, but without any deduction for plaintiff’s comparative fault. In April 2010, PM USA filed its notice of appeal and posted a $5 million bond. In June 2012, the Fourth District Court of Appeal affirmed the final judgment (as amended to correct a clerical error) in the amount of approximately $12.3 million in compensatory damages and approximately $24.5 million in punitive damages. In December 2012, the Fourth District withdrew its prior decision, reversed the verdict as to compensatory and punitive damages and returned the case to the trial court for a new trial on the question of damages. Upon retrial, in October 2013, the new jury awarded approximately $3.7 million in compensatory damages and $7.5 million in punitive damages. PM USA filed post-trial motions, which the trial court denied in April 2014. In May 2014, PM USA filed a notice of appeal to the Fourth District Court of Appeal and plaintiff cross-appealed. Also in May 2014, PM USA filed a rider with the Florida Supreme Court to make the previously-posted Naugle bond applicable to the retrial judgment. In January 2016, the Fourth District Court of Appeal reversed the trial court’s decision and remanded the case to the trial court to

conduct a juror interview. In April 2016, PM USA moved for a new trial following the juror interview, which the court denied. In May 2016, PM USA filed a notice of appeal to the Fourth District Court of Appeal. In April 2017, the Fourth District Court of Appeals issued a per curiam decision affirming the trial court's judgment against PM USA. In the second quarter of 2017, PM USA recorded a provision on its condensed consolidated balance sheet of approximately $13.2 million for the judgment plus interest and associated costs, and increased its bond by $6.2 million. In September 2017, PM USA filed a petition for writ of certiorari with the United States Supreme Court on due process and federal preemption grounds.

Engle Cases Concluded Within Past 12 Months

Plaintiff: Merino
Date: July 2015

Verdict:
A Miami-Dade County jury returned a verdict in favor of plaintiff and against PM USA awarding $8 million in compensatory damages and allocating 70% of the fault to PM USA. The jury also awarded $6.5 million in punitive damages.

Post-Trial Developments:
In August 2015, the trial court denied all post-trial motions, including motions to set aside the verdict and for a new trial, and entered final judgment without any deduction for plaintiff's comparative fault. In September 2015, PM USA filed a notice of appeal to the Florida Third District Court of Appeal and posted a bond in the amount of $5 million. In November 2016, the Florida Third District Court of Appeal issued a per curiam decision affirming the trial court's judgment against PM USA. PM USA subsequently filed a motion seeking a written opinion, which the court denied in December 2016. In the fourth quarter of 2016, PM USA recorded a provision on its consolidated balance sheet of $16.9 million for the judgment plus interest and associated costs and increased the bond to $14.5 million. In April 2017, PM USA paid the judgment plus interest and associated costs in the amount of approximately $17.4 million.

Plaintiff: Varner
Date: July 2016

Verdict:
A Broward County jury returned a verdict in favor of plaintiff and against PM USA awarding compensatory damages of $1.5 million and allocating 25% of the fault to PM USA (an amount of $375,000).

Post-Trial Developments:
In July 2016, the trial court entered final judgment in favor of plaintiff with a deduction for plaintiff's comparative fault. In August 2016, PM USA filed motions to set aside the verdict and for a directed verdict, and plaintiff filed a motion for a new trial. In January 2017, the trial court denied all post-trial motions. In February 2017, PM USA paid the judgment plus interest and associated costs in the amount of approximately $600,000.

Plaintiff: Hancock
Date: August 2012

Verdict:

A Broward County jury returned a verdict in the amount of zero damages and allocated 5% of the fault to each of the defendants (PM USA and R.J. Reynolds). The trial court granted an additur of approximately $110,000, which is subject to the jury's comparative fault finding.

Post-Trial Developments:
In August 2012, defendants moved to set aside the verdict and to enter judgment in accordance with their motion for directed verdict. Defendants also moved to reduce damages, which motion the court granted. The trial court granted defendants' motion to set off the damages award by the amount of economic damages paid by third parties, which will reduce further any final award. In October 2012, the trial court entered final judgment with a deduction for plaintiff's comparative fault (PM USA's portion of the damages was approximately $700) and PM USA filed a motion to amend the judgment to award PM USA attorneys' fees of approximately $20,000. In November 2012, both sides filed notices of appeal to the Florida Fourth District Court of Appeal. Plaintiff agreed to waive the bond for the appeal. In April 2015, the Florida Fourth District Court of Appeal affirmed the trial court's verdict. In May 2015, plaintiff filed a motion for rehearing and for a written opinion and rehearing en

banc, which the Court of Appeal denied in June 2015. In December 2016, plaintiff agreed not to pursue the judgment in exchange for PM USA not pursuing its fee award, thereby resolving the case.

Engle Progeny Appellate Issues

Three Florida federal district courts (in the Merlob, B. Brown and Burr cases) ruled in 2008 that the findings in the first phase of the Engle proceedings cannot be used to satisfy elements of plaintiffs' claims, and two of those rulings (B. Brown and Burr) were certified by the trial court for interlocutory review. The certification in both cases was granted by the U.S. Court of Appeals for the Eleventh Circuit and the appeals were consolidated. The appeal in Burr was dismissed for lack of prosecution, and the case was ultimately dismissed on statute of limitations grounds.

In July 2010, the Eleventh Circuit ruled in B. Brown that, as a matter of Florida law, plaintiffs do not have an unlimited right to use the findings from the original Engle trial to meet their burden of establishing the elements of their claims at trial. The Eleventh Circuit did not reach the issue of whether the use of the Engle findings violates defendants' due process rights. Rather, the court held that plaintiffs may only use the findings to establish those specific facts, if any, that they demonstrate with a reasonable degree of certainty were actually decided by the original Engle jury. The Eleventh Circuit remanded the case to the district court to determine what specific factual findings the Engle jury actually made.

After the remand of B. Brown, several state appellate rulings superseded the Eleventh Circuit's ruling on Florida state law. These cases include B. Martin, a case against R.J. Reynolds in Escambia County, and J. Brown, a case against R.J. Reynolds in Broward County. In December 2011, petitions for writ of certiorari were filed with the United States Supreme Court by R.J. Reynolds in Campbell, B. Martin, Gray and Hall and by PM USA and Liggett Group in Campbell. The United States Supreme Court denied defendants' certiorari petitions in March 2012.

In Douglas, in March 2012, the Florida Second District Court of Appeal issued a decision affirming the judgment of the trial court in favor of the plaintiff and upholding the use of the Engle jury findings with respect to strict liability claims but certified to the Florida Supreme Court the question of whether granting res judicata effect to the Engle jury findings violates defendants' federal due process rights. In March 2013, the Florida Supreme Court affirmed the final judgment entered in favor of plaintiff upholding the use of the Engle jury findings with respect to strict liability and negligence claims. PM USA filed its petition for writ of certiorari with the United States Supreme Court in August 2013, which the court denied in October 2013.

Meanwhile, in the Waggoner case, the U.S. District Court for the Middle District of Florida ruled in December 2011 that application of the Engle findings to establish the wrongful conduct elements of plaintiffs' claims consistent with Martin or J. Brown did not violate defendants' due process rights. PM USA and the other defendants sought appellate review of the due process ruling. In February 2012, the district court denied the motion for interlocutory appeal, but did apply the ruling to all active pending federal Engle progeny cases. As a result, R.J. Reynolds appealed the rulings in the Walker and Duke cases to the Eleventh Circuit, which ultimately rejected the due process defense. In March 2014, R.J. Reynolds filed petitions for writ of certiorari to the United States Supreme Court in the Walker and Duke cases, as well as in J. Brown. Defendants filed petitions for writ of certiorari in eight other Engle progeny cases that were tried in Florida state courts, including one case, Barbanell, in which PM USA was the defendant. In these eight petitions, defendants asserted questions similar to those in Walker, Duke and J. Brown. In June 2014, the United States Supreme Court denied defendants' petitions for writ of certiorari in all 11 cases.

In Graham, an Engle progeny case against PM USA and R.J. Reynolds, in April 2015 the U.S. Court of Appeals for the Eleventh Circuit found in favor of defendants on the basis of federal preemption, reversing the trial court's denial of judgment as a matter of law. Thereafter, plaintiff filed a petition for rehearing en banc, which the Eleventh Circuit granted in January 2016. In May 2017, the U.S. Court of Appeals for the Eleventh Circuit rejected defendants' preemption and due process arguments and affirmed the final judgment entered in plaintiff's favor. In September 2017, defendants filed a petition for writ of certiorari with the United States Supreme Court on due process and federal preemption grounds. In January 2016, in Marotta, a case against R.J. Reynolds on appeal to the Florida Fourth District Court of Appeal, the court rejected R.J. Reynolds's federal preemption defense, but noted the conflict with Graham and certified the preemption question to the Florida Supreme Court. In March 2016, the Florida Supreme Court accepted review of Marotta and in April 2017, affirmed the Fourth District Court of Appeal's ruling on preemption.

In Searcy, an Engle progeny case against PM USA and R.J. Reynolds on appeal to the Eleventh Circuit, defendants argued that application of the Engle findings to the Engle progeny plaintiffs' concealment and conspiracy claims violated defendants' due process rights. The appeal is pending.

In Soffer, an Engle progeny case against R.J. Reynolds, the Florida First District Court of Appeal held that Engle progeny plaintiffs can recover punitive damages only on their intentional tort claims. The Florida Supreme Court accepted jurisdiction over plaintiff's appeal from the Florida First District Court of Appeal's decision and, in March 2016, held that Engle progeny plaintiffs can recover punitive damages in connection with all of their claims. Plaintiffs now generally seek punitive damages in connection with all of their claims in Engle progeny cases.

In Ciccone, an Engle progeny case against R.J. Reynolds, the Florida Fourth District Court of Appeal held that Engle progeny plaintiffs could establish class membership by showing that they developed symptoms during the Engle class period that could, in hindsight, be attributed to their smoking-related disease. The court certified a conflict with Castleman, a Florida First District Court of Appeal decision, which held that manifestation requires Engle progeny plaintiffs to have been aware during the class period that they had a disease caused by smoking in order to establish class membership. The Florida Supreme Court accepted jurisdiction in the Ciccone case and, in March 2016, ruled in favor of plaintiff, approving the Fourth District Court of Appeal's definition.

In Schoeff, an Engle progeny case against R.J. Reynolds, the Florida Fourth District Court of Appeal held that comparative fault findings should apply to reduce all compensatory damage awards, including awards based on intentional fraud claims. The Florida Supreme Court accepted jurisdiction over plaintiff's appeal of the Florida Fourth District Court of Appeal's decision. Oral argument was held in March 2017.

Florida Bond Statute

In June 2009, Florida amended its existing bond cap statute by adding a $200 million bond cap that applies to all state Engle progeny lawsuits in the aggregate and establishes individual bond caps for individual Engle progeny cases in amounts that vary depending on the number of judgments in effect at a given time. Plaintiffs in three state Engle progeny cases against R.J. Reynolds in Alachua County, Florida (Alexander, Townsend and Hall) and one case in Escambia County (Clay) challenged the constitutionality of the bond cap statute. The Florida Attorney General intervened in these cases in defense of the constitutionality of the statute.

Trial court rulings were rendered in Clay, Alexander, Townsend and Hall rejecting the plaintiffs' bond cap statute challenges in those cases. The plaintiffs unsuccessfully appealed these rulings. In Alexander, Clay and Hall, the District Court of Appeal for the First District of Florida affirmed the trial court decisions and certified the decision in Hall for appeal to the Florida Supreme Court, but declined to certify the question of the constitutionality of the bond cap statute in Clay and Alexander. The Florida Supreme Court granted review of the Hall decision, but, in September 2012, the court dismissed the appeal as moot. In October 2012, the Florida Supreme Court denied the plaintiffs' rehearing petition. In August 2013, in Calloway, discussed further above, plaintiff filed a motion in the trial court to determine the sufficiency of the bond posted by defendants on the ground that the bond cap statute is unconstitutional, which was denied.

In February 2016, in the Sikes case against R.J. Reynolds, the trial court held that Florida's bond cap statute does not stay the execution of judgment after a case is final in the Florida judicial system and before the defendant files a petition for writ of certiorari with the United States Supreme Court. The District Court of Appeal for the First District of Florida issued an order staying execution of the judgment and requesting that plaintiff show cause why the stay should not remain in effect through the completion of United States Supreme Court writ of certiorari review or until the time for moving for such review has expired. In April 2016, the District Court of Appeal held that the bond cap applies to the period between a Florida Supreme Court ruling and completion of United States Supreme Court writ of certiorari review. In April 2016, PM USA filed motions in the trial court in the R. Cohen and Kayton cases seeking confirmation that the stay on executing the judgment remains in effect through the completion of United States Supreme Court writ of certiorari review or until the time for moving for such review has expired, which the court granted.

No federal court has yet addressed the constitutionality of the bond cap statute or the applicability of the bond cap to Engle progeny cases tried in federal court.

The Florida legislature is considering legislation that would repeal the 2009 appeal bond cap statute.

Other Smoking and Health Class Actions

Since the dismissal in May 1996 of a purported nationwide class action brought on behalf of allegedly addicted smokers, plaintiffs have filed numerous putative smoking and health class action suits in various state and federal courts. In general, these cases purport to be brought on behalf of residents of a particular state or states (although a few cases purport to be nationwide in scope) and raise addiction claims and, in many cases, claims of physical injury as well.

Class certification has been denied or reversed by courts in 61 smoking and health class actions involving PM USA in Arkansas (1), California (1), Delaware (1), the District of Columbia (2), Florida (2), Illinois (3), Iowa (1), Kansas (1), Louisiana (1), Maryland (1), Michigan (1), Minnesota (1), Nevada (29), New Jersey (6), New York (2), Ohio (1), Oklahoma (1), Oregon (1), Pennsylvania (1), Puerto Rico (1), South Carolina (1), Texas (1) and Wisconsin (1).

As of October 23, 2017, PM USA and Altria Group, Inc. are named as defendants, along with other cigarette manufacturers, in seven class actions filed in the Canadian provinces of Alberta, Manitoba, Nova Scotia, Saskatchewan, British Columbia and Ontario. In Saskatchewan, British Columbia (two separate cases) and Ontario, plaintiffs seek class certification on behalf of individuals who suffer or have suffered from various diseases, including chronic obstructive pulmonary disease, emphysema, heart disease or cancer, after smoking defendants' cigarettes. In the actions filed in Alberta, Manitoba and Nova Scotia, plaintiffs seek certification of classes of all individuals who smoked defendants' cigarettes. See Guarantees and Other Similar Matters below for a discussion of the Distribution Agreement between Altria Group, Inc. and PMI that provides for indemnities for certain liabilities concerning tobacco products.

Health Care Cost Recovery Litigation

Overview

In the health care cost recovery litigation, governmental entities seek reimbursement of health care cost expenditures allegedly caused by tobacco products and, in some cases, of future expenditures and damages. Relief sought by some but not all plaintiffs includes punitive damages, multiple damages and other statutory damages and penalties, injunctions prohibiting alleged marketing and sales to minors, disclosure of research, disgorgement of profits, funding of anti-smoking programs, additional disclosure of nicotine yields, and payment of attorney and expert witness fees.

Although there have been some decisions to the contrary, most judicial decisions in the United States have dismissed all or most health care cost recovery claims against cigarette manufacturers. Nine federal circuit courts of appeals and eight state appellate courts, relying primarily on grounds that plaintiffs' claims were too remote, have ordered or affirmed dismissals of health care cost recovery actions. The United States Supreme Court has refused to consider plaintiffs' appeals from the cases decided by five circuit courts of appeals.

In addition to the cases brought in the United States, health care cost recovery actions have also been brought against tobacco industry participants, including PM USA and Altria Group, Inc., in Israel (dismissed), the Marshall Islands (dismissed) and Canada (10 cases), and other entities have stated that they are considering filing such actions.

In September 2005, in the first of several health care cost recovery cases filed in Canada, the Canadian Supreme Court ruled that legislation passed in British Columbia permitting the lawsuit is constitutional, and, as a result, the case, which had previously been dismissed by the trial court, was permitted to proceed. PM USA's and other defendants' challenge to the British Columbia court's exercise of jurisdiction was rejected by the Court of Appeals of British Columbia and, in April 2007, the Supreme Court of Canada denied review of that decision.

Since the beginning of 2008, the Canadian Provinces of British Columbia, New Brunswick, Ontario, Newfoundland and Labrador, Quebec, Alberta, Manitoba, Saskatchewan, Prince Edward Island and Nova Scotia have brought health care reimbursement claims against cigarette manufacturers. PM USA is named as a defendant in the British Columbia and Quebec cases, while both Altria Group, Inc. and PM USA are named as defendants in the New Brunswick, Ontario, Newfoundland and Labrador, Alberta, Manitoba, Saskatchewan, Prince Edward Island and Nova Scotia cases. The Nunavut Territory and Northwest Territory have passed similar legislation. See Guarantees and Other Similar Matters below for a discussion of the Distribution Agreement between Altria Group, Inc. and PMI that provides for indemnities for certain liabilities concerning tobacco products.

Settlements of Health Care Cost Recovery Litigation

In November 1998, PM USA and certain other United States tobacco product manufacturers entered into the 1998 Master Settlement Agreement (the “MSA”) with 46 states, the District of Columbia, Puerto Rico, Guam, the United States Virgin Islands, American Samoa and the Northern Marianas to settle asserted and unasserted health care cost recovery and other claims. PM USA and certain other United States tobacco product manufacturers had previously entered into agreements to settle similar claims brought by Mississippi, Florida, Texas and Minnesota (together with the MSA, the “State Settlement Agreements”). The State Settlement Agreements require that the original participating manufacturers or “OPMs” (now PM USA and R.J. Reynolds and, with respect to the brands it acquired from R.J. Reynolds and Lorillard, ITG Brands, LLC (“ITG”), subject to a dispute discussed below with respect to some of the State Settlement Agreements) make annual payments of approximately $9.4 billion, subject to adjustments for several factors, including inflation, market share and industry volume. In addition, the OPMs are required to pay settling plaintiffs’ attorneys’ fees, subject to an annual cap of $500 million. For the three months ended September 30, 2017 and 2016, the aggregate amount recorded in cost of sales with respect to the State Settlement Agreements was approximately $1.1 billion and $1.2 billion, respectively. For the nine months ended September 30, 2017 and 2016, the aggregate amount recorded in cost of sales with respect to the State Settlement Agreements was approximately $3.4 billion and $3.6 billion, respectively. These amounts include PM USA’s estimate of NPM Adjustments discussed below.

The State Settlement Agreements also include provisions relating to advertising and marketing restrictions, public disclosure of certain industry documents, limitations on challenges to certain tobacco control and underage use laws, restrictions on lobbying activities and other provisions.

NPM Adjustment Disputes

PM USA is participating in proceedings regarding potential downward adjustments (the “NPM Adjustment”) to MSA payments made by manufacturers that are signatories to the MSA (the “participating manufacturers” or “PMs”) for 2003-2016. The NPM Adjustment is a reduction in MSA payments that applies if the PMs collectively lose at least a specified level of market share to non-participating manufacturers (“NPMs”) between 1997 and the year at issue, subject to certain conditions and defenses. The independent auditor appointed under the MSA calculates the maximum amount, if any, of the NPM Adjustment for any year in respect of which such NPM Adjustment is potentially applicable.

2003-2015 NPM Adjustment Disputes - Settlement with 26 States and Territories and Settlement with New York

PM USA had previously settled the NPM Adjustment disputes for the years 2003-2014 with 24 of the 52 MSA states and territories and, in April 2017, settled the 2004-2014 NPM Adjustment disputes with Rhode Island and Oregon (these 26 states and territories are referred to as the “signatory states,” and the remaining MSA states and territories are referred to as the “non-signatory states”). Pursuant to the settlement with these 26 signatory states, PM USA has received a total of $702 million for 2003-2014 in the form of reductions to its MSA payments, which includes amounts received from the settlements with Rhode Island and Oregon, described below. The settlement with Rhode Island settled the 2004-2014 NPM Adjustments and resulted in PM USA receiving an additional $9 million ($2 million of which relates to the 2013-2014 “transition years”) in the form of a reduction to its MSA payment in April 2017, while the settlement with Oregon settled the 2004-2015 NPM Adjustments and resulted in PM USA receiving an additional $16 million ($4 million of which relates to the 2013-2015 “transition years”) in the form of a reduction to its MSA payment in April 2017. As a result of the settlements with Rhode Island and Oregon, PM USA recorded a reduction to cost of sales in the amount of $25 million in the first quarter of 2017.

In addition, pursuant to the settlement, the PMs and the signatory states have agreed to split the NPM Adjustment amount for 2015 and each subsequent year thereafter pending the ultimate outcome of the applicable proceedings. As a result, $43 million related to the 2015 NPM Adjustment was returned to PM USA in the second quarter of 2016, and $46 million related to the 2016 NPM Adjustment was returned to PM USA in the second quarter of 2017. The amounts returned to PM USA were included in other liabilities on the condensed consolidated balance sheet at June 30, 2017. The PMs and the signatory states further agreed that, once the proceedings to determine the amount of the applicable NPM Adjustment are concluded, the applicable amount will either be paid to the signatory states or retained by PM USA (in each case, without interest) as part of the final amount payable.

In October 2017, the PMs and the signatory states agreed to settle 2015 as a "transition year." As a result of this settlement and PM USA's estimate regarding 2016, PM USA recorded a reduction to cost of sales of approximately $77 million in the third quarter of 2017 for the 2015 and 2016 NPM Adjustments for the signatory states.

The settlement further provides that the NPM Adjustment provision will be revised and streamlined as to the signatory states for 2015 and subsequent years. Under the revised provision, there is a potential downward adjustment to the PMs' MSA payment relating to NPM sales on which state excise tax ("SET") is paid. Pursuant to such adjustment, each signatory state will pay an amount to the PMs tied to the number of NPM cigarettes sold during the year at issue on which that state collected its SET (or, potentially, on which a comparable tax was collected) but on which that state did not collect escrow ("non-compliant NPM sales"). These payments will be made in the form of future reductions to MSA payments by the PMs. This adjustment for SET-paid NPM sales is subject to certain exceptions and to a "safe harbor" under which a state does not owe any payment if the number or percentage of non-compliant NPM sales is below certain stated benchmarks.

In addition, the settlement further provides that the NPM Adjustment for 2016 and subsequent years will continue to apply to the signatory states, subject to certain defenses, but that those states will receive a partial liability reduction tied to the percentage of NPM sales nationwide during the year at issue on which either an MSA state has collected SET (or potentially a comparable tax is collected) or, potentially, Mississippi, Florida, Texas or Minnesota collected an equity fee (as defined in the settlement) on cigarettes sold by NPMs in those respective states. The amount (if any) of the potential adjustments relating to SET-paid NPM sales for 2015 and 2016 and the amount of the partial liability reduction for 2016 have not yet been determined. In addition, proceedings to determine the availability of and defenses to the 2016 NPM Adjustment as to the signatory states will likely not take place for a considerable period of time. The OPMs agreed that the amounts they receive under the settlement for 2013 and subsequent years from the signatory states will be allocated among them pursuant to a formula that modifies the MSA allocation formula in a manner favorable to PM USA. The extent to which it remains favorable to PM USA will depend upon future developments, as well as upon the resolution of certain disputes among the OPMs discussed below.

Many of the non-signatory states objected to the settlement before the arbitration panel hearing the 2003 NPM Adjustment dispute. In March 2013, the panel issued a stipulated partial settlement and award (the "Stipulated Award") rejecting the objections and permitting the settlement to proceed. In the Stipulated Award, the arbitration panel also ruled that the total 2003 NPM Adjustment would be reduced pro rata by the aggregate allocable share of the signatory states to determine the maximum amount of the 2003 NPM Adjustment potentially available from the non-signatory states whose diligent enforcement claims the PMs continued to contest (the "pro rata judgment reduction").

Fourteen of the non-signatory states filed motions in their state courts to vacate and/or modify the Stipulated Award in whole or part. Decisions by the Pennsylvania, Missouri, Maryland and New Mexico courts on such motions, and the subsequent appeals of those rulings, are discussed below. One state's motion was denied without an appeal by the state. As for the remaining states, rulings rejecting their motions to vacate the Stipulated Award have been affirmed on appeal, or the motions have been voluntarily dismissed or stayed pending further state action.

In October 2015, PM USA, along with the other PMs, settled the 2004-2014 NPM Adjustment disputes with New York. The New York settlement is separate from the settlement with the 26 signatory states and is different from that settlement in certain respects. Pursuant to the New York settlement, PM USA received approximately $126 million for 2004-2014 in the form of a reduction to its MSA payment in 2016. PM USA previously recorded $126 million as a reduction to cost of sales in the third quarter of 2015 to reflect the New York settlement in its estimate of MSA expenses related to prior years. In addition, the New York settlement provides that the NPM Adjustment provision will be revised as to New York for the years after 2014. The revised provision with respect to NPM cigarettes on which New York SET is paid is largely similar to the revised provision in the settlement with the 26 signatory states with respect to an adjustment relating to SET-paid NPM sales. Based on the information provided by New York, no such adjustment is due for 2015. New York has not yet provided information with respect to 2016.

As to other NPM cigarettes, the New York settlement provides that, in lieu of the NPM Adjustment provision for years after 2014, New York will make annual payments to the PMs tied to the number of NPM cigarettes on which New York did not collect SET that were sold on or through Native American reservations located in New York (or otherwise met the standard in the settlement agreement) during the year at issue to New York consumers ("Tribal NPM Packs"). These annual payments will be made in the form of reductions to future MSA payments by the PMs, beginning with the MSA payment in 2017. The OPMs have agreed that the amounts they receive under the New York settlement for the years after 2014 will be allocated among them pursuant to a formula that modifies the MSA allocation formula in a manner favorable to PM USA, although the extent to which it remains favorable to PM USA will depend upon future developments, as well as upon the resolution of certain disputes among the OPMs discussed below. Under the New York settlement, in return for the payments described above and other consideration described in the New York settlement, the PMs have released New York from the NPM Adjustment provision for all years except as provided in the New York settlement.

The number of Tribal NPM Packs sold in a given year will be determined by an investigative firm based on information provided by the PMs and New York and on the investigative firm's own research and activities (the "investigative proceeding"). The investigative firm's determination of the number of Tribal NPM Packs sold in a given year will apply for that year as well as for the following year, with the result that an investigative proceeding is expected to be held every two years. In April 2017, the investigative firm issued its determination of the number of Tribal NPM Packs sold during 2015. As a result, PM USA received $44 million for 2015 in the form of a reduction to its MSA payment in April 2017. This determination will also apply to 2016, which will result in a corresponding reduction to PM USA's MSA payment due in April 2018, the precise amount of which will be determined in April 2018.

In connection with the investigative proceeding, PM USA recorded for the years 2015 and 2016 combined a $58 million reduction to cost of sales in the fourth quarter of 2016. This amount represented PM USA's estimate, based on information submitted by the PMs and New York to the investigative firm, of the minimum number of Tribal NPM Packs that the investigative firm was likely to find were sold during 2015 and the related reductions to PM USA's MSA payments in April 2017 and April 2018. Because the investigative firm's determination of the number of Tribal NPM Packs sold during 2015 was greater than the number of Tribal NPM Packs on which PM USA's previously recorded $58 million estimate was based, PM USA recorded an additional reduction in cost of sales of $32 million in the first quarter of 2017.

2003 and Subsequent NPM Adjustment Disputes - Continuing Disputes with Non-Signatory States other than New York

PM USA has continued to pursue the NPM Adjustments for 2003 and subsequent years with respect to the non-signatory states other than New York. Under the MSA, once all conditions for the NPM Adjustment for a particular year are met (including the condition that the disadvantages of the MSA were a "significant factor" contributing to the PMs' collective loss of market share), each state may avoid an NPM Adjustment to its share of the PMs' MSA payments for that year by establishing that it diligently enforced a qualifying escrow statute during the entirety of that year. Such a state's share of the NPM Adjustment would then be reallocated to any states that are found not to have diligently enforced for that year. For 2003-2014, all conditions for the NPM Adjustment were met, either by determination or agreement among the parties, and, in April 2017, the parties agreed that all the conditions for the NPM Adjustment will have been met for 2015 on February 1, 2018, for 2016 on February 1, 2019, and for 2017 on February 1, 2020.

2003 NPM Adjustment. With one exception (Montana), the courts have ruled that the states' claims of diligent enforcement are to be submitted to arbitration. PM USA and other PMs entered into an agreement with most of the MSA states and territories concerning the 2003 NPM Adjustment, under which such states and territories would receive a partial liability reduction of 20% for the 2003 NPM Adjustment in the event the arbitration panel determined that they did not diligently enforce during 2003.

The Montana state courts ruled that Montana may litigate its diligent enforcement claims in state court, rather than in arbitration. In June 2012, the PMs and Montana entered a consent decree pursuant to which Montana would not be subject to the 2003 NPM Adjustment.

In September 2013, the arbitration panel issued rulings regarding the 15 states and territories whose diligent enforcement the PMs contested that had not as of that time joined the settlement, ruling that six of them (Indiana, Kentucky, Maryland, Missouri, New Mexico and Pennsylvania) did not diligently enforce during 2003 and that nine of them did. Based on this ruling, the PMs were entitled to receive from the six non-diligent states the entire 2003 NPM Adjustment remaining after the pro rata judgment reduction. PM USA believed it was entitled to receive an NPM Adjustment for 2003 based on this ruling, after reflecting the 20% partial liability reduction noted above, of approximately $145 million. PM USA recorded this $145 million as a reduction to cost of sales, which increased its reported pre-tax earnings in the third quarter of 2013. In addition, PM USA believed it would be entitled to interest on this amount of approximately $89 million. PM USA recorded $64 million of this amount as interest income, which reduced interest and other debt expense, net in the first quarter of 2014, but did not record the remaining $25 million based on its assessment of certain disputes concerning interest discussed below.

Table of Contents
Altria Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

After PM USA recorded these amounts, two of the six non-diligent states (Indiana and Kentucky) joined the settlement and became signatory states. Those two states account for (i) $37 million of the $145 million NPM Adjustment for 2003 that PM USA recorded and (ii) $17 million of the interest that PM USA recorded. PM USA has retained those amounts from the two states, and has received additional amounts as part of the settlement recoveries for the 2003-2012 NPM Adjustment disputes described above. The remaining four states account for approximately (i) $108 million of the $145 million 2003 NPM Adjustment that PM USA recorded and (ii) $66 million of the $89 million of interest to which PM USA believed it would be entitled on the $145 million (and $47 million of the $64 million of interest that PM USA recorded). Each of these four states filed a motion in its state court to (i) vacate the panel's ruling as to its diligence and (ii) modify the pro rata judgment reduction and to substitute a reduction method more favorable to the state. These four states also raised a dispute concerning the independent auditor's calculation of interest. In addition, another OPM has raised a dispute concerning the allocation of the interest and disputed payments account earnings among the OPMs.

In April 2014, a Pennsylvania state trial court denied Pennsylvania's motion to vacate the arbitration panel's ruling that Pennsylvania had not diligently enforced, but granted Pennsylvania's motion to modify, with respect to Pennsylvania, the pro rata judgment reduction. In April 2015, a Pennsylvania intermediate appellate court affirmed the trial court's modification, with respect to Pennsylvania, of the pro rata judgment reduction. In December 2015, the Supreme Court of Pennsylvania denied PM USA's petition for further judicial review of the Pennsylvania intermediate appellate court decision. Because the Pennsylvania state trial court ruling preceded PM USA's 2014 MSA payment date, the total 2014 MSA payment credit PM USA received on account of the 2003 NPM Adjustment from the four states was reduced from $108 million to $79 million, and the interest PM USA received from the four states was $48 million rather than the $66 million in interest to which PM USA believed it would be entitled from those four states. As a result of the denial by the Supreme Court of Pennsylvania of PM USA's petition for review of the intermediate appellate court ruling on the modification of the pro rata judgment reduction method, PM USA reversed $29 million of the reduction to cost of sales and $13 million of the interest income that had been previously recorded in respect of Pennsylvania for the 2003 NPM Adjustment, which reduced its reported pre-tax earnings by approximately $42 million in the fourth quarter of 2015. In April 2016, PM USA filed a petition for writ of certiorari with the United States Supreme Court, which was denied in October 2016.

In July 2014, a Maryland state trial court denied both Maryland's motion to vacate the arbitration panel's ruling that Maryland had not diligently enforced and Maryland's motion to vacate or modify the pro rata judgment reduction. In October 2015, a Maryland intermediate appellate court reversed the Maryland trial court's ruling on the pro rata judgment reduction method and applied a judgment reduction method that is more favorable to the state. PM USA sought further discretionary review of this decision in the Maryland Court of Appeals but, in February 2016, the Court of Appeals denied PM USA's petition. As a result, PM USA returned approximately $12 million of the 2003 NPM Adjustment and $7 million of the interest it received (plus interest on those amounts). In addition, PM USA recorded a corresponding reduction to its pre-tax earnings in the first quarter of 2016. In June 2016, PM USA filed a petition for writ of certiorari with the United States Supreme Court, which was denied in October 2016.

In May 2014, a Missouri state trial court denied Missouri's motion to vacate the arbitration panel's ruling that Missouri had not diligently enforced, but granted Missouri's motion to modify, with respect to Missouri, the pro rata judgment reduction. In September 2015, a Missouri intermediate appellate court reversed the Missouri state trial court's ruling that modified the pro rata judgment reduction, effectively reinstating the application of that reduction method to Missouri. In February 2017, the Supreme Court of Missouri reversed the intermediate appellate court and granted Missouri's motion to modify, with respect to Missouri, the pro rata judgment reduction related to the 2003 NPM Adjustment. As a result of the judgment reduction decision, PM USA returned approximately $12 million of the 2003

NPM Adjustment and $7 million of the interest it received, plus applicable interest. In addition, PM USA recorded a corresponding reduction to its pre-tax earnings in the first quarter of 2017. In connection with its appeal of the Missouri state trial court's ruling, PM USA posted a bond in the amount of $22 million, which was released in June 2017.

In September 2016, a New Mexico state trial court denied New Mexico's motion to vacate the arbitration panel's ruling that New Mexico had not diligently enforced, but granted New Mexico's motion to modify, with respect to New Mexico, the pro rata judgment reduction. PM USA appealed the New Mexico trial court's decision regarding the pro rata judgment reduction but, in March 2017, the trial court ruled that, notwithstanding the pendency of the appeal, PM USA must return the $3 million of the 2003 NPM Adjustment and $2 million of the interest it received (plus interest on those amounts), which PM USA has done. In September 2017, PM USA voluntarily dismissed its appeal. As a result, in the third quarter of 2017 PM USA reversed $3 million of the 2003 NPM Adjustment and $2 million of the interest that it previously recorded, and recorded interest on those amounts.

No assurance can be given that the above-referenced disputes concerning calculation or allocation of interest will be resolved in a manner favorable to PM USA.

2004 and Subsequent NPM Adjustments. PM USA believes that the MSA requires the states' diligent enforcement claims for 2004 and thereafter to be determined in multi-state arbitrations. Some non-signatory states filed motions in their state courts contending that these claims are to be determined in separate arbitrations for individual states or that there is no arbitrable dispute for 2004. In September 2015, a Missouri intermediate appellate court ruled that Missouri was entitled to a single-state arbitration to determine whether Missouri diligently enforced for 2004. PM USA appealed this ruling, and in February 2017, the Supreme Court of Missouri reversed the decision of the intermediate appellate court, ruling that Missouri must submit to multi-state arbitration to arbitrate its diligent enforcement claim for 2004. In December 2015, a Wisconsin trial court ruled that Wisconsin must arbitrate its claim of diligent enforcement for 2004. As a result of these decisions, Missouri and Wisconsin have since joined the 2004 diligent enforcement arbitration. In November 2016, a New Mexico trial court ruled that New Mexico must arbitrate its diligent enforcement claim for 2004 in multi-state arbitration. New Mexico is appealing that ruling.

As discussed above, the Montana state courts have ruled that Montana may litigate its diligent enforcement claims in state court, rather than in arbitration. In March 2017, Montana filed a motion for a declaratory order from its state court stating that Montana diligently enforced its escrow statute during 2004 so that Montana's MSA payments would not be subject to an NPM Adjustment for that year. No hearings have yet been held by the Montana state court to determine whether Montana diligently enforced during 2004.

The 2004 diligent enforcement arbitration is currently pending before two separate arbitration panels, with all of the 19 non-signatory states other than New York (which separately settled), Montana and New Mexico participating in the arbitration. In June 2017, PM USA and the other participating manufacturers informed the panels that they no longer contest Alaska's and Massachusetts' diligent enforcement claims for 2004, but continue to contest such claims of all such other non-signatory states. The panels' decisions as to the contested non-signatory states are not expected until late 2018 or after. There is no assurance that PM USA will ultimately receive any adjustment as a result of these proceedings.

Proceedings regarding diligent enforcement claims for 2005 and subsequent years have not yet been scheduled. No assurance can be given as to when proceedings for 2005 and subsequent years will be scheduled or the precise form those proceedings will take.

The independent auditor has calculated that PM USA's share of the maximum potential NPM Adjustments for 2004-2016 is (exclusive of interest or earnings): $388 million for 2004, $181 million for 2005, $154 million for 2006, $185 million for 2007, $250 million for 2008, $211 million for 2009, $218 million for 2010, $166 million for 2011, $214 million for 2012, $223 million for 2013, $246 million for 2014, $292 million for 2015 and $296 million for 2016. These maximum amounts will be reduced by a judgment reduction to reflect the settlement with the signatory states and the New York settlement. The judgment reduction for the 2004 and subsequent NPM Adjustments has not yet been determined. In addition, these maximum amounts may also be further reduced by other developments, including agreements that may be entered in the future, disputes that may arise or recalculation of the NPM Adjustment amounts by the independent auditor. Further, the maximum amount for 2004 may also be reduced due to a dispute raised by another OPM regarding the allocation of the maximum potential 2004 NPM Adjustment among the OPMs. In addition, as discussed below, PM USA believes that the amounts shown above as PM USA's share of the maximum potential NPM Adjustment for 2015 and 2016 were incorrectly calculated by the independent auditor, and that PM USA's correct share is higher. Finally, PM USA's recovery of these amounts, even as reduced, is dependent upon subsequent determinations of state diligent enforcement claims, and is subject (in the case of signatory states found non-diligent) to the partial liability reduction under the settlement. The availability and amount of any NPM Adjustment for 2004 and subsequent years will not be finally determined in the near term. There is no assurance that PM USA will ultimately receive any adjustment as a result of these proceedings. PM USA's receipt of amounts on account of the 2003 NPM Adjustment and interest from non-signatory states does not provide any assurance that PM USA will receive any NPM Adjustment amounts (or associated interest or earnings) for 2004 or any subsequent year.

PM USA may enter into settlement discussions regarding the NPM Adjustment disputes with any state if PM USA believes it is in its best interests to do so.

Other Disputes Under the State Settlement Agreements

The payment obligations of the tobacco product manufacturers that are parties to the State Settlement Agreements, as well as the allocations of any NPM Adjustments received by them pursuant to the MSA or the settlements of NPM Adjustment disputes with certain states described above, as calculated by the independent auditor, have been and may continue to be affected by R.J. Reynolds's acquisition of Lorillard and the related assignment of certain cigarette brands by R.J. Reynolds to ITG (the "RJR-Lorillard-ITG transaction"). For example, R.J. Reynolds and ITG have taken the position that they do not have to make payments on those brands under the Florida, Minnesota and Texas State Settlement Agreements or include those brands in their reported volumes or profits for purposes of certain calculations under the State Settlement Agreements. PM USA believes that the position taken by R.J. Reynolds and ITG violates the State Settlement Agreements and applicable law. In that regard, PM USA disputes several calculations made by the independent auditor since the RJR-Lorillard-ITG transaction. In particular, PM USA believes that the independent auditor's calculations incorrectly increased PM USA's payments for 2015 and 2016 due to Mississippi, Florida, Texas and Minnesota under their State Settlement Agreements by at least $84 million for those two years combined (see below for a discussion of the portion of these improperly increased payments attributable to the Florida Settlement Agreement). PM USA further believes that such payments due to those states for subsequent years may also be incorrectly increased by amounts that will depend in part on the independent auditor's future calculations.

In January 2017, PM USA and the State of Florida each filed in Florida state court a motion against R.J. Reynolds and ITG to enforce the Florida State Settlement Agreement with respect to their failure to make payments to Florida on the assigned brands and failure to correctly account for and include those brands in their reported volumes and profits for purposes of certain calculations under the Florida State Settlement Agreement. PM USA believes that, as a result of these failures by R.J. Reynolds and ITG, its settlement payments to Florida have been improperly increased by over $28 million for 2015 and 2016 combined.

In addition to the disputes noted above, PM USA believes that the calculations by the independent auditor have resulted in an improper decrease of PM USA's share of the 2015 and 2016 NPM Adjustments pursuant to the MSA and the settlements of the NPM Adjustment disputes and may result in improper decreases of its share for subsequent years, although the amounts of such decreases depend on a number of factors that cannot be determined at this time.

PM USA cannot provide any assurance that it will be successful in any of the above-described disputes that it has raised or may raise.

Other MSA-Related Litigation

Since the MSA's inception, NPMs and/or their distributors or customers have filed a number of challenges to the MSA and related legislation. They have named as defendants the states and their officials, in an effort to enjoin enforcement of important parts of the MSA and related legislation, and/or participating manufacturers, in an effort to obtain damages. To date, no such challenge has been successful, and the U.S. Courts of Appeals for the Second, Third, Fourth, Fifth, Sixth, Eighth, Ninth and Tenth Circuits have affirmed judgments in favor of defendants in 16 such cases.

Federal Government's Lawsuit

In 1999, the United States government filed a lawsuit in the U.S. District Court for the District of Columbia against various cigarette manufacturers, including PM USA, and others, including Altria Group, Inc., asserting claims under three federal statutes, namely the Medical Care Recovery Act ("MCRA"), the MSP provisions of the Social Security Act and the civil provisions of RICO. Trial of the case ended in June 2005. The lawsuit sought to recover an unspecified amount of health care costs for tobacco-related illnesses allegedly caused by defendants' fraudulent and tortious conduct and paid for by the government under various federal health care programs, including Medicare, military and veterans' health benefits programs, and the Federal Employees Health Benefits Program. The complaint alleged that such costs total more than $20 billion annually. It also sought what it alleged to be equitable and declaratory relief, including disgorgement of profits that arose from defendants' allegedly tortious conduct, an injunction prohibiting certain actions by defendants, and a declaration that defendants are liable for the federal government's future costs of providing health care resulting from defendants' alleged past tortious and wrongful conduct. The case ultimately proceeded only under the civil provisions of RICO.

The government alleged that disgorgement by defendants of approximately $280 billion is an appropriate remedy and the trial court agreed. In February 2005, however, a panel of the U.S. Court of Appeals for the District of Columbia Circuit held that disgorgement is not a remedy available to the government under the civil provisions of RICO. In October 2005, the United States Supreme Court denied the government's petition for writ of certiorari.

In August 2006, the federal trial court entered judgment in favor of the government. The court held that certain defendants, including Altria Group, Inc. and PM USA, violated RICO and engaged in seven of the eight "sub-schemes" to defraud that the government had alleged. Specifically, the court found that:

- defendants falsely denied, distorted and minimized the significant adverse health consequences of smoking;
- defendants hid from the public that cigarette smoking and nicotine are addictive;
- defendants falsely denied that they control the level of nicotine delivered to create and sustain addiction;
- defendants falsely marketed and promoted "low tar/light" cigarettes as less harmful than full-flavor cigarettes;
- defendants falsely denied that they intentionally marketed to youth;
- defendants publicly and falsely denied that ETS is hazardous to non-smokers; and
- defendants suppressed scientific research.

The court did not impose monetary penalties on defendants, but ordered the following relief: (i) an injunction against "committing any act of racketeering" relating to the manufacturing, marketing, promotion, health consequences or sale of cigarettes in the United States; (ii) an injunction against participating directly or indirectly in the management or control of the Council for Tobacco Research, the Tobacco Institute, or the Center for Indoor Air Research, or any successor or affiliated entities of each; (iii) an injunction against "making, or causing to be made in any way, any material false, misleading, or deceptive statement or representation or engaging in any public relations or marketing endeavor that is disseminated to the United States public and that misrepresents or suppresses information concerning cigarettes"; (iv) an injunction against conveying any express or implied health message or health descriptors on cigarette packaging or in cigarette advertising or promotional material, including "lights," "ultra lights" and "low tar," which the court found could cause consumers to believe one cigarette brand is less hazardous than another brand; (v) the issuance of "corrective statements" in various media regarding the adverse health effects of smoking, the addictiveness of smoking and nicotine, the lack of any significant health benefit from smoking "low tar" or "light" cigarettes, defendants' manipulation of cigarette design to ensure optimum nicotine delivery and the adverse health effects of exposure to ETS; (vi) the disclosure on defendants' public document websites and in the Minnesota document repository of all documents produced to the government in the lawsuit or produced in any future court or administrative action concerning smoking and health until 2021, with certain additional requirements as to documents withheld from production under a claim of privilege or confidentiality; (vii) the disclosure of disaggregated marketing data to the government in the same form and on the same schedule as defendants now follow in disclosing such data to the Federal Trade Commission ("FTC") for a period of 10 years; (viii) certain restrictions on the sale or transfer by defendants of any cigarette brands, brand names, formulas or cigarette businesses within the United States; and (ix) payment of the government's costs in bringing the action.

Defendants appealed and, in May 2009, a three judge panel of the Court of Appeals for the District of Columbia Circuit issued a per curiam decision largely affirming the trial court's judgment against defendants and in favor of the government. Although the panel largely affirmed the remedial order that was issued by the trial court, it vacated the following aspects of the order:

- its application to defendants' subsidiaries;

the prohibition on the use of express or implied health messages or health descriptors, but only to the extent of extraterritorial application;
its point-of-sale display provisions; and
its application to Brown & Williamson Holdings.

The Court of Appeals panel remanded the case for the trial court to reconsider these four aspects of the injunction and to reformulate its remedial order accordingly. Furthermore, the Court of Appeals panel rejected all of the government's and intervenors' cross-appeal arguments and refused to broaden the remedial order entered by the trial court. The Court of Appeals panel also left undisturbed its prior holding that the government cannot obtain disgorgement as a permissible remedy under RICO.

Table of Contents
Altria Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

In July 2009, defendants filed petitions for a rehearing before the panel and for a rehearing by the entire Court of Appeals. Defendants also filed a motion to vacate portions of the trial court's judgment on the grounds of mootness because of the passage of the Family Smoking Prevention and Tobacco Control Act ("FSPTCA"), granting the U.S. Food and Drug Administration broad authority over the regulation of tobacco products. In September 2009, the Court of Appeals entered three per curiam rulings. Two of them denied defendants' petitions for panel rehearing or for rehearing en banc. In the third per curiam decision, the Court of Appeals denied defendants' suggestion of mootness and motion for partial vacatur. In February 2010, PM USA and Altria Group, Inc. filed their certiorari petitions with the United States Supreme Court. In addition, the federal government and the intervenors filed their own certiorari petitions, asking the court to reverse an earlier Court of Appeals decision and hold that civil RICO allows the trial court to order disgorgement as well as other equitable relief, such as smoking cessation remedies, designed to redress continuing consequences of prior RICO violations. In June 2010, the United States Supreme Court denied all of the parties' petitions. In July 2010, the Court of Appeals issued its mandate lifting the stay of the trial court's judgment and remanding the case to the trial court. As a result of the mandate, except for those matters remanded to the trial court for further proceedings, defendants are now subject to the injunction discussed above and the other elements of the trial court's judgment.

In February 2011, the government submitted its proposed corrective statements and the trial court referred issues relating to a document repository to a special master. Defendants filed a response to the government's proposed corrective statements and filed a motion to vacate the trial court's injunction in light of the FSPTCA, which motion was denied in June 2011. Defendants appealed the trial court's ruling to the U.S. Court of Appeals for the District of Columbia Circuit. In July 2012, the Court of Appeals affirmed the district court's denial of defendants' motion to vacate the district court's injunction.

In November 2012, the district court issued its order specifying the content of the corrective communications described above. The district court's order required the parties to engage in negotiations with the special master regarding implementation of the corrective communications remedy for television, newspapers, cigarette pack onserts and websites. In January 2013, defendants filed a notice of appeal from the order on the content and vehicles of the corrective communications and a motion to hold the appeal in abeyance pending completion of the negotiations, which the U.S. Court of Appeals granted in February 2013. In January 2014, the parties submitted a motion for entry of a consent order in the district court, setting forth their agreement on the implementation details of the corrective communications remedy. The agreement provides that the "trigger date" for implementation is after the appeal on the content of the communications has been exhausted. Also in January 2014, the district court convened a hearing and ordered further briefing. A number of amici who sought modification or rejection of the agreement for a variety of reasons were given leave to appear. In April 2014, the parties filed an amended proposed consent order and accompanying submission in the district court seeking entry of a revised agreement on the implementation details of the corrective communications remedy. In June 2014, the district court approved the April 2014 proposed consent order. Also in June 2014, defendants filed a notice of appeal of the consent order solely for the purpose of perfecting the U.S. Court of Appeals' jurisdiction over the pending appeal relating to the content and vehicles of the corrective communications and, in July 2014, defendants moved to consolidate this appeal with the appeal filed in January 2013. The U.S. Court of Appeals granted the motion to consolidate in August 2014.

In May 2015, the U.S. Court of Appeals affirmed in part and reversed in part, concluding that certain portions of the statements exceeded the district court's jurisdiction under RICO, but upheld other portions challenged by defendants. The Court of Appeals remanded the case to the trial court for further proceedings. In July 2015, the government filed a petition for panel rehearing, which the U.S. Court of Appeals denied on August 2015. In October 2015, the district court ordered further briefing on the content of the corrective communications reversed by the U.S. Court of Appeals and any implementation changes the parties propose. In February 2016, the U.S. District Court for the District of Columbia issued an order on the content of the corrective communications and ordered the parties to submit proposed changes to the consent order on the implementation details, which the parties jointly submitted and the court approved in April 2016. Also in April 2016, defendants filed a notice of appeal to the U.S. Court of Appeals for the District of Columbia Circuit on the content of the corrective communications. In May 2016, defendants filed a notice of appeal of the consent order for the purpose of perfecting the appeal of the district court's February 2016 order on the content of the corrective communications. In April 2017, the U.S. Court of Appeals for the District of Columbia Circuit reversed in part the district court's decision on the content of the corrective communications, striking certain content and remanding to the district court the decision on how to revise certain other content. In June 2017, the U.S. District Court for the District of Columbia issued an order adopting modified corrective statements. In October 2017, the court approved the parties' proposed consent order implementing the corrective communications remedy for newspapers and television. The corrective statements will begin to appear in newspapers and on television in the fourth quarter of 2017. Also in October 2017, the parties submitted a status report seeking an extension to November 17, 2017 to either file a proposed consent order implementing the corrective communications remedy for websites and cigarette pack onserts or a further status report.

In the second quarter of 2014, Altria Group, Inc. and PM USA recorded provisions on each of their respective balance sheets totaling $31 million for the estimated costs of implementing the corrective communications remedy. This estimate is subject to change due to several factors, though Altria Group, Inc. and PM USA do not expect any change in this estimate to be material.

The consent order approved by the district court in June 2014 did not address the requirements related to point-of-sale signage. In May 2014, the district court ordered further briefing by the parties on the issue of corrective statements on point-of-sale signage, which was completed in June 2014.

In December 2011, the parties to the lawsuit entered into an agreement as to the issues concerning the document repository. Pursuant to this agreement, PM USA agreed to deposit an amount of approximately $3.1 million into the district court in installments over a five-year period.

“Lights/Ultra Lights” Cases

Overview

Plaintiffs in certain pending matters seek certification of their cases as class actions and allege, among other things, that the uses of the terms “Lights” and/or “Ultra Lights” constitute deceptive and unfair trade practices, common law or statutory fraud, unjust enrichment or breach of warranty, and seek injunctive and equitable relief, including restitution and, in certain cases, punitive damages. These class actions have been brought against PM USA and, in certain instances, Altria Group, Inc. or its other subsidiaries, on behalf of individuals who purchased and consumed various brands of cigarettes, including Marlboro Lights, Marlboro Ultra Lights, Virginia Slims Lights and Superslims, Merit Lights and Cambridge Lights. Defenses raised in these cases include lack of misrepresentation, lack of causation, injury and damages, the statute of limitations, non-liability under state statutory provisions exempting conduct that complies with federal regulatory directives, and the First Amendment. As of October 23, 2017, a total of four such cases are pending in various U.S. state courts.

State “Lights” Cases Dismissed, Not Certified or Ordered De-Certified

As of October 23, 2017, 21 state courts in 22 “Lights” cases have refused to certify class actions, dismissed class action allegations, reversed prior class certification decisions or have entered judgment in favor of PM USA.

State Trial Court Class Certifications

State trial courts have certified classes against PM USA in several jurisdictions. Over time, several such cases have been dismissed by the courts at the summary judgment stage. One certified class action remains pending on appeal.

Larsen: In August 2005, a Missouri Court of Appeals affirmed the class certification order. In December 2009, the trial court denied plaintiffs’ motion for reconsideration of the period during which potential class members can qualify to become part of the class. The class period remains 1995-2003. In June 2010, PM USA’s motion for partial summary judgment regarding plaintiffs’ request for punitive damages was denied. In April 2010, plaintiffs moved for partial summary judgment as to an element of liability in the case, claiming collateral estoppel from the findings in the case brought by the Department of Justice (see Health Care Cost Recovery Litigation - Federal Government's Lawsuit described above). The plaintiffs' motion was denied in December 2010. In June 2011, PM USA filed various summary judgment motions challenging the plaintiffs' claims. In August 2011, the trial court granted PM USA's motion for partial summary judgment, ruling that plaintiffs could not present a damages claim based on allegations that Marlboro Lights are more dangerous than Marlboro Reds. The trial court denied PM USA's remaining summary judgment motions. Trial in the case began in September 2011 and, in October 2011, the court declared a mistrial after the jury failed to reach a verdict. In January 2014, the trial court reversed its prior ruling granting partial summary judgment against plaintiffs' "more dangerous" claim and allowed plaintiffs to pursue that claim. In October 2014, PM USA filed motions to decertify the class and for partial summary judgment on plaintiffs' "more dangerous" claim, which the court denied in June 2015. Upon retrial, in April 2016, the jury returned a verdict in favor of PM USA. In August 2016, plaintiffs filed a notice of appeal and PM USA cross-appealed. In November 2016, the court of appeals dismissed PM USA’s cross-appeal without prejudice upon joint motion of the parties. Oral argument at the Missouri Court of Appeals occurred August 8, 2017.

State Trial Court Class Certification Settlements

Aspinall: In August 2004, the Massachusetts Supreme Judicial Court affirmed the class certification order. In February 2014, the Massachusetts Superior Court ruled that plaintiffs’ recovery is limited to actual damages or $25 per class member if they cannot prove actual damages greater than $25. Trial began in October 2015 and concluded in November 2015. In February 2016, the trial court issued its “Findings of Fact and Conclusions of Law,” and awarded statutory damages of $25 per class member, for a total of $4.9 million, plus interest, attorneys’ fees and costs. In April 2016, subject to the court’s approval, the parties agreed to settle all claims for approximately $32 million. In the first quarter of 2016, PM USA recorded a provision on its condensed consolidated balance sheet of approximately $32 million for the judgment plus interest and associated costs. In May 2016, PM USA paid approximately $32 million to plaintiffs’ escrow agent. In September 2016, the court approved the settlement in which PM USA agreed to pay approximately $15.3 million to the class and $16.5 million in attorneys’ fees and costs, and dismissed the case with prejudice, concluding this litigation.

Miner: In November 2013, the Arkansas trial court granted class certification, which the Arkansas Supreme Court affirmed in February 2015. In June 2016, the trial court granted PM USA’s motion for partial summary judgment to limit any damages claimed by the plaintiffs’ class to purchases made prior to May 2003. In July 2016, the parties agreed to settle all claims for $45 million. In the third quarter of 2016, PM USA recorded a provision on its condensed consolidated balance sheet of $45 million. In November 2016, the trial court granted final approval of the settlement, concluding this litigation. In December 2016, PM USA paid $45 million to plaintiff’s escrow agent.

Other Developments

In Carroll (formerly known as Holmes) the Delaware state trial court denied plaintiffs’ motion for class certification in May 2017. The named plaintiff agreed to resolve her individual claim for $3,000 and, pursuant to that agreement, in July 2017, the trial court approved the parties’ stipulation to dismiss the case with prejudice, concluding this litigation.

Certain Other Tobacco-Related Litigation

Ignition Propensity Cases

PM USA and Altria Group, Inc. are currently facing litigation alleging that a fire caused by cigarettes led to individuals’ deaths. In a Kentucky case (Walker), the federal district court denied plaintiffs’ motion to remand the case to state court and dismissed plaintiffs’ claims in February 2009. Plaintiffs subsequently filed a notice of appeal. In October 2011, the U.S. Court of Appeals for the Sixth Circuit reversed the portion of the district court decision that denied remand of the case to Kentucky state court and remanded the case to Kentucky state court. The Sixth Circuit did not address the merits of the district court’s dismissal order. Defendants’ petition for rehearing with the Sixth Circuit was denied in December 2011. Defendants filed a renewed motion to dismiss in state court in March 2013. Based on new evidence, in June 2013, defendants removed the case for a second time to the U.S. District Court for the Western District of Kentucky and re-filed their motion to dismiss in June 2013. In July 2013, plaintiffs filed a motion to remand the case to Kentucky state court, which was granted in March 2014. In November 2016, defendants filed renewed motions to dismiss the case, which the court granted in March 2017.

Argentine Grower Cases

PM USA and Altria Group, Inc. were sued in six cases (Hupan, Chalanuk, Rodriguez Da Silva, Aranda, Taborda and Biglia) filed in Delaware state court against multiple defendants by the parents of Argentine children born with alleged birth defects. Plaintiffs in these cases allege that they grew tobacco in Argentina under contract with Tabacos Norte S.A., an alleged subsidiary of PMI, and that they and their infant children were exposed directly and in utero to Monsanto Company's ("Monsanto") Roundup herbicide during the production and cultivation of tobacco. Plaintiffs seek compensatory and punitive damages against all defendants. Altria Group, Inc. and certain other defendants were dismissed from the Hupan, Chalanuk, Rodriguez Da Silva, Aranda, Taborda and Biglia cases. The three remaining defendants in the six cases were PM USA, Philip Morris Global Brands Inc. (a subsidiary of PMI) and Monsanto. Following discussions regarding indemnification for these cases pursuant to the Distribution Agreement between PMI and Altria Group, Inc., PMI and PM USA agreed to resolve conflicting indemnity demands after final judgments are entered. See Guarantees and Other Similar Matters below for a discussion of the Distribution Agreement. In April 2014, all three defendants in the Hupan case filed motions to dismiss for failure to state a claim, and PM USA and Philip Morris Global Brands filed separate motions to dismiss based on the doctrine of forum non conveniens. All proceedings in the other five cases were stayed pending the court's resolution of the motions to dismiss filed in Hupan. In November 2015, the trial court granted PM USA's motion to dismiss on forum non conveniens grounds. Plaintiffs filed a motion for clarification or re-argument in December 2015, which the court denied in August 2016. Later in August 2016, PM USA and Philip Morris Global Brands moved for entry of final judgment in the Hupan case and also moved to lift the stays in the other five cases for the limited purpose of entering final judgment of dismissal in those cases as well based on the forum non conveniens decision in Hupan. The court granted those motions in September 2016, and entered final judgment of dismissal in all six cases. In October 2016, plaintiffs filed their notice of appeal to the Delaware Supreme Court. Oral argument occurred in September 2017.

UST Litigation

Claims related to smokeless tobacco products generally fall within the following categories:

First, UST and/or its tobacco subsidiaries have been named in certain actions in West Virginia (See In re: Tobacco Litigation above) brought by or on behalf of individual plaintiffs against cigarette manufacturers, smokeless tobacco manufacturers and other organizations seeking damages and other relief in connection with injuries allegedly sustained as a result of tobacco usage, including smokeless tobacco products. Included among the plaintiffs are six individuals alleging use of USSTC's smokeless tobacco products and alleging the types of injuries claimed to be associated with the use of smokeless tobacco products. USSTC, along with other non-cigarette manufacturers, has remained severed from such proceedings since December 2001.

Second, UST and/or its tobacco subsidiaries have been named in a number of other individual tobacco and health suits over time. Plaintiffs' allegations of liability in these cases are based on various theories of recovery, such as negligence, strict liability, fraud, misrepresentation, design defect, failure to warn, breach of implied warranty, addiction and breach of consumer protection statutes. Plaintiffs seek various forms of relief, including compensatory and punitive damages, and certain equitable relief, including but not limited to disgorgement. Defenses raised in these cases include lack of causation, assumption of the risk, comparative fault and/or contributory negligence, and statutes of limitations. In July 2016, USSTC and Altria Group, Inc. were named as defendants, along with other named defendants, in one such case in California (Gwynn). In August 2016, defendants removed the case to federal court. In September 2016, plaintiffs filed a motion to remand the case back to state court, which the court granted in January 2017. In May 2017, the court granted plaintiffs' motion to dismiss all defendants except USSTC.

Nu Mark Patent Litigation

Fontem Ventures B.V. and Fontem Holdings 1 B.V., both subsidiaries of ITG, sued Nu Mark for alleged patent infringement in the U.S. District Court for the Central District of California of one or more claims under various Fontem patents for e-vapor products. The suit sought recovery of an unspecified amount of money damages for alleged past infringement and an injunction against future infringement, which injunction may have resulted in Nu Mark being enjoined from marketing one or more of the products at issue in the suit. In December 2016, the parties entered into a settlement and license agreement, resulting in the dismissal of the litigation. Under the terms of the agreement, in January 2017, Nu Mark made an upfront payment of $21 million and will make future royalty payments in amounts that Altria Group, Inc. does not expect to be material. In the fourth quarter of 2016, Nu Mark recorded a provision on its consolidated balance sheet of $21 million.

Environmental Regulation

Altria Group, Inc. and its subsidiaries (and former subsidiaries) are subject to various federal, state and local laws and regulations concerning the discharge of materials into the environment, or otherwise related to environmental protection, including, in the United States: the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act and the Comprehensive Environmental Response, Compensation and Liability Act (commonly known as “Superfund”), which can impose joint and several liability on each responsible party. Subsidiaries (and former subsidiaries) of Altria Group, Inc. are involved in several matters subjecting them to potential costs of remediation and natural resource damages under Superfund or other laws and regulations. Altria Group, Inc.’s subsidiaries expect to continue to make capital and other expenditures in connection with environmental laws and regulations.

Altria Group, Inc. provides for expenses associated with environmental remediation obligations on an undiscounted basis when such amounts are probable and can be reasonably estimated. Such accruals are adjusted as new information develops or circumstances change. Other than those amounts, it is not possible to reasonably estimate the cost of any environmental remediation and compliance efforts that subsidiaries of Altria Group, Inc. may undertake in the future. In the opinion of management, however, compliance with environmental laws and regulations, including the payment of any remediation costs or damages and the making of related expenditures, has not had, and is not expected to have, a material adverse effect on Altria Group, Inc.'s consolidated results of operations, capital expenditures, financial position or cash flows.

Guarantees and Other Similar Matters

In the ordinary course of business, certain subsidiaries of Altria Group, Inc. have agreed to indemnify a limited number of third parties in the event of future litigation. At September 30, 2017, Altria Group, Inc. and certain of its subsidiaries (i) had $57 million of unused letters of credit obtained in the ordinary course of business; (ii) were contingently liable for $30 million of guarantees, consisting primarily of surety bonds, related to their own performance; and (iii) had a redeemable noncontrolling interest of $37 million recorded on its condensed consolidated balance sheet. In addition, from time to time, subsidiaries of Altria Group, Inc. issue lines of credit to affiliated entities. These items have not had, and are not expected to have, a significant impact on Altria Group, Inc.'s liquidity.

Under the terms of a distribution agreement between Altria Group, Inc. and PMI (the "Distribution Agreement"), entered into as a result of Altria Group, Inc.'s 2008 spin-off of its former subsidiary PMI, liabilities concerning tobacco products will be allocated based in substantial part on the manufacturer. PMI will indemnify Altria Group, Inc. and PM USA for liabilities related to tobacco products manufactured by PMI or contract manufactured for PMI by PM USA, and PM USA will indemnify PMI for liabilities related to tobacco products manufactured by PM USA, excluding tobacco products contract manufactured for PMI. Altria Group, Inc. does not have a related liability recorded on its condensed consolidated balance sheet at September 30, 2017 as the fair value of this indemnification is insignificant.

As more fully discussed in Note 10. Condensed Consolidating Financial Information, PM USA has issued guarantees relating to Altria Group, Inc.'s obligations under its outstanding debt securities, borrowings under its $3.0 billion senior unsecured 5-year revolving credit agreement (the "Credit Agreement") and amounts outstanding under its commercial paper program.

Altria Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 10. Condensed Consolidating Financial Information:

PM USA, which is a 100% owned subsidiary of Altria Group, Inc., has guaranteed Altria Group, Inc.'s obligations under its outstanding debt securities, borrowings under its Credit Agreement and amounts outstanding under its commercial paper program (the "Guarantees"). Pursuant to the Guarantees, PM USA fully and unconditionally guarantees, as primary obligor, the payment and performance of Altria Group, Inc.'s obligations under the guaranteed debt instruments (the "Obligations"), subject to release under certain customary circumstances as noted below.
The Guarantees provide that PM USA guarantees the punctual payment when due, whether at stated maturity, by acceleration or otherwise, of the Obligations. The liability of PM USA under the Guarantees is absolute and unconditional irrespective of: any lack of validity, enforceability or genuineness of any provision of any agreement or instrument relating thereto; any change in the time, manner or place of payment of, or in any other term of, all or any of the Obligations, or any other amendment or waiver of or any consent to departure from any agreement or instrument relating thereto; any exchange, release or non-perfection of any collateral, or any release or amendment or waiver of or consent to departure from any other guarantee, for all or any of the Obligations; or any other circumstance that might otherwise constitute a defense available to, or a discharge of, Altria Group, Inc. or PM USA.
The obligations of PM USA under the Guarantees are limited to the maximum amount as will not result in PM USA's obligations under the Guarantees constituting a fraudulent transfer or conveyance, after giving effect to such maximum amount and all other contingent and fixed liabilities of PM USA that are relevant under Bankruptcy Law, the Uniform Fraudulent Conveyance Act, the Uniform Fraudulent Transfer Act or any similar federal or state law to the extent applicable to the Guarantees. For this purpose, "Bankruptcy Law" means Title 11, U.S. Code, or any similar federal or state law for the relief of debtors.

PM USA will be unconditionally released and discharged from the Obligations upon the earliest to occur of:

the date, if any, on which PM USA consolidates with or merges into Altria Group, Inc. or any successor;

the date, if any, on which Altria Group, Inc. or any successor consolidates with or merges into PM USA;

the payment in full of the Obligations pertaining to such Guarantees; and

the rating of Altria Group, Inc.'s long-term senior unsecured debt by Standard & Poor's Ratings Services of A or higher.

At September 30, 2017, the respective principal 100% owned subsidiaries of Altria Group, Inc. and PM USA were not limited by long-term debt or other agreements in their ability to pay cash dividends or make other distributions with respect to their equity interests.
The following sets forth the condensed consolidating balance sheets as of September 30, 2017 and December 31, 2016, condensed consolidating statements of earnings and comprehensive earnings for the nine and three months ended September 30, 2017 and 2016, and condensed consolidating statements of cash flows for the nine months ended September 30, 2017 and 2016 for Altria Group, Inc., PM USA and, collectively, Altria Group, Inc.'s other subsidiaries that are not guarantors of Altria Group, Inc.'s debt instruments (the "Non-Guarantor Subsidiaries"). The financial information is based on Altria Group, Inc.'s understanding of the Securities and Exchange Commission ("SEC") interpretation and application of Rule 3-10 of SEC Regulation S-X.
The financial information may not necessarily be indicative of results of operations or financial position had PM USA and the Non-Guarantor Subsidiaries operated as independent entities. Altria Group, Inc. and PM USA account for investments in their subsidiaries under the equity method of accounting.

Table of Contents
Altria Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Condensed Consolidating Balance Sheets
September 30, 2017
(in millions of dollars)

	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Assets					
Cash and cash equivalents	$ 2,538	$ —	$ 44	$ —	$ 2,582
Receivables	1	4	143	—	148
Inventories:					
Leaf tobacco	—	468	316	—	784
Other raw materials	—	115	65	—	180
Work in process	—	6	426	—	432
Finished product	—	140	451	—	591
	—	729	1,258	—	1,987
Due from Altria Group, Inc. and subsidiaries	—	3,724	1,152	(4,876)	—
Other current assets	93	344	61	(59)	439
Total current assets	2,632	4,801	2,658	(4,935)	5,156
Property, plant and equipment, at cost	—	2,925	1,921	—	4,846
Less accumulated depreciation	—	2,072	867	—	2,939
	—	853	1,054	—	1,907
Goodwill	—	—	5,307	—	5,307
Other intangible assets, net	—	2	12,194	—	12,196
Investment in AB InBev	18,213	—	—	—	18,213
Investment in consolidated subsidiaries	12,050	2,653	—	(14,703)	—
Finance assets, net	—	—	901	—	901
Due from Altria Group, Inc. and subsidiaries	4,790	—	—	(4,790)	—
Other assets	12	1,641	138	(1,311)	480
Total Assets	$ 37,697	$ 9,950	$ 22,252	$ (25,739)	$ 44,160

Altria Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Condensed Consolidating Balance Sheets (Continued)
September 30, 2017
(in millions of dollars)

	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Liabilities					
Accounts payable	$ 5	$ 89	$ 176	$ —	$ 270
Accrued liabilities:					
Marketing	—	680	79	—	759
Employment costs	19	9	124	—	152
Settlement charges	—	3,376	7	—	3,383
Other	212	333	348	(59)	834
Dividends payable	1,264	—	—	—	1,264
Due to Altria Group, Inc. and subsidiaries	4,489	346	41	(4,876)	—
Total current liabilities	5,989	4,833	775	(4,935)	6,662
Long-term debt	13,890	—	—	—	13,890
Deferred income taxes	5,277	—	4,268	(1,311)	8,234
Accrued pension costs	200	—	411	—	611
Accrued postretirement health care costs	—	1,419	766	—	2,185
Due to Altria Group, Inc. and subsidiaries	—	—	4,790	(4,790)	—
Other liabilities	175	56	141	—	372
Total liabilities	25,531	6,308	11,151	(11,036)	31,954
Contingencies					
Redeemable noncontrolling interest	—	—	37	—	37
Stockholders' Equity					
Common stock	935	—	9	(9)	935
Additional paid-in capital	5,940	3,310	11,856	(15,166)	5,940
Earnings reinvested in the business	38,542	593	833	(1,426)	38,542
Accumulated other comprehensive losses	(1,946)	(261)	(1,637)	1,898	(1,946)
Cost of repurchased stock	(31,305)	—	—	—	(31,305)
Total stockholders' equity attributable to Altria Group, Inc.	12,166	3,642	11,061	(14,703)	12,166
Noncontrolling interests	—	—	3	—	3
Total stockholders' equity	12,166	3,642	11,064	(14,703)	12,169
Total Liabilities and Stockholders' Equity	$ 37,697	$ 9,950	$ 22,252	$ (25,739)	$ 44,160

57

Table of Contents
Altria Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Condensed Consolidating Balance Sheets
December 31, 2016
(in millions of dollars)

	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Assets					
Cash and cash equivalents	$ 4,521	$ 1	$ 47	$ —	$ 4,569
Receivables	—	8	143	—	151
Inventories:					
Leaf tobacco	—	541	351	—	892
Other raw materials	—	111	53	—	164
Work in process	—	3	509	—	512
Finished product	—	112	371	—	483
	—	767	1,284	—	2,051
Due from Altria Group, Inc. and subsidiaries	—	3,797	1,511	(5,308)	—
Other current assets	170	118	201	—	489
Total current assets	4,691	4,691	3,186	(5,308)	7,260
Property, plant and equipment, at cost	—	2,971	1,864	—	4,835
Less accumulated depreciation	—	2,073	804	—	2,877
	—	898	1,060	—	1,958
Goodwill	—	—	5,285	—	5,285
Other intangible assets, net	—	2	12,034	—	12,036
Investment in AB InBev	17,852	—	—	—	17,852
Investment in consolidated subsidiaries	11,636	2,632	—	(14,268)	—
Finance assets, net	—	—	1,028	—	1,028
Due from Altria Group, Inc. and subsidiaries	4,790	—	—	(4,790)	—
Other assets	18	1,748	131	(1,384)	513
Total Assets	$ 38,987	$ 9,971	$ 22,724	$ (25,750)	$ 45,932

Table of Contents
Altria Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Condensed Consolidating Balance Sheets (Continued)
December 31, 2016
(in millions of dollars)

	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Liabilities					
Accounts payable	$ 1	$ 92	$ 332	$ —	$ 425
Accrued liabilities:					
Marketing	—	619	128	—	747
Employment costs	104	14	171	—	289
Settlement charges	—	3,696	5	—	3,701
Other	261	438	326	—	1,025
Dividends payable	1,188	—	—	—	1,188
Due to Altria Group, Inc. and subsidiaries	5,030	237	41	(5,308)	—
Total current liabilities	6,584	5,096	1,003	(5,308)	7,375
Long-term debt	13,881	—	—	—	13,881
Deferred income taxes	5,424	—	4,376	(1,384)	8,416
Accrued pension costs	207	—	598	—	805
Accrued postretirement health care costs	—	1,453	764	—	2,217
Due to Altria Group, Inc. and subsidiaries	—	—	4,790	(4,790)	—
Other liabilities	121	146	160	—	427
Total liabilities	26,217	6,695	11,691	(11,482)	33,121
Contingencies					
Redeemable noncontrolling interest	—	—	38	—	38
Stockholders' Equity					
Common stock	935	—	9	(9)	935
Additional paid-in capital	5,893	3,310	11,585	(14,895)	5,893
Earnings reinvested in the business	36,906	237	1,118	(1,355)	36,906
Accumulated other comprehensive losses	(2,052)	(271)	(1,720)	1,991	(2,052)
Cost of repurchased stock	(28,912)	—	—	—	(28,912)
Total stockholders' equity attributable to Altria Group, Inc.	12,770	3,276	10,992	(14,268)	12,770
Noncontrolling interests	—	—	3	—	3
Total stockholders' equity	12,770	3,276	10,995	(14,268)	12,773
Total Liabilities and Stockholders' Equity	$ 38,987	$ 9,971	$ 22,724	$ (25,750)	$ 45,932

Table of Contents
Altria Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Condensed Consolidating Statements of Earnings and Comprehensive Earnings
For the Nine Months Ended September 30, 2017
(in millions of dollars)

	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Net revenues	$ —	$ 16,748	$ 2,754	$ (27)	$ 19,475
Cost of sales	—	4,875	851	(27)	5,699
Excise taxes on products	—	4,533	162	—	4,695
Gross profit	—	7,340	1,741	—	9,081
Marketing, administration and research costs	126	1,208	330	—	1,664
Asset impairment and exit costs	—	—	24	—	24
Operating (expense) income	(126)	6,132	1,387	—	7,393
Interest and other debt expense (income), net	375	(12)	162	—	525
Earnings from equity investment in AB InBev	(332)	—	—	—	(332)
Gain on AB InBev/SABMiller business combination	(445)	—	—	—	(445)
Earnings before income taxes and equity earnings of subsidiaries	276	6,144	1,225	—	7,645
(Benefit) provision for income taxes	(207)	2,173	420	—	2,386
Equity earnings of subsidiaries	4,773	234	—	(5,007)	—
Net earnings	5,256	4,205	805	(5,007)	5,259
Net earnings attributable to noncontrolling interests	—	—	(3)	—	(3)
Net earnings attributable to Altria Group, Inc.	$ 5,256	$ 4,205	$ 802	$ (5,007)	$ 5,256
Net earnings	$ 5,256	$ 4,205	$ 805	$ (5,007)	$ 5,259
Other comprehensive earnings, net of deferred income taxes	106	10	83	(93)	106
Comprehensive earnings	5,362	4,215	888	(5,100)	5,365
Comprehensive earnings attributable to noncontrolling interests	—	—	(3)	—	(3)
Comprehensive earnings attributable to Altria Group, Inc.	$ 5,362	$ 4,215	$ 885	$ (5,100)	$ 5,362

Table of Contents
Altria Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Condensed Consolidating Statements of Earnings and Comprehensive Earnings
For the Nine Months Ended September 30, 2016
(in millions of dollars)

	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Net revenues	$ —	$ 16,874	$ 2,646	$ (28)	$ 19,492
Cost of sales	—	5,084	785	(28)	5,841
Excise taxes on products	—	4,723	165	—	4,888
Gross profit	—	7,067	1,696	—	8,763
Marketing, administration and research costs	113	1,435	323	—	1,871
Asset impairment and exit costs	5	96	22	—	123
Operating (expense) income	(118)	5,536	1,351	—	6,769
Interest and other debt expense, net	393	13	165	—	571
Loss on early extinguishment of debt	823	—	—	—	823
Earnings from equity investment in SABMiller	(564)	—	—	—	(564)
Gain on AB InBev/SABMiller business combination	(205)	—	—	—	(205)
(Loss) earnings before income taxes and equity earnings of subsidiaries	(565)	5,523	1,186	—	6,144
(Benefit) provision for income taxes	(269)	2,023	424	—	2,178
Equity earnings of subsidiaries	4,259	217	—	(4,476)	—
Net earnings	3,963	3,717	762	(4,476)	3,966
Net earnings attributable to noncontrolling interests	—	—	(3)	—	(3)
Net earnings attributable to Altria Group, Inc.	$ 3,963	$ 3,717	$ 759	$ (4,476)	$ 3,963
Net earnings	$ 3,963	$ 3,717	$ 762	$ (4,476)	$ 3,966
Other comprehensive earnings (losses), net of deferred income taxes	2	(11)	(107)	118	2
Comprehensive earnings	3,965	3,706	655	(4,358)	3,968
Comprehensive earnings attributable to noncontrolling interests	—	—	(3)	—	(3)
Comprehensive earnings attributable to Altria Group, Inc.	$ 3,965	$ 3,706	$ 652	$ (4,358)	$ 3,965

Table of Contents
Altria Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Condensed Consolidating Statements of Earnings and Comprehensive Earnings
For the Three Months Ended September 30, 2017
(in millions of dollars)

	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Net revenues	$ —	$ 5,764	$ 974	$ (9)	$ 6,729
Cost of sales	—	1,659	290	(9)	1,940
Excise taxes on products	—	1,551	55	—	1,606
Gross profit	—	2,554	629	—	3,183
Marketing, administration and research costs	46	417	105	—	568
Asset impairment and exit costs	—	—	8	—	8
Operating (expense) income	(46)	2,137	516	—	2,607
Interest and other debt expense (income), net	122	(6)	53	—	169
Earnings from equity investment in AB InBev	(169)	—	—	—	(169)
Gain on AB InBev/SABMiller business combination	(37)	—	—	—	(37)
Earnings before income taxes and equity earnings of subsidiaries	38	2,143	463	—	2,644
(Benefit) provision for income taxes	(167)	776	168	—	777
Equity earnings of subsidiaries	1,661	82	—	(1,743)	—
Net earnings	1,866	1,449	295	(1,743)	1,867
Net earnings attributable to noncontrolling interests	—	—	(1)	—	(1)
Net earnings attributable to Altria Group, Inc.	$ 1,866	$ 1,449	$ 294	$ (1,743)	$ 1,866
Net earnings	$ 1,866	$ 1,449	$ 295	$ (1,743)	$ 1,867
Other comprehensive (losses) earnings, net of deferred income taxes	(108)	3	27	(30)	(108)
Comprehensive earnings	1,758	1,452	322	(1,773)	1,759
Comprehensive earnings attributable to noncontrolling interests	—	—	(1)	—	(1)
Comprehensive earnings attributable to Altria Group, Inc.	$ 1,758	$ 1,452	$ 321	$ (1,773)	$ 1,758

Table of Contents
Altria Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Condensed Consolidating Statements of Earnings and Comprehensive Earnings
For the Three Months Ended September 30, 2016
(in millions of dollars)

	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Net revenues	$ —	$ 5,964	$ 950	$ (9)	$ 6,905
Cost of sales	—	1,767	285	(9)	2,043
Excise taxes on products	—	1,654	58	—	1,712
Gross profit	—	2,543	607	—	3,150
Marketing, administration and research costs	40	607	119	—	766
Asset impairment and exit costs	—	1	1	—	2
Operating (expense) income	(40)	1,935	487	—	2,382
Interest and other debt expense (income), net	129	(4)	54	—	179
Loss on early extinguishment of debt	823	—	—	—	823
Earnings from equity investment in SABMiller	(299)	—	—	—	(299)
Gain on AB InBev/SABMiller business combination	(48)	—	—	—	(48)
(Loss) earnings before income taxes and equity earnings of subsidiaries	(645)	1,939	433	—	1,727
(Benefit) provision for income taxes	(232)	707	158	—	633
Equity earnings of subsidiaries	1,506	77	—	(1,583)	—
Net earnings	1,093	1,309	275	(1,583)	1,094
Net earnings attributable to noncontrolling interests	—	—	(1)	—	(1)
Net earnings attributable to Altria Group, Inc.	$ 1,093	$ 1,309	$ 274	$ (1,583)	$ 1,093

Net earnings	$ 1,093	$ 1,309	$ 275	$ (1,583)	$ 1,094
Other comprehensive earnings, net of deferred income taxes	62	4	22	(26)	62
Comprehensive earnings	1,155	1,313	297	(1,609)	1,156
Comprehensive earnings attributable to noncontrolling interests	—	—	(1)	—	(1)
Comprehensive earnings attributable to Altria Group, Inc.	$ 1,155	$ 1,313	$ 296	$ (1,609)	$ 1,155

Table of Contents
Altria Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Condensed Consolidating Statements of Cash Flows
For the Nine Months Ended September 30, 2017
(in millions of dollars)

	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Cash Provided by Operating Activities					
Net cash provided by operating activities	$ 4,777	$3,685	$ 639	$ (4,936)	$ 4,165
Cash Provided by (Used in) Investing Activities					
Capital expenditures	—	(21)	(130)	—	(151)
Proceeds from finance assets	—	—	133	—	133
Other	(4)	2	(182)	—	(184)
Net cash used in investing activities	(4)	(19)	(179)	—	(202)
Cash Provided by (Used in) Financing Activities					
Repurchases of common stock	(2,359)	—	—	—	(2,359)
Dividends paid on common stock	(3,544)	—	—	—	(3,544)
Changes in amounts due to/from Altria Group, Inc. and subsidiaries	(813)	182	631	—	—
Cash dividends paid to parent	—	(3,849)	(1,087)	4,936	—
Other	(40)	—	(7)	—	(47)
Net cash used in financing activities	(6,756)	(3,667)	(463)	4,936	(5,950)
Cash and cash equivalents:					
Decrease	(1,983)	(1)	(3)	—	(1,987)
Balance at beginning of period	4,521	1	47	—	4,569
Balance at end of period	$ 2,538	$—	$ 44	$ —	$ 2,582

Table of Contents
Altria Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Condensed Consolidating Statements of Cash Flows
For the Nine Months Ended September 30, 2016
(in millions of dollars)

	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Cash Provided by Operating Activities					
Net cash provided by operating activities	$ 4,271	$3,582	$ 8	$ (4,331)	$ 3,530
Cash Provided by (Used in) Investing Activities					
Capital expenditures	—	(23)	(105)	—	(128)
Proceeds from finance assets	—	—	207	—	207
Other	(3)	—	(41)	—	(44)
Net cash (used in) provided by investing activities	(3)	(23)	61	—	35
Cash Provided by (Used in) Financing Activities					
Long-term debt issued	1,976	—	—	—	1,976
Long-term debt repaid	(933)	—	—	—	(933)
Repurchases of common stock	(512)	—	—	—	(512)
Dividends paid on common stock	(3,321)	—	—	—	(3,321)
Changes in amounts due to/from Altria Group, Inc. and subsidiaries	(715)	128	587	—	—
Premiums and fees related to early extinguishment of debt	(809)	—	—	—	(809)
Cash dividends paid to parent	—	(3,686)	(645)	4,331	—
Other	(28)	—	(9)	—	(37)
Net cash used in financing activities	(4,342)	(3,558)	(67)	4,331	(3,636)
Cash and cash equivalents:					
(Decrease) increase	(74)	1	2	—	(71)
Balance at beginning of period	2,313	—	56	—	2,369
Balance at end of period	$ 2,239	$1	$ 58	$ —	$ 2,298

Table of Contents
Altria Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 11. Recent Accounting Guidance Not Yet Adopted:

The following table provides a description of the recently issued accounting guidance applicable to, but not yet adopted by, Altria Group, Inc.:

Standards	Description	Effective Date for Public Entity	Effect on financial statements
ASU Nos. 2014-09; 2015-14; 2016-08; 2016-10; 2016-12; 2016-20 Revenue from Contracts with Customers (Topic 606)	The guidance establishes principles for reporting information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers.	The guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period.	The adoption of this guidance is not expected to have a material impact on the amount or timing of revenue recognized on Altria Group, Inc.'s consolidated financial statements based on current contracts with customers. The guidance will result in expanded footnote disclosures. Altria Group, Inc. will adopt this guidance in the first quarter of 2018, using the modified retrospective transition method.
ASU No. 2016-01 Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)	The guidance addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments.	The guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption of the guidance is not permitted, except for a certain provision of the guidance.	The adoption of this guidance is not expected to have a material impact on Altria Group, Inc.'s consolidated financial statements.
ASU No. 2016-02 Leases (Topic 842)	The guidance increases transparency and comparability among organizations by requiring entities to recognize lease assets and lease liabilities on the balance sheet and disclose key information about leasing	The guidance is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period. Early adoption is	Altria Group, Inc. is in the process of evaluating the impact of this guidance on its consolidated financial statements and related disclosures, including identifying and analyzing all contracts that contain a lease. As a lessor, PMCC maintains a portfolio of finance assets, substantially all of which are leveraged leases, the accounting of which will be unchanged under the new guidance and is not expected to change unless there is a contract

	arrangements.	permitted.	modification to an existing lease. As a lessee, Altria Group, Inc.'s various leases under existing guidance are classified as operating leases that are not recorded on its balance sheets but are recorded in its statements of earnings as expense is incurred. Upon adoption of the new guidance, Altria Group, Inc. will record substantially all leases on its balance sheets as a right-of-use asset and a lease liability. The timing of expense recognition and classification in its statements of earnings could change based on the classification of leases as either operating or financing.
ASU No. 2016-13 Measurement of Credit Losses on Financial Instruments (Topic 326)	The guidance replaces the current incurred loss impairment methodology for recognizing credit losses for financial assets with a methodology that reflects the entity's current estimate of all expected credit losses and requires consideration of a broader range of reasonable and supportable information for estimating credit losses.	The guidance is effective for annual reporting periods beginning after December 15, 2019, including interim periods within that reporting period. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period.	Altria Group, Inc. is in the process of evaluating the impact of this guidance on its consolidated financial statements and related disclosures. Altria Group, Inc.'s financial assets that are within the scope of the new guidance were approximately 2% of Altria Group, Inc.'s total assets at September 30, 2017.

Altria Group, Inc. and Subsidiaries
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Standards	Description	Effective Date for Public Entity	Effect on financial statements
ASU No. 2016-15 Classification of Certain Cash Receipts and Cash Payments (Topic 230)	The guidance addresses how eight specific cash flow issues are to be presented and classified in the statement of cash flows.	The guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period.	The adoption of this guidance is not expected to have a material impact on Altria Group, Inc.'s statements of cash flows. Altria Group, Inc. plans to adopt this guidance by the first quarter of 2018.
ASU No. 2016-18 Restricted Cash (Topic 230)	The guidance requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash and restricted cash equivalents.	The guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period.	At September 30, 2017 and December 31, 2016, Altria Group, Inc. had restricted cash of $61 million and $82 million, respectively. Altria Group, Inc. plans to retrospectively adopt this guidance by the first quarter of 2018 and will comply with the required presentation of restricted cash in its statements of cash flows upon adoption.
ASU No. 2017-07 Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost (Topic 715)	The guidance requires an employer to report the service cost component of net periodic pension cost and net periodic postretirement benefit cost in the same line item or items as other compensation costs arising from services rendered by employees during the period. The other components of net periodic pension cost and net periodic postretirement benefit cost are required to be presented in the statement of earnings separately from the service cost component and outside the subtotal of operating income. Additionally, only the service cost component is eligible for capitalization.	The guidance is effective for annual periods beginning after December 15, 2017 and interim periods within that reporting period. Early adoption is permitted only as of the beginning of an annual period for which financial statements have not been issued. The guidance is required to 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 statement of earnings, and prospectively for the capitalization of the service cost component.	Under the new guidance, the amount of non-service cost components of net periodic benefit income presented within operating income that would have been presented separately from operating income was $37 million and $18 million for the nine and three months ended September 30, 2017, respectively, and $3 million and $13 million for the nine and three months ended September 30, 2016, respectively. Altria Group, Inc. does not expect the prospective adoption of this guidance related to the capitalization of the service cost component to have a material impact on Altria Group, Inc.'s consolidated financial statements. Altria Group, Inc. will adopt the new guidance in the first quarter of 2018.

ASU No. 2017-12 Targeted Improvements to Accounting for Hedging Activities (Topic 815)	The guidance expands hedge accounting for both financial and nonfinancial risk components to better portray the economic results of an entity’s risk management activities in its financial statements. In addition, the guidance includes certain targeted improvements to simplify the application of hedge accounting.	The guidance is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted in any interim period after issuance of the guidance.	Altria Group, Inc. is in the process of evaluating the impact of this guidance on its consolidated financial statements and related disclosures.

Table of Contents

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

At September 30, 2017, Altria Group, Inc.'s wholly-owned subsidiaries included Philip Morris USA Inc. ("PM USA"), which is engaged in the manufacture and sale of cigarettes in the United States; John Middleton Co. ("Middleton"), which is engaged in the manufacture and sale of machine-made large cigars and pipe tobacco and is a wholly-owned subsidiary of PM USA; Sherman Group Holdings, LLC and its subsidiaries ("Nat Sherman"), which are engaged in the manufacture and sale of super premium cigarettes and the sale of premium cigars; and UST LLC ("UST"), which through its wholly-owned subsidiaries, including U.S. Smokeless Tobacco Company LLC ("USSTC") and Ste. Michelle Wine Estates Ltd. ("Ste. Michelle"), is engaged in the manufacture and sale of smokeless tobacco products and wine. Altria Group, Inc.'s other operating companies included Nu Mark LLC ("Nu Mark"), a wholly-owned subsidiary that is engaged in the manufacture and sale of innovative tobacco products, and Philip Morris Capital Corporation ("PMCC"), a wholly-owned subsidiary that maintains a portfolio of finance assets, substantially all of which are leveraged leases. Other Altria Group, Inc. wholly-owned subsidiaries included Altria Group Distribution Company, which provides sales, distribution and consumer engagement services to certain Altria Group, Inc. operating subsidiaries, and Altria Client Services LLC, which provides various support services in areas such as legal, regulatory, finance, human resources and external affairs, to Altria Group, Inc. and its subsidiaries. In addition, Nu Mark, Middleton and Nat Sherman use third-party contract manufacturing arrangements in the manufacture of their products. Altria Group, Inc.'s access to the operating cash flows of its wholly-owned subsidiaries consists of cash received from the payment of dividends and distributions, and the payment of interest on intercompany loans by its subsidiaries. At September 30, 2017, Altria Group, Inc.'s principal wholly-owned subsidiaries were not limited by long-term debt or other agreements in their ability to pay cash dividends or make other distributions with respect to their equity interests.

At September 30, 2016, Altria Group, Inc. had an approximate 27% ownership of SABMiller plc ("SABMiller"), which Altria Group, Inc. accounted for under the equity method of accounting. In October 2016, Anheuser-Busch InBev SA/NV ("Legacy AB InBev") completed its business combination with SABMiller, and Altria Group, Inc. received cash and shares representing a 9.6% ownership in the combined company (the "Transaction"). The newly formed Belgian company, which retained the name Anheuser-Busch InBev SA/NV ("AB InBev"), became the holding company for the combined businesses. Subsequently, Altria Group, Inc. purchased approximately 12 million ordinary shares of AB InBev, increasing Altria Group, Inc.'s ownership to approximately 10.2% at December 31, 2016. At September 30, 2017, Altria Group, Inc. had an approximate 10.2% ownership of AB InBev, which Altria Group, Inc. accounts for under the equity method of accounting using a one-quarter lag. For the nine and three months ended September 30, 2017, Altria Group, Inc. recorded a pre-tax gain of $445 million and $37 million, respectively, related to the completion of AB InBev's planned divestitures of certain SABMiller assets and businesses resulting from Legacy AB InBev obtaining necessary regulatory clearances to proceed with the Transaction ("AB InBev divestitures"). For the nine and three months ended September 30, 2016, Altria Group, Inc. recorded a pre-tax gain of $205 million and $48 million, respectively, for the change in the fair value of the derivative financial instruments that it entered into in connection with the Transaction ("derivative financial instruments"). The pre-tax gains related to the AB InBev divestitures and the derivative financial instruments were included in gain on AB InBev/SABMiller business combination in Altria Group, Inc.'s condensed consolidated statements of earnings. Altria Group, Inc. receives cash dividends on its interest in AB InBev if and when AB InBev pays such dividends.

Altria Group, Inc.'s reportable segments are smokeable products, smokeless products and wine. The financial services and the innovative tobacco products businesses are included in an all other category.

Table of Contents

Executive Summary

The following executive summary is intended to provide significant highlights of the Discussion and Analysis that follows.

Consolidated Results of Operations for the Nine Months Ended September 30, 2017: The changes in Altria Group, Inc.'s net earnings and diluted earnings per share ("EPS") attributable to Altria Group, Inc. for the nine months ended September 30, 2017, from the nine months ended September 30, 2016, were due primarily to the following:

	Net Earnings	Diluted EPS
	(in millions, except per share data)	
For the nine months ended September 30, 2016	$3,963	$2.02
2016 NPM Adjustment Items	11	0.01
2016 Asset impairment, exit, implementation and acquisition-related costs	84	0.04
2016 Tobacco and health litigation items	56	0.03
2016 SABMiller special items	96	0.05
2016 Gain on AB InBev/SABMiller business combination	(129)	(0.07)
2016 Loss on early extinguishment of debt	541	0.28
2016 Tax items	(17)	(0.01)
Subtotal 2016 special items	642	0.33
2017 NPM Adjustment Items	(2)	—
2017 Asset impairment, exit, implementation and acquisition-related costs	(47)	(0.02)
2017 Tobacco and health litigation items	(12)	(0.01)
2017 AB InBev special items	(71)	(0.04)
2017 Gain on AB InBev/SABMiller business combination	289	0.15
2017 Tax items	321	0.16
Subtotal 2017 special items	478	0.24
Fewer shares outstanding	—	0.04
Change in tax rate	5	—
Operations	168	0.09
For the nine months ended September 30, 2017	$5,256	$2.72

See the discussion of events affecting the comparability of statement of earnings amounts in the Consolidated Operating Results section of the following Discussion and Analysis.

Operations: The increase of $168 million in operations shown in the table above was due primarily to the following:
higher income from the smokeable products and smokeless products segments; and
lower interest and other debt expense, net;
partially offset by:
lower earnings from Altria Group, Inc.'s equity investment in AB InBev/SABMiller.

For further details, see the Consolidated Operating Results and Operating Results by Business Segment sections of the following Discussion and Analysis.

69

Table of Contents

Consolidated Results of Operations for the Three Months Ended September 30, 2017: The changes in Altria Group, Inc.'s net earnings and diluted EPS attributable to Altria Group, Inc. for the three months ended September 30, 2017, from the three months ended September 30, 2016, were due primarily to the following:

	Net Earnings	Diluted EPS
	(in millions, except per share data)	
For the three months ended September 30, 2016	$1,093	$0.56
2016 Asset impairment, exit and implementation costs	2	—
2016 Tobacco and health litigation items	29	0.01
2016 SABMiller special items	(26)	(0.01)
2016 Gain on AB InBev/SABMiller business combination	(29)	(0.02)
2016 Loss on early extinguishment of debt	541	0.28
2016 Tax items	(1)	—
Subtotal 2016 special items	516	0.26
2017 NPM Adjustment Items	(3)	—
2017 Asset impairment, exit, implementation and acquisition-related costs	(11)	(0.01)
2017 AB InBev special items	(22)	(0.01)
2017 Gain on AB InBev/SABMiller business combination	24	0.01
2017 Tax items	155	0.08
Subtotal 2017 special items	143	0.07
Fewer shares outstanding	—	0.02
Change in tax rate	17	0.01
Operations	97	0.05
For the three months ended September 30, 2017	$1,866	$0.97

See the discussion of events affecting the comparability of statement of earnings amounts in the Consolidated Operating Results section of the following Discussion and Analysis.

Operations: The increase of $97 million in operations shown in the table above was due primarily to higher income from the smokeable products and smokeless products segments, partially offset by lower earnings from Altria Group, Inc.'s equity investment in AB InBev/SABMiller.

For further details, see the Consolidated Operating Results and Operating Results by Business Segment sections of the following Discussion and Analysis.

2017 Forecasted Results: In October 2017, Altria Group, Inc. reaffirmed that its 2017 full-year adjusted diluted EPS growth rate is expected to be in the range of 7.5% to 9.5% over 2016 full-year adjusted diluted EPS. This forecasted growth rate excludes the income and expense items in the table below. Altria Group, Inc. expects that its 2017 full-year effective tax rate on operations will be approximately 35.5%.

Altria Group, Inc.'s full-year adjusted diluted EPS guidance and full-year forecast for its effective tax rate on operations exclude the impact of certain income and expense items that management believes are not part of underlying operations. These items may include, for example, loss on early extinguishment of debt, restructuring charges, gain on AB InBev/SABMiller business combination, AB InBev/SABMiller special items, certain tax items, charges associated with tobacco and health litigation items, and settlements of, and determinations made in connection with certain non-participating manufacturer (“NPM”) adjustment disputes under the 1998 Master Settlement Agreement (such settlements and determinations are referred to collectively as “NPM Adjustment Items” and are more fully described in Health Care Cost Recovery Litigation - NPM Adjustment Disputes in Note 9. Contingencies to the condensed consolidated financial statements in Part I, Item I. Financial Statements of this Quarterly Report on Form 10-Q (“Item 1”).

Table of Contents

Altria Group, Inc.'s management cannot estimate on a forward-looking basis the impact of certain income and expense items, including those items noted in the preceding paragraph, on Altria Group, Inc.'s reported diluted EPS and reported effective tax rate because these items, which could be significant, may be infrequent, are difficult to predict and may be highly variable. As a result, Altria Group, Inc. does not provide a corresponding United States generally accepted accounting principles ("U.S. GAAP") measure for, or reconciliation to, its adjusted diluted EPS guidance or its effective tax rate on operations forecast.

In addition, the factors described in the Cautionary Factors That May Affect Future Results section of the following Discussion and Analysis represent continuing risks to this forecast and to the other forward-looking statements made in this Quarterly Report on Form 10-Q ("Form 10-Q").

(Income) Expense, Net Excluded from Adjusted Diluted EPS

	2017	2016
NPM Adjustment Items	$—	$0.01
Asset impairment, exit and implementation costs	0.02	0.07
Tobacco and health litigation items	0.01	0.04
AB InBev/SABMiller special items	0.04	(0.03)
Loss on early extinguishment of debt	—	0.28
Patent litigation settlement	—	0.01
Gain on AB InBev/SABMiller business combination	(0.15)	(4.61)
Tax items	(0.16)	(0.02)
	$(0.24)	$(4.25)

Altria Group, Inc. reports its financial results in accordance with U.S. GAAP. Altria Group, Inc.'s management reviews certain financial results, including diluted EPS, on an adjusted basis, which excludes certain income and expense items, including those items noted above. Altria Group, Inc.'s management does not view any of these special items to be part of Altria Group, Inc.'s underlying results as they may be highly variable, may be infrequent, are difficult to predict and can distort underlying business trends and results. Altria Group, Inc.'s management also reviews income tax rates on an adjusted basis. Altria Group, Inc.'s effective tax rate on operations may exclude certain tax items from its reported effective tax rate. Altria Group, Inc.'s management believes that adjusted financial measures provide useful additional insight into underlying business trends and results and provide a more meaningful comparison of year-over-year results. Adjusted financial measures are used by management and regularly provided to Altria Group, Inc.'s chief operating decision maker (the "CODM") for planning, forecasting and evaluating business and financial performance, including allocating resources and evaluating results relative to employee compensation targets. These adjusted financial measures are not consistent with U.S. GAAP and may not be calculated the same as similarly titled measures used by other companies. These adjusted financial measures should thus be considered as supplemental in nature and not considered in isolation or as a substitute for the related financial information prepared in accordance with U.S. GAAP.

Table of Contents

Discussion and Analysis

Consolidated Operating Results

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2017	2016	2017	2016
	(in millions)			
Net revenues:				
Smokeable products	$17,355	$17,398	$5,975	$6,147
Smokeless products	1,580	1,530	550	528
Wine	471	498	181	182
All other	69	66	23	48
Net revenues	$19,475	$19,492	$6,729	$6,905
Excise taxes on products:				
Smokeable products	$4,581	$4,769	$1,565	$1,671
Smokeless products	99	102	35	35
Wine	15	17	6	6
Excise taxes on products	$4,695	$4,888	$1,606	$1,712
Operating income:				
Operating companies income (loss):				
Smokeable products	$6,564	$5,955	$2,290	$2,086
Smokeless products	951	930	352	312
Wine	82	100	36	38
All other	(31)	(46)	(10)	8
Amortization of intangibles	(15)	(15)	(5)	(5)
General corporate expenses	(158)	(150)	(56)	(57)
Corporate asset impairment and exit costs	—	(5)	—	—
Operating income	$7,393	$6,769	$2,607	$2,382

As discussed further in Note 6. Segment Reporting to the condensed consolidated financial statements in Item 1, the CODM reviews operating companies income to evaluate the performance of, and allocate resources to, the segments. Operating companies income for the segments is defined as operating income before general corporate expenses and amortization of intangibles. Management believes it is appropriate to disclose this measure to help investors analyze the business performance and trends of the various business segments.

The following events that occurred during the nine and three months ended September 30, 2017 and 2016 affected the comparability of statement of earnings amounts:

Tobacco and Health Litigation Items: Pre-tax charges related to certain tobacco and health litigation items were recorded in Altria Group, Inc.'s condensed consolidated statements of earnings as follows:

	For the Nine Months Ended September 30,	For the Three Months Ended September 30,

	2017	2016	2017	2016
	(in millions)			
Smokeable products segment	$16	$72	$ —	$ 45
Interest and other debt expense, net	2	16	—	—
Total	$18	$88	$ —	$ 45

72

Table of Contents

During the second quarter of 2017, PM USA recorded pre-tax charges related to four Engle progeny cases of $15 million in marketing, administration and research costs and $2 million in interest costs related to those cases. For further discussion, see Smoking and Health Litigation in Note 9. Contingencies to the condensed consolidated financial statements in Item 1 (“Note 9”).

During the third quarter of 2016, PM USA recorded a pre-tax charge related to the Miner case of $45 million in marketing, administration and research costs. During the first quarter of 2016, PM USA recorded pre-tax charges, primarily related to the Aspinall case, of $26 million in marketing, administration and research costs and $12 million in interest costs. For further discussion, see “Lights/Ultra Lights” Cases - State Trial Court Class Certification Settlements in Note 9.

Asset Impairment, Exit and Implementation Costs: Pre-tax asset impairment, exit and implementation costs for the nine and three months ended September 30, 2017 were $71 million and $15 million, respectively. Pre-tax asset impairment, exit and implementation costs for the nine and three months ended September 30, 2016 were $130 million and $6 million, respectively.

In October 2016, Altria Group, Inc. announced the consolidation of certain of its operating companies’ manufacturing facilities to streamline operations and achieve greater efficiencies. The consolidation is expected to be completed by the first quarter of 2018 and deliver approximately $50 million in annualized cost savings by the end of 2018.

In January 2016, Altria Group, Inc. announced a productivity initiative designed to maintain its operating companies’ leadership and cost competitiveness. The initiative, which reduces spending on certain selling, general and administrative infrastructure and implements a leaner organizational structure, is expected to deliver approximately $300 million in annualized productivity savings by the end of 2017.

For further discussion, including a breakdown of asset impairment, exit and implementation costs by segment, see Note 2. Asset Impairment, Exit and Implementation Costs to the condensed consolidated financial statements in Item 1.

Loss on Early Extinguishment of Debt: During the third quarter of 2016, Altria Group, Inc. purchased for cash certain of its senior unsecured notes in an aggregate principal amount of $933 million in a debt tender offer. As a result of the debt tender offer, during the third quarter of 2016, Altria Group, Inc. recorded a pre-tax loss on early extinguishment of debt of $823 million, which included premiums and fees of $809 million and the write-off of related unamortized debt discounts and debt issuance costs of $14 million. For further discussion, see Note 7. Debt to the condensed consolidated financial statements in Item 1 (“Note 7”).

Gain on AB InBev/SABMiller Business Combination: For the nine and three months ended September 30, 2017, Altria Group, Inc. recorded a pre-tax gain of $445 million and $37 million, respectively, related to AB InBev divestitures. For the nine and and three months ended September 30, 2016, Altria Group, Inc. recorded a pre-tax gain of $205 million and $48 million, respectively, for the change in the fair value of the derivative financial instruments that it entered into in connection with the Transaction. The pre-tax gains related to the AB InBev divestitures and the derivative financial instruments were included in gain on AB InBev/SABMiller business combination in Altria Group, Inc.’s condensed consolidated statements of earnings.

AB InBev/SABMiller Special Items: Altria Group, Inc.’s earnings from its equity investment in AB InBev for the nine and three months ended September 30, 2017 included net pre-tax charges of $109 million and $34 million, respectively, consisting primarily of Altria Group, Inc.’s share of mark-to-market losses on AB InBev’s derivative financial instruments used to hedge certain share commitments. Altria Group, Inc.’s earnings from its equity investment in SABMiller for the nine months ended September 30, 2016 included net pre-tax charges of $147 million, consisting primarily of Altria Group, Inc.’s share of SABMiller’s asset impairment charges and costs related to the Transaction, partially offset by gains on asset disposals. Altria Group, Inc.’s earnings from its equity investment in SABMiller for the three months ended September 30, 2016 included net pre-tax gains of $40 million, consisting primarily of Altria Group, Inc.’s share of SABMiller’s gains on asset disposals, partially offset by costs related to the Transaction.

Tax Items: Tax items for the three months ended September 30, 2017 of $155 million were due primarily to tax benefits for the release of a valuation allowance related to deferred income tax assets for foreign tax credit carryforwards and for the reversal of tax accruals no longer required, partially offset by tax expense for tax reserves related to the calculation of certain foreign tax credits.

Tax items for the nine months ended September 30, 2017 of $321 million were due primarily to the items discussed above and tax benefits related primarily to the effective settlement in June 2017 of the Internal Revenue Service (“IRS”) audit of Altria Group, Inc. and its consolidated subsidiaries’ 2010-2013 tax years (“IRS 2010-2013 Audit”). Tax items for the nine

Table of Contents

months ended September 30, 2016 of $17 million related primarily to the reversal of tax accruals no longer required.

For further discussion, see Note 8. Income Taxes to the condensed consolidated financial statements in Item 1 (“Note 8”).

Consolidated Results of Operations for the Nine Months Ended September 30, 2017

The following discussion compares consolidated operating results for the nine months ended September 30, 2017 with the nine months ended September 30, 2016.

Net revenues, which include excise taxes billed to customers, were essentially unchanged.

Cost of sales decreased $142 million (2.4%), due primarily to lower shipment volume in the smokeable products segment, partially offset by implementation costs in 2017 in connection with the facilities consolidation.

Excise taxes on products decreased $193 million (3.9%), due primarily to lower smokeable products shipment volume.

Marketing, administration and research costs decreased $207 million (11.1%), due primarily to lower costs in the smokeable products segment (which included lower tobacco and health litigation items).

Operating income increased $624 million (9.2%), due primarily to higher operating results from the smokeable products segment (which included lower asset impairment, exit and implementation costs in 2017).

Interest and other debt expense, net, decreased $46 million (8.1%), due primarily to lower interest costs on debt in 2017 as a result of debt refinancing activities in 2016, higher interest income due to higher interest rates and cash balances in 2017 and lower interest costs related to tobacco and health litigation items.

Altria Group, Inc.’s income tax rate decreased 4.2 percentage points to 31.2% due primarily to tax benefits resulting from the 2017 release of a valuation allowance related to deferred income tax assets for foreign tax credit carryforwards and tax benefits in 2017 related primarily to the effective settlement of the IRS 2010-2013 Audit, partially offset by 2017 tax expense for tax reserves related to the calculation of certain foreign tax credits. For further discussion, see Note 8.

Net earnings attributable to Altria Group, Inc. of $5,256 million increased $1,293 million (32.6%), due primarily to a loss on early extinguishment of debt in 2016, higher operating income, a lower income tax rate and a higher gain on AB InBev/SABMiller business combination, partially offset by lower earnings from Altria Group, Inc.’s equity investment in AB InBev/SABMiller. Diluted and basic EPS attributable to Altria Group, Inc. of $2.72, each increased by 34.7% due to higher net earnings attributable to Altria Group, Inc. and fewer shares outstanding.

Consolidated Results of Operations for the Three Months Ended September 30, 2017

The following discussion compares consolidated operating results for the three months ended September 30, 2017 with the three months ended September 30, 2016.

Net revenues, which include excise taxes billed to customers, decreased $176 million (2.5%), due primarily to lower net revenues in the smokeable products segment.

Cost of sales decreased $103 million (5.0%), due primarily to lower shipment volume in the smokeable products segment.
Excise taxes on products decreased $106 million (6.2%), due primarily to lower smokeable products shipment volume.

Marketing, administration and research costs decreased $198 million (25.8%), due primarily to lower costs in the smokeable products segment (which included lower tobacco and health litigation items in 2017).

Operating income increased $225 million (9.4%), due primarily to higher operating results from the smokeable products segment.

Altria Group, Inc.'s income tax rate decreased 7.3 percentage points to 29.4%, due primarily to tax benefits resulting from the 2017 release of a valuation allowance related to deferred income tax assets for foreign tax credit carryforwards and tax benefits in 2017 for the reversal of tax accruals no longer required, partially offset by 2017 tax expense for tax reserves related to the calculation of certain foreign tax credits. For further discussion, see Note 8.

Table of Contents

Net earnings attributable to Altria Group, Inc. of $1,866 million increased $773 million (70.7%), due primarily to a loss on early extinguishment of debt in 2016, a lower income tax rate and higher operating income, partially offset by lower earnings from Altria Group, Inc.'s equity investment in AB InBev/SABMiller. Diluted and basic EPS attributable to Altria Group, Inc. of $0.97, each increased by 73.2% due to higher net earnings attributable to Altria Group, Inc. and fewer shares outstanding.

Operating Results by Business Segment

Tobacco Space

Business Environment

Summary

The United States tobacco industry faces a number of business and legal challenges that have adversely affected and may adversely affect the business and sales volume of our tobacco subsidiaries and our consolidated results of operations, cash flows or financial position. These challenges, some of which are discussed in more detail below, in Note 9 and in Cautionary Factors That May Affect Future Results below, include:

- pending and threatened litigation and bonding requirements;
- the requirement to issue "corrective statements" in various media in connection with the federal government's lawsuit;
- restrictions and requirements imposed by the Family Smoking Prevention and Tobacco Control Act ("FSPTCA"), and restrictions and requirements (and related enforcement actions) that have been, and in the future will be, imposed by the U.S. Food and Drug Administration ("FDA");
- actual and proposed excise tax increases, as well as changes in tax structures and tax stamping requirements;
- bans and restrictions on tobacco use imposed by governmental entities and private establishments and employers;
- other federal, state and local government actions, including:
- increases in the minimum age to purchase tobacco products above the current federal minimum age of 18;
  - restrictions on the sale of tobacco products by certain retail establishments, the sale of certain tobacco products with certain characterizing flavors and the sale of tobacco products in certain package sizes;
- additional restrictions on the advertising and promotion of tobacco products;
- other actual and proposed tobacco product legislation and regulation; and
- governmental investigations;
- the diminishing prevalence of cigarette smoking and increased efforts by tobacco control advocates and others (including retail establishments) to further restrict tobacco use;
- changes in adult tobacco consumer purchase behavior, which is influenced by various factors such as economic conditions, excise taxes and price gap relationships, may result in adult tobacco consumers switching to discount products or other lower priced tobacco products;
- the highly competitive nature of the tobacco categories in which our tobacco subsidiaries operate, including competitive disadvantages related to cigarette price increases attributable to the settlement of certain litigation;
- illicit trade in tobacco products; and
- potential adverse changes in tobacco leaf and other raw material prices, availability and quality.

In addition to and in connection with the foregoing, evolving adult tobacco consumer preferences pose challenges for Altria Group, Inc.'s tobacco subsidiaries. Our tobacco subsidiaries believe that a significant number of adult tobacco consumers switch between tobacco categories, use multiple forms of tobacco products and try innovative tobacco products, such as e-vapor products. While the e-vapor category grew rapidly from 2012 through early 2015, the category has slowed since that time. Nu Mark believes the category will continue to be dynamic as adult tobacco consumers explore a variety of tobacco product options.

Altria Group, Inc. and its tobacco subsidiaries work to meet these evolving adult tobacco consumer preferences over time by developing, manufacturing, marketing and distributing products both within and outside the United States through innovation and adjacency growth strategies (including, where appropriate, arrangements with, or investments in, third parties). See the discussions regarding new product technologies, adjacency growth strategy and evolving consumer preferences in Cautionary Factors That May Affect Future Results below for certain risks associated with the foregoing discussion.

Table of Contents

We have provided additional detail on the following topics below:

- FSPTCA and FDA Regulation;
- Excise Taxes;
- International Treaty on Tobacco Control;
- State Settlement Agreements;
- Other Federal, State and Local Regulation and Activity;
- Illicit Trade in Tobacco Products;
- Price, Availability and Quality of Agricultural Products; and
- Timing of Sales.

FSPTCA and FDA Regulation

The Regulatory Framework

The FSPTCA expressly establishes certain restrictions and prohibitions on our tobacco businesses and authorizes or requires further FDA action. Under the FSPTCA, the FDA has broad authority to (1) regulate the design, manufacture, packaging, advertising, promotion, sale and distribution of tobacco products; (2) require disclosures of related information; and (3) enforce the FSPTCA and related regulations. The FSPTCA went into effect in 2009 for cigarettes, cigarette tobacco and smokeless tobacco products and in August 2016 for all other tobacco products, including cigars, e-vapor products, pipe tobacco and oral tobacco-derived nicotine products ("Other Tobacco Products"). See FDA Regulatory Actions - Deeming Regulations below.

Among other measures, the FSPTCA or its implementing regulations:

- imposes restrictions on the advertising, promotion, sale and distribution of tobacco products, including at retail;
- bans descriptors such as "light," "mild" or "low" or similar descriptors when used as descriptors of modified risk unless expressly authorized by the FDA;
- requires extensive product disclosures to the FDA and may require public disclosures;
- prohibits any express or implied claims that a tobacco product is or may be less harmful than other tobacco products without FDA authorization;
- imposes reporting obligations relating to contraband activity and grants the FDA authority to impose recordkeeping and other obligations to address illicit trade in tobacco products;
- changes the language of the cigarette and smokeless tobacco product health warnings, enlarges their size and requires the development by the FDA of graphic warnings for cigarettes, establishes warning requirements for Other Tobacco Products, and gives the FDA the authority to require new warnings for any type of tobacco products;
- authorizes the FDA to adopt product regulations and related actions, including imposing tobacco product standards that are appropriate for the protection of the public health (e.g., related to the use of menthol in cigarettes, nicotine yields and other constituents or ingredients) and imposing manufacturing standards for tobacco products (see FDA's Comprehensive Regulatory Plan for Tobacco and Nicotine Regulation, and FDA Regulatory Actions - Product Standards below);
- establishes pre-market review pathways for new and modified tobacco products for the FDA to follow (see Pre-Market Review Pathways below); and
- equips the FDA with a variety of investigatory and enforcement tools, including the authority to inspect tobacco product manufacturing and other facilities.

Pre-Market Review Pathways

The FSPTCA imposes restrictions on marketing new and modified tobacco products, requiring FDA review to begin marketing a new product or continue marketing a modified product. Specifically, cigarettes, cigarette tobacco and smokeless tobacco products modified or first introduced into the market after March 22, 2011, and Other Tobacco Products modified or first introduced into the market after August 8, 2016, are subjected to new tobacco product application and pre-market review and authorization requirements unless a manufacturer can demonstrate they are "substantially equivalent" to products commercially marketed as of February 15, 2007. The FDA could deny any such new tobacco product application, thereby preventing the distribution and sale of any product affected by such denial.

For cigarettes, cigarette tobacco and smokeless tobacco products modified or first introduced into the market between February

15, 2007 and March 22, 2011 for which a manufacturer submitted substantial equivalence reports that the FDA determines are not "substantially equivalent" to products commercially marketed as of February 15, 2007, the FDA could require the removal of such products from the marketplace (see FDA Regulatory Actions - Substantial Equivalence and Other New Product Processes/Pathways below).

Similarly, the FDA could determine that Other Tobacco Products modified or first introduced into the market between February 15, 2007 and August 8, 2016 for which a manufacturer submits substantial equivalence reports that the FDA determines are not "substantially equivalent" to products commercially marketed as of February 15, 2007, or rejects a new tobacco product application submitted by a manufacturer, both of which could require the removal of such products from the marketplace (see FDA's Comprehensive Regulatory Plan for Tobacco and Nicotine Regulation, and FDA Regulatory Actions - Substantial Equivalence and Other New Product Processes/Pathways below).

Modifications to currently-marketed products, including modifications that result from, for example, a supplier being unable to maintain the consistency required in ingredients or a manufacturer being unable to obtain the ingredients with the required specifications, can trigger the FDA's pre-market review process described above. As noted, adverse determinations by the FDA during that process could restrict a manufacturer's ability to continue marketing such products.

FDA's Comprehensive Regulatory Plan for Tobacco and Nicotine Regulation

In July 2017, the FDA announced a new comprehensive plan for tobacco and nicotine regulation that will serve as the FDA's multi-year regulatory road map (the "July 2017 Comprehensive Plan"). The FDA has stated its belief that this approach will strike an appropriate balance between regulation and encouraging development of innovative tobacco products that may be less risky than cigarettes. Major components of the July 2017 Comprehensive Plan include the following:

the FDA's planned issuance of advance notices of proposed rulemaking ("ANPRM") seeking comments for potential future regulations establishing product standards for (i) nicotine in combustible cigarettes, (ii) flavors in tobacco products and (iii) e-vapor products (see FDA Regulatory Actions - Product Standards below);

the FDA's planned extension of the timelines to submit applications for Other Tobacco Products that were on the market as of August 8, 2016, which the FDA extended in August 2017 (see FDA Regulatory Actions - Substantial Equivalence and Other New Product Processes/Pathways below);

the FDA's reconsideration of whether its current plan, which is to review all "provisional" products pending in the substantial equivalence queue, is an effective use of its resources and, if not, whether it should continue to pursue its current approach to these reviews (see FDA Regulatory Actions - Substantial Equivalence and Other New Product Processes/Pathways below). A "provisional" product refers to cigarettes, cigarette tobacco and smokeless tobacco products modified or first commercially available after February 15, 2007 and before March 22, 2011; and

the FDA's planned issuance of foundational regulations identifying the information the FDA expects to be included in substantial equivalence reports and applications for "new tobacco products" and "modified risk tobacco products." The FDA also plans to finalize guidance on how it intends to review new product applications for e-vapor products.

Implementation Timing, Rulemaking and Guidance

The implementation of the FSPTCA began in 2009 for cigarettes, cigarette tobacco and smokeless tobacco products and in August 2016 for Other Tobacco Products and will continue over time. The provisions of the FSPTCA that require the FDA to take action through rulemaking generally involve consideration of public comment and, for some issues, scientific review. From time to time, the FDA issues guidance that also generally involves public comment, which may be issued in draft or final form.

Altria Group, Inc.’s tobacco subsidiaries participate actively in processes established by the FDA to develop and implement the FSPTCA’s regulatory framework, including submission of comments to various FDA proposals and participation in public hearings and engagement sessions.

The implementation of the FSPTCA and related regulations and guidance also may have an impact on enforcement efforts by states, territories and localities of the United States of their laws and regulations as well as of the State Settlement Agreements discussed below (see State Settlement Agreements below). Such enforcement efforts may adversely affect our tobacco subsidiaries' ability to market and sell regulated tobacco products in those states, territories and localities.

Impact on Our Business; Compliance Costs and User Fees

Regulations imposed and other regulatory actions taken by the FDA under the FSPTCA could have a material adverse effect on the business, consolidated results of operations, cash flows or financial position of Altria Group, Inc. and its tobacco subsidiaries in a number of different ways. For example, actions by the FDA could:

- impact the consumer acceptability of tobacco products;
- delay, discontinue or prevent the sale or distribution of existing, new or modified tobacco products;
- limit adult tobacco consumer choices;
- impose restrictions on communications with adult tobacco consumers;
- create a competitive advantage or disadvantage for certain tobacco companies;
- impose additional manufacturing, labeling or packaging requirements;
- impose additional restrictions at retail;
- result in increased illicit trade in tobacco products; or
- otherwise significantly increase the cost of doing business.

The failure to comply with FDA regulatory requirements, even inadvertently, and FDA enforcement actions could also have a material adverse effect on the business, consolidated results of operations, cash flows or financial position of Altria Group, Inc. and its tobacco subsidiaries.

The FSPTCA imposes user fees on cigarette, cigarette tobacco, smokeless tobacco, cigar and pipe tobacco manufacturers and importers to pay for the cost of regulation and other matters. The FSPTCA does not impose user fees on e-vapor product manufacturers. The cost of the FDA user fee is allocated first among tobacco product categories subject to FDA regulation and then among manufacturers and importers within each respective category based on their relative market shares, all as prescribed by the statute and FDA regulations. Payments for user fees are adjusted for several factors, including inflation, market share and industry volume. For a discussion of the impact of the FDA user fee payments on Altria Group, Inc., see Financial Review - Debt and Liquidity - Payments Under State Settlement Agreements and FDA Regulation below. In addition, compliance with the FSPTCA's regulatory requirements has resulted and will continue to result in additional costs for our tobacco businesses. The amount of additional compliance and related costs has not been material in any given quarter or year to date period but could become material, either individually or in the aggregate, to one or more of our tobacco subsidiaries.

Investigation and Enforcement

The FDA has a number of investigatory and enforcement tools available to it, including document requests and other required information submissions, facility inspections, examinations and investigations, injunction proceedings, monetary penalties, product withdrawal and recall orders, and product seizures. The use of any of these investigatory or enforcement tools by the FDA could result in significant costs to the tobacco businesses of Altria Group, Inc. or otherwise have a material adverse effect on the business, consolidated results of operations, cash flows or financial position of Altria Group, Inc. and its tobacco subsidiaries.

Final Tobacco Marketing Rule

As required by the FSPTCA, the FDA re-promulgated in March 2010 a wide range of advertising and promotion restrictions in substantially the same form as regulations that were previously adopted in 1996 (but never imposed on tobacco manufacturers due to a United States Supreme Court ruling) (the "Final Tobacco Marketing Rule"). The May

2016 amendments to the Final Tobacco Marketing Rule (instituted as part of the FDA's deeming regulations) apply certain provisions to certain "covered tobacco products," which include cigars, e-vapor products containing nicotine or other tobacco derivatives, pipe tobacco and oral tobacco-derived nicotine products, but do not include any component or part that is not made or derived from tobacco. The Final Tobacco Marketing Rule as so amended:

bans the use of color and graphics in cigarette and smokeless tobacco product labeling and advertising;
prohibits the sale of cigarettes, smokeless tobacco and covered tobacco products to persons under the age of 18;
restricts the use of non-tobacco trade and brand names on cigarettes and smokeless tobacco products;

Table of Contents

requires the sale of cigarettes and smokeless tobacco in direct, face-to-face transactions;
prohibits sampling of cigarettes and covered tobacco products and prohibits sampling of smokeless tobacco products except in qualified adult-only facilities;
prohibits the sale or distribution of items such as hats and tee shirts with cigarette or smokeless tobacco brands or logos; and
prohibits cigarettes and smokeless tobacco brand name sponsorship of any athletic, musical, artistic or other social or cultural event, or any entry or team in any event.

Subject to the limitations described below, the Final Tobacco Marketing Rule took effect in June 2010 for cigarettes and smokeless tobacco products and in August 2016 for covered tobacco products. At the time of the re-promulgation of the Final Tobacco Marketing Rule, the FDA also issued an ANPRM regarding the so-called "1000 foot rule," which would establish restrictions on the placement of outdoor tobacco advertising in relation to schools and playgrounds. PM USA and USSTC submitted comments on this ANPRM.

Since enactment in 2009, several lawsuits have been filed challenging various provisions of the FSPTCA, the Final Tobacco Marketing Rule and the deeming regulations, including their constitutionality and the scope of the FDA's authority thereunder. As a result of one such challenge (Commonwealth Brands), the portion of the Final Tobacco Marketing Rule that bans the use of color and graphics in labeling and advertising is unenforceable by the FDA. For a further discussion of the Final Tobacco Marketing Rule and the status of graphic warnings for cigarette packages and advertising, see FDA Regulatory Actions - Graphic Warnings below.

In a separate lawsuit that challenged the constitutionality of an FDA regulation that restricts tobacco manufacturers from using the trade or brand name of a non-tobacco product on cigarettes or smokeless tobacco products, the case was dismissed without prejudice pursuant to a stipulation by which the FDA agreed not to enforce the current or any amended trade name rule against plaintiffs until at least 180 days after rulemaking on the amended rule concludes. This relief only applies to plaintiffs in the case. However, in May 2010, the FDA issued guidance on the use of non-tobacco trade and brand names applicable to all cigarette and smokeless tobacco product manufacturers. This guidance indicated the FDA's intention not to commence enforcement actions under the regulation while it considers how to address the concerns raised by various manufacturers. In November 2011, the FDA proposed an amended rule, but has not yet issued a final rule. PM USA and USSTC submitted comments on the proposed amended rule.

FDA Regulatory Actions

Graphic Warnings

In June 2011, as required by the FSPTCA, the FDA issued its final rule to modify the required warnings that appear on cigarette packages and in cigarette advertisements. The FSPTCA requires the warnings to consist of nine new textual warning statements accompanied by color graphics depicting the negative health consequences of smoking. The graphic health warnings will (i) be located beneath the cellophane, and comprise the top 50% of the front and rear panels of cigarette packages and (ii) occupy 20% of a cigarette advertisement and be located at the top of the advertisement. After a legal challenge to the rule initiated by R.J. Reynolds, Lorillard and several other plaintiffs, in which plaintiffs prevailed both at the federal trial and appellate levels, the FDA decided not to seek further review of the U.S. Court of Appeals' decision and announced its plans to propose a new graphic warnings rule in the future.

Substantial Equivalence and Other New Product Processes/Pathways

In general, in order to continue marketing provisional products, manufacturers of such products were required to send to the FDA a report demonstrating substantial equivalence by March 22, 2011 for the FDA to determine if such tobacco products are "substantially equivalent" to products commercially available as of February 15, 2007. All cigarette and smokeless tobacco products currently marketed by PM USA and USSTC are provisional products, as are some of the products currently marketed by Nat Sherman. Our subsidiaries submitted timely substantial equivalence reports for these provisional products and can continue marketing these products unless the FDA makes a determination that a specific provisional product is not substantially equivalent. If the FDA ultimately makes such a determination, it could require the removal of such products from the marketplace. PM USA and USSTC also submitted substantial equivalence reports on products proposed to be marketed after March 22, 2011 (“non-provisional” products). While our cigarette and smokeless tobacco subsidiaries believe all of their current products meet the statutory requirements of the FSPTCA, they cannot predict whether, when or how the FDA ultimately

Table of Contents

will apply its guidance to their various respective substantial equivalence reports or seek to enforce the law and regulations consistent with its guidance.

PM USA and USSTC have received decisions on certain non-provisional cigarette and smokeless tobacco products, some of which were found to be substantially equivalent and others were found to be not substantially equivalent. There remain a significant number of substantial equivalence reports for products for which the FDA has not announced decisions. At the request of the FDA, our cigarette and smokeless tobacco subsidiaries have provided additional information with respect to their substantial equivalence reports. At this time, it is not possible to predict how long reviews by the FDA of substantial equivalence reports or new tobacco product applications for any tobacco product will take. A “not substantially equivalent” determination or denial of a new tobacco product application on one or more products could have a material adverse impact on the business, consolidated results of operations, cash flows or financial position of Altria Group, Inc. and its tobacco subsidiaries.

In order to continue marketing Other Tobacco Products modified or introduced into the market for the first time between February 15, 2007 and August 8, 2016, manufacturers originally were required to send to the FDA a report demonstrating substantial equivalence by May 8, 2018 or a new tobacco product application by November 8, 2018. In August 2017, the FDA extended the filing deadlines for combustible Other Tobacco Products, such as cigars and pipe tobacco, to August 8, 2021, and for non-combustible Other Tobacco Products, such as e-vapor and oral nicotine products, to August 8, 2022. The FDA also announced that it will permit manufacturers to continue to market such Other Tobacco Products until the FDA renders a decision on the applicable substantial equivalence report or new tobacco product application.

Because of the limited number of e-vapor products on the market as of February 15, 2007, Nu Mark may not be able to file substantial equivalence reports with the FDA on its e-vapor products in the market as of August 8, 2016. In such case, Nu Mark would have to file new tobacco product applications which, among other things, demonstrate that the marketing of the e-vapor products would be appropriate for the protection of the public health. It is uncertain how the FDA will interpret the requirements for obtaining a “new tobacco product marketing order,” although as noted above the FDA has indicated its intention to issue appropriate regulations to clarify the requirements.

Manufacturers intending to first introduce new and modified cigarette, cigarette tobacco and smokeless tobacco products into the market after March 22, 2011 or intending to first introduce new and modified Other Tobacco Products into the market after August 8, 2016, must submit substantial equivalence reports for non-provisional products to the FDA and obtain “substantial equivalence orders” from the FDA or submit new tobacco product applications to the FDA and obtain “new tobacco product marketing orders” from the FDA before introducing the products into the market.

In March 2015, the FDA issued a document entitled “Guidance for Industry: Demonstrating the Substantial Equivalence of a New Tobacco Product: Responses to Frequently Asked Questions” (“Substantial Equivalence Guidance”). In that document, the FDA announced that (i) certain label changes and (ii) changes to the quantity of tobacco product(s) in a package would each require submission of newly required substantial equivalence reports and authorization from the FDA prior to marketing tobacco products with such changes, even when the tobacco product itself is not changed. Our cigarette and smokeless tobacco subsidiaries market various products that fall within the scope of the Substantial Equivalence Guidance.

In September 2015, after industry objections to the Substantial Equivalence Guidance, the FDA issued a second edition of the guidance (the “Revised SE Guidance”), which continued to require FDA pre-authorization for certain label changes and for product quantity changes. PM USA, USSTC and other tobacco product manufacturers initiated litigation challenging the Revised SE Guidance. In August 2016, the court held that a modification to an existing product’s label does not result in a “new tobacco product” and therefore such a label change does not give rise to the substantial equivalence review process. However, the court upheld the Revised SE Guidance in all other respects, including its treatment of product quantity changes as modifications that give rise to a new tobacco product requiring substantial equivalence review.

Deeming Regulations

As discussed above under FSPTCA and FDA Regulation - The Regulatory Framework, in May 2016, the FDA issued final regulations for all Other Tobacco Products, imposing the FSPTCA regulatory framework on the tobacco products manufactured, marketed and sold by Middleton and Nu Mark. At the same time the FDA issued its final deeming regulations, it also amended the Final Tobacco Marketing Rule as described above in FSPTCA and FDA Regulation - Final Tobacco Marketing Rule. Under the new regulations, for Other Tobacco Products modified or introduced into the market for the first time between February 15, 2007 and August 8, 2016, manufacturers must demonstrate substantial equivalence to a product on the market as of February 15, 2007 or obtain a “new tobacco marketing order” by certain specified dates to continue marketing

Table of Contents

those products. For further details, see FSPTCA and FDA Regulation - FDA Regulatory Actions - Substantial Equivalence and Other New Product Processes/Pathways above.

Among the FSPTCA requirements that apply to Other Tobacco Products is a ban on descriptors, including "mild," when used as descriptors of modified risk unless expressly authorized by the FDA. In May 2016, Middleton filed a lawsuit in the U.S. District Court for the District of Columbia against the FDA challenging the application of the descriptor ban on the use of the word "mild" as it relates to the "Black & Mild" trademark. In July 2016, the Department of Justice, on behalf of the FDA, informed Middleton that at present the FDA does not intend to bring an enforcement action against Middleton for the use of the term "mild" in the trademark "Black & Mild." Consequently, Middleton dismissed its lawsuit without prejudice. If the FDA were to change its mind at some later date, Middleton would have the opportunity to make a submission to the FDA and ultimately, if necessary, to bring another lawsuit.

Potential Product Standards

Menthol in cigarettes: As required by the FSPTCA, the tobacco product scientific advisory committee established by the FDA submitted a report on the impact of the use of menthol in cigarettes on the public health and related recommendations to the FDA in March 2011. It recommended, among other things, that the "[r]emoval of menthol cigarettes from the marketplace would benefit public health in the United States" and also noted that any ban on menthol cigarettes could lead to an increase in contraband cigarettes and other potential unintended consequences. Also in March 2011, PM USA submitted a report to the FDA outlining its position that regulatory actions related to the use of menthol cigarettes are not warranted based on available science and evidence and that any significant restrictions on the use of menthol in cigarettes would have unintended consequences detrimental to public health and society.

In July 2013, the FDA released its preliminary scientific evaluation on menthol, which states "that menthol cigarettes pose a public health risk above that seen with non-menthol cigarettes." At the same time, the FDA also issued an ANPRM requesting comments on the FDA's preliminary scientific evaluation and information that may inform potential regulatory actions regarding menthol in cigarettes. PM USA submitted comments to the FDA raising a number of concerns about the preliminary scientific evidence and unintended consequences.

The July 2017 Comprehensive Plan contemplates the issuance of an ANPRM seeking comments on the role that flavors including menthol in tobacco products play in attracting youth. No future action can be taken by the FDA to regulate the manufacture, marketing or sale of menthol cigarettes (including a possible ban) until the completion of a full rulemaking process.

NNN in Smokeless Tobacco: In January 2017, the FDA proposed a product standard for N-nitrosonornicotine ("NNN") levels in finished smokeless tobacco products. USSTC believes that the FDA has not adequately considered whether the proposed standard is technically achievable and further believes it would have a significant negative impact on farmers and manufacturers. USSTC is advocating for withdrawal of the proposed rule. In March 2017, the FDA extended the comment period and acknowledged what it described as a "typographical error" in a formula it used in documentation supporting the proposed rule. USSTC submitted comments to the FDA in July 2017. If the proposed rule as presently proposed were to become final and upheld in the courts, it could have a material adverse effect on the business, consolidated results of operations, cash flows or financial position of Altria Group, Inc. and USSTC.

Nicotine and Flavors: As noted above, the FDA announced in the July 2017 Comprehensive Plan its intent to seek comments through an ANPRM on the following matters, among others:

Nicotine in cigarettes: The potential public health benefits and any possible adverse effects of lowering nicotine in combustible cigarettes to non-addictive or minimally addictive levels through achievable product standards.

Specifically, the FDA intends to seek comments on the potential unintended consequences of such product standard, including (i) smokers compensating by smoking more cigarettes to obtain the same level of nicotine as with their current product and (ii) the illicit trade of cigarettes containing nicotine at levels higher than a non-addictive threshold that may be established by the FDA; and

Flavors in all tobacco products: The role that flavors (including menthol) in tobacco products play in attracting youth and may play in helping some smokers switch to potentially less harmful forms of nicotine delivery.

Table of Contents

These ANPRM processes may ultimately lead to the FDA's development of product standards for nicotine and flavors. The July 2017 Comprehensive Plan also includes the FDA's intent to develop e-vapor product standards to protect against known public health risks such as battery issues and concerns about children's exposure to liquid nicotine.

Good Manufacturing Practices

The FSPTCA requires that the FDA promulgate good manufacturing practice regulations (referred to by the FDA as "Requirements for Tobacco Product Manufacturing Practice") for tobacco product manufacturers, but does not specify a timeframe for such regulations.

Excise Taxes

Tobacco products are subject to substantial excise taxes in the United States. Significant increases in tobacco-related taxes or fees have been proposed or enacted (including with respect to e-vapor products) and are likely to continue to be proposed or enacted at the federal, state and local levels within the United States.

Federal, state and local excise taxes have increased substantially over the past decade, far outpacing the rate of inflation. By way of example, in 2009, the federal excise tax ("FET") on cigarettes increased from $0.39 per pack to approximately $1.01 per pack, in 2010, the New York state excise tax increased by $1.60 to $4.35 per pack, in October 2014, Philadelphia, Pennsylvania enacted a $2.00 per pack local cigarette excise tax and in November 2016, California passed a ballot measure to increase its cigarette excise tax by $2.00 per pack and its smokeless tobacco ad valorem excise tax from 27.30% to 65.08%, which went into effect on April 1, 2017 and July 1, 2017, respectively. Between the end of 1998 and October 23, 2017, the weighted-average state and certain local cigarette excise taxes increased from $0.36 to $1.75 per pack. As of October 23, 2017, Rhode Island, Delaware, Oklahoma and Puerto Rico have enacted cigarette excise tax increases in 2017. However, PM USA, R.J. Reynolds, and Oklahoma retailers and wholesalers brought suit arguing the Oklahoma tax violated the state's constitution. In August 2017, the Oklahoma Supreme Court ruled in favor of the plaintiffs, finding the tax unconstitutional.

Tax increases are expected to continue to have an adverse impact on sales of the tobacco products of our tobacco subsidiaries through lower consumption levels and the potential shift in adult consumer purchases from the premium to the non-premium or discount segments or to other low-priced or low-taxed tobacco products or to counterfeit and contraband products. Such shifts may have an adverse impact on the sales volume and reported share performance of tobacco products of Altria Group, Inc.'s tobacco subsidiaries.

A majority of states currently tax smokeless tobacco products using an ad valorem method, which is calculated as a percentage of the price of the product, typically the wholesale price. This ad valorem method results in more tax being paid on premium products than is paid on lower-priced products of equal weight. Altria Group, Inc.'s subsidiaries support legislation to convert ad valorem taxes on smokeless tobacco to a weight-based methodology because, unlike the ad valorem tax, a weight-based tax subjects cans of equal weight to the same tax. As of October 23, 2017, the federal government, 23 states, Puerto Rico, Philadelphia, Pennsylvania and Cook County, Illinois have adopted a weight-based tax methodology for smokeless tobacco.

International Treaty on Tobacco Control

The World Health Organization's Framework Convention on Tobacco Control (the "FCTC") entered into force in February 2005. As of October 23, 2017, 180 countries, as well as the European Community, have become parties to the FCTC. While the United States is a signatory of the FCTC, it is not currently a party to the agreement, as the agreement has not been submitted to, or ratified by, the United States Senate. The FCTC is the first international public health treaty and its objective is to establish a global agenda for tobacco regulation with the purpose of reducing initiation of tobacco use and encouraging cessation. The treaty recommends (and in certain instances, requires) signatory nations to enact legislation that would, among other things: establish specific actions to prevent youth tobacco product use; restrict or eliminate all tobacco product advertising, marketing, promotion and sponsorship; initiate public education campaigns to inform the public about the health consequences of tobacco consumption and exposure to tobacco smoke and the benefits of quitting; implement regulations imposing product testing, disclosure and performance standards; impose health warning requirements on packaging; adopt measures intended to combat tobacco product smuggling and counterfeit tobacco products, including tracking and tracing of tobacco products through the distribution chain; and restrict smoking in public places.

There are a number of proposals currently under consideration by the governing body of the FCTC, some of which call for substantial restrictions on the manufacture, marketing, distribution and sale of tobacco products. In addition, the Protocol to Eliminate Illicit Trade in Tobacco Products (the “Protocol”) was approved by the Conference of Parties to the FCTC in

Table of Contents

November 2012. It includes provisions related to the tracking and tracing of tobacco products through the distribution chain and numerous other provisions regarding the regulation of the manufacture, distribution and sale of tobacco products. The Protocol has not yet entered into force, but in any event will not apply to the United States until the Senate ratifies the FCTC and until the President signs, and the Senate ratifies, the Protocol. It is not possible to predict the outcome of these proposals or the impact of any FCTC actions on legislation or regulation in the United States, either indirectly or as a result of the United States becoming a party to the FCTC, or whether or how these actions might indirectly influence FDA regulation and enforcement.

State Settlement Agreements

As discussed in Note 9, during 1997 and 1998, PM USA and other major domestic tobacco product manufacturers entered into the State Settlement Agreements. These settlements require participating manufacturers to make substantial annual payments, which are adjusted for several factors, including inflation, operating income, market share and industry volume. For a discussion of the impact of the State Settlement Agreements on Altria Group, Inc., see Financial Review - Debt and Liquidity - Payments Under State Settlement Agreements and FDA Regulation below and Note 9. The State Settlement Agreements also place numerous requirements and restrictions on participating manufacturers' business operations, including prohibitions and restrictions on the advertising and marketing of cigarettes and smokeless tobacco products. Among these are prohibitions of outdoor and transit brand advertising, payments for product placement and free sampling (except in adult-only facilities). Restrictions are also placed on the use of brand name sponsorships and brand name non-tobacco products. The State Settlement Agreements also place prohibitions on targeting youth and the use of cartoon characters. In addition, the State Settlement Agreements require companies to affirm corporate principles directed at reducing underage use of cigarettes; impose requirements regarding lobbying activities; mandate public disclosure of certain industry documents; limit the industry's ability to challenge certain tobacco control and underage use laws; and provide for the dissolution of certain tobacco-related organizations and place restrictions on the establishment of any replacement organizations.

In November 1998, USSTC entered into the Smokeless Tobacco Master Settlement Agreement (the "STMSA") with the attorneys general of various states and United States territories to resolve the remaining health care cost reimbursement cases initiated against USSTC. The STMSA required USSTC to adopt various marketing and advertising restrictions. USSTC is the only smokeless tobacco manufacturer to sign the STMSA.

Other Federal, State and Local Regulation and Activity

Federal, State and Local Regulation

A number of states and localities have enacted or proposed legislation that imposes restrictions on tobacco products (including innovative tobacco products, such as e-vapor products), such as legislation that (1) prohibits the sale of certain tobacco products with certain characterizing flavors, including menthol cigarettes, (2) requires the disclosure of health information separate from or in addition to federally-mandated health warnings and (3) restricts commercial speech or imposes additional restrictions on the marketing or sale of tobacco products (including proposals to ban all tobacco product sales). The legislation varies in terms of the type of tobacco products, the conditions under which such products are or would be restricted or prohibited, and exceptions to the restrictions or prohibitions. For example, a number of proposals involving characterizing flavors would prohibit smokeless tobacco products with characterizing flavors without providing an exception for mint- or wintergreen-flavored products.

Whether other states or localities will enact legislation in these areas, and the precise nature of such legislation if enacted, cannot be predicted. Altria Group, Inc.'s tobacco subsidiaries have challenged and will continue to challenge certain state and local legislation, including through litigation.

State and Local Legislation to Increase the Legal Age to Purchase Tobacco Products

An increasing number of states and localities have proposed legislation to increase the minimum age to purchase tobacco products above the current Federal minimum age of 18. The following states have enacted such legislation: California (21), Hawaii (21), Alabama (19), Alaska (19), New Jersey (21), Utah (19), Oregon (21) and Maine (21). Various localities (such as New York City (21) and Chicago (21)) have taken similar actions.

Table of Contents

Health Effects of Tobacco Product Consumption and Exposure to Environmental Tobacco Smoke (“ETS”)

Altria Group, Inc. and its tobacco subsidiaries believe that the public should be guided by the messages of the United States Surgeon General and public health authorities worldwide in making decisions concerning the use of tobacco products.

Reports with respect to the health effects of smoking have been publicized for many years, including in a January 2014 United States Surgeon General report titled “The Health Consequences of Smoking - 50 Years of Progress” and in a June 2006 United States Surgeon General report on ETS titled “The Health Consequences of Involuntary Exposure to Tobacco Smoke.”

Most jurisdictions within the United States have restricted smoking in public places. Some public health groups have called for, and various jurisdictions have adopted or proposed, bans on smoking in outdoor places, in private apartments and in cars transporting minors. It is not possible to predict the results of ongoing scientific research or the types of future scientific research into the health risks of tobacco exposure and the impact of such research on regulation.

Other Legislation or Governmental Initiatives

In addition to the actions discussed above, other regulatory initiatives affecting the tobacco industry have been adopted or are being considered at the federal level and in a number of state and local jurisdictions. For example, in recent years, legislation has been introduced or enacted at the state or local level to subject tobacco products to various reporting requirements and performance standards (such as reduced cigarette ignition propensity standards); establish educational campaigns relating to tobacco consumption or tobacco control programs, or provide additional funding for governmental tobacco control activities; restrict the sale of tobacco products in certain retail establishments and the sale of tobacco products in certain package sizes; require tax stamping of moist smokeless tobacco (“MST”) products; require the use of state tax stamps using data encryption technology; and further restrict the sale, marketing and advertising of cigarettes and Other Tobacco Products. Such legislation may be subject to constitutional or other challenges on various grounds, which may or may not be successful.

It is not possible to predict what, if any, additional legislation, regulation or other governmental action will be enacted or implemented (and, if challenged, upheld) relating to the manufacturing, design, packaging, marketing, advertising, sale or use of tobacco products, or the tobacco industry generally. It is possible, however, that legislation, regulation or other governmental action could be enacted or implemented that could have a material adverse impact on the business and volume of our tobacco subsidiaries and the consolidated results of operations, cash flows or financial position of Altria Group, Inc. and its tobacco subsidiaries.

Governmental Investigations

From time to time, Altria Group, Inc. and its subsidiaries are subject to governmental investigations on a range of matters. Altria Group, Inc. and its subsidiaries cannot predict whether new investigations may be commenced.

Illicit Trade in Tobacco Products

Illicit trade in tobacco products can have an adverse impact on the businesses of Altria Group, Inc. and its tobacco subsidiaries. Illicit trade can take many forms, including the sale of counterfeit tobacco products; the sale of tobacco products in the United States that are intended for sale outside the country; the sale of tobacco products over the Internet and by other means designed to avoid the collection of applicable taxes; and diversion into one taxing jurisdiction of tobacco products intended for sale in another. Counterfeit tobacco products, for example, are manufactured by unknown third parties in unregulated environments. Counterfeit versions of our tobacco subsidiaries' products can negatively affect adult tobacco consumer experiences with and opinions of those brands. Illicit trade in tobacco products also harms law-abiding wholesalers and retailers by depriving them of lawful sales and undermines the significant investment Altria Group, Inc.'s tobacco subsidiaries have made in legitimate distribution channels. Moreover, illicit trade in tobacco products results in federal, state and local governments losing tax revenues. Losses in tax revenues can cause such governments to take various actions, including increasing excise taxes; imposing legislative or regulatory requirements that may adversely impact Altria Group, Inc.'s consolidated results of operations and cash flows and the businesses of its tobacco subsidiaries; or asserting claims against manufacturers of tobacco products or members of the trade channels through which such tobacco products are distributed and sold.

Altria Group, Inc. and its tobacco subsidiaries devote significant resources to help prevent illicit trade in tobacco products and to protect legitimate trade channels. For example, Altria Group, Inc.'s tobacco subsidiaries are engaged in a number of initiatives to help prevent illicit trade in tobacco products, including communication with wholesale and retail trade members regarding illicit trade in tobacco products and how they can help prevent such activities; enforcement of wholesale and retail

Table of Contents

trade programs and policies that address illicit trade in tobacco products; engagement with and support of law enforcement and regulatory agencies; litigation to protect their trademarks; and support for a variety of federal and state legislative initiatives. Legislative initiatives to address illicit trade in tobacco products are designed to protect the legitimate channels of distribution, impose more stringent penalties for the violation of illegal trade laws and provide additional tools for law enforcement. Regulatory measures and related governmental actions to prevent the illicit manufacture and trade of tobacco products continue to evolve as the nature of illicit tobacco products evolves.

Price, Availability and Quality of Agricultural Products

Shifts in crops (such as those driven by economic conditions and adverse weather patterns), government mandated prices, economic trade sanctions, geopolitical instability and production control programs may increase or decrease the cost or reduce the supply or quality of tobacco and other agricultural products used to manufacture our companies' products. As with other agriculture commodities, the price of tobacco leaf can be influenced by economic conditions and imbalances in supply and demand and crop quality and availability can be influenced by variations in weather patterns, including those caused by climate change. Certain types of tobacco are also only available in limited geographies. Tobacco production in certain countries is subject to a variety of controls, including government mandated prices and production control programs. Changes in the patterns of demand for agricultural products and the cost of tobacco production could impact tobacco leaf prices and tobacco supply. Certain types of tobacco are available in limited geographies, including geographies experiencing political instability, and loss of their availability could impact adult tobacco consumer product acceptability. Any significant change in the price, quality or availability of tobacco leaf or other agricultural products used to manufacture our products could restrict our subsidiaries' ability to continue marketing existing products or impact adult consumer product acceptability, adversely affecting our subsidiaries' profitability and businesses.

Timing of Sales

In the ordinary course of business, our tobacco subsidiaries are subject to many influences that can impact the timing of sales to customers, including the timing of holidays and other annual or special events, the timing of promotions, customer incentive programs and customer inventory programs, as well as the actual or speculated timing of pricing actions and tax-driven price increases.

Operating Results

The following discussion compares operating results for the smokeable and smokeless products segments for the nine and three months ended September 30, 2017, with the nine and three months ended September 30, 2016.

	For the Nine Months Ended September 30,			
	Net Revenues		Operating Companies Income	
	2017	2016	2017	2016
	(in millions)			
Smokeable products	$17,355	$17,398	$6,564	$5,955
Smokeless products	1,580	1,530	951	930
Total smokeable and smokeless products	$18,935	$18,928	$7,515	$6,885

	For the Three Months Ended September 30,			
	Net Revenues		Operating Companies	

			Income	
	2017	2016	2017	2016
	(in millions)			
Smokeable products	$5,975	$6,147	$2,290	$2,086
Smokeless products	550	528	352	312
Total smokeable and smokeless products	$6,525	$6,675	$2,642	$2,398

Table of Contents

Smokeable products segment

The smokeable products segment's operating companies income increased during the nine and three months ended September 30, 2017, due primarily to higher pricing and lower costs, partially offset by lower shipment volume. Shipment volume and retail share have been negatively impacted in 2017 by a large cigarette excise tax increase in California.

The following table summarizes the smokeable products segment shipment volume performance:

	Shipment Volume					
	For the Nine Months Ended September 30,			For the Three Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
	(sticks in millions)					
Cigarettes:						
Marlboro	77,307	80,446	(3.9)%	26,455	28,152	(6.0)%
Other premium	4,567	4,858	(6.0)%	1,567	1,684	(6.9)%
Discount	8,250	8,569	(3.7)%	2,806	3,028	(7.3)%
Total cigarettes	90,124	93,873	(4.0)%	30,828	32,864	(6.2)%
Cigars:						
Black & Mild	1,146	1,028	11.5 %	381	357	6.7 %
Other	12	19	(36.8)%	4	4	— %
Total cigars	1,158	1,047	10.6 %	385	361	6.6 %
Total smokeable products	91,282	94,920	(3.8)%	31,213	33,225	(6.1)%

Cigarettes shipment volume includes Marlboro; Other premium brands, such as Virginia Slims, Parliament and Benson & Hedges; and Discount brands, which include L&M and Basic. Cigarettes volume includes units sold as well as promotional units, but excludes units sold for distribution to Puerto Rico, and units sold in U.S. Territories, to overseas military and by Philip Morris Duty Free Inc., none of which, individually or in the aggregate, is material to the smokeable products segment.

The following table summarizes cigarettes retail share performance:

	Retail Share					
	For the Nine Months Ended September 30,			For the Three Months Ended September 30,		
	2017	2016	Percentage Point Change	2017	2016	Percentage Point Change
Cigarettes:						
Marlboro	43.4%	43.7%	(0.3)	43.2%	43.7%	(0.5)
Other premium	2.7	2.8	(0.1)	2.7	2.8	(0.1)
Discount	4.7	4.6	0.1	4.6	4.6	—
Total cigarettes	50.8%	51.1%	(0.3)	50.5%	51.1%	(0.6)

Retail share results for cigarettes are based on data from IRI/Management Science Associates, Inc., a tracking service that uses a sample of stores and certain wholesale shipments to project market share and depict share trends. This service tracks sales in the food, drug, mass merchandisers, convenience, military, dollar store and club trade classes. For other trade classes selling cigarettes, retail share is based on shipments from wholesalers to retailers through the Store Tracking Analytical Reporting System ("STARS"). This service is not designed to capture sales through other channels, including the internet, direct mail and some illicitly tax-advantaged outlets. It is IRI's standard practice to periodically refresh its services, which could restate retail share results that were previously released in this service.

Table of Contents

PM USA and Middleton executed the following pricing and promotional allowance actions during 2017 and 2016:

Effective September 24, 2017, PM USA increased the list price on all of its cigarette brands by $0.10 per pack.

Effective May 21, 2017, Middleton increased various list prices across substantially all of its cigar brands resulting in a weighted-average increase of approximately $0.10 per five-pack.

Effective March 19, 2017, PM USA increased the list price on Parliament by $0.12 per pack. In addition, PM USA increased the list price on all of its other cigarette brands by $0.08 per pack.

Effective November 13, 2016, PM USA reduced its wholesale promotional allowance on Marlboro by $0.02 per pack and L&M by $0.08 per pack. In addition, PM USA increased the list price on Marlboro by $0.06 per pack and on all of its other cigarette brands by $0.08 per pack, except for L&M, which had no list price change.

Effective May 15, 2016, PM USA increased the list price on all of its cigarette brands by $0.07 per pack.

Net revenues, which include excise taxes billed to customers, for the nine months ended September 30, 2017 were essentially unchanged as higher pricing ($676 million), which includes higher promotional investments, was offset by lower shipment volume. Operating companies income for the nine months ended September 30, 2017 increased $609 million (10.2%), due primarily to higher pricing ($672 million), which includes higher promotional investments, lower marketing, administration and research costs ($207 million), which includes 2016 state excise tax ballot initiative spending and lower tobacco and health litigation items, and lower asset impairment and exit costs ($97 million), partially offset by lower shipment volume ($396 million).

Net revenues, which include excise taxes billed to customers, for the three months ended September 30, 2017 decreased $172 million (2.8%), due primarily to lower shipment volume ($426 million), partially offset by higher pricing ($250 million). Operating companies income for the three months ended September 30, 2017 increased $204 million (9.8%), due primarily to higher pricing ($246 million), lower marketing, administration and research costs ($181 million), which includes 2016 state excise tax ballot initiative spending and lower tobacco and health litigation items, and lower per unit settlement charges, partially offset by lower shipment volume ($229 million).

For the nine months ended September 30, 2017, total cigarette industry volumes declined by an estimated 3.5%. The smokeable products segment’s reported domestic cigarettes shipment volume decreased 4.0% for the the nine months ended September 30, 2017, primarily driven by the industry’s rate of decline, retail share declines and one fewer shipping day, partially offset by trade inventory movements. When adjusted for trade inventory movements and calendar differences, PM USA’s domestic cigarettes shipment volume decreased an estimated 4%.

For the third quarter of 2017, total cigarette industry volumes declined by an estimated 3.5%. The smokeable products segment’s reported domestic cigarettes shipment volume decreased 6.2% in the third quarter, driven primarily by the industry’s rate of decline, trade inventory movements, retail share declines and one fewer shipping day, After adjusting for trade inventory movements and calendar differences, PM USA’s domestic cigarettes shipment volume decreased an estimated 4.5% for the third quarter.

Shipments of premium cigarettes accounted for 90.8% and 90.9% of smokeable products’ reported domestic cigarettes shipment volume for the nine and three months ended September 30, 2017, respectively, versus 90.9% and 90.8% for the nine and three months ended September 30, 2016.

The smokeable products segment’s reported cigars shipment volume for the nine and three months ended September 30, 2017 increased 10.6% and 6.6%, respectively.

For the nine months ended September 30, 2017, Marlboro's retail share declined 0.3 share points. For the three months ended September 30, 2017, Marlboro's retail share declined 0.5 share points, primarily driven by the cigarette excise tax increase in California and increased competitive activity. PM USA expects the California excise tax increase will continue to negatively impact Marlboro's retail share through the remainder of the year. PM USA's total retail share for the nine and three months ended September 30, 2017 decreased 0.3 and 0.6 share points, respectively.

Table of Contents

Smokeless products segment

For the nine and three months ended September 30, 2017, the smokeless products segment grew net revenues and operating companies income, primarily through higher pricing, partially offset by unfavorable mix and lower shipment volume.

During the first quarter of 2017, USSTC voluntarily recalled certain smokeless tobacco products manufactured at its Franklin Park, Illinois facility due to a product tampering incident (the "Recall"). USSTC has concluded the Recall and trade inventories have been replenished. USSTC estimates that the Recall-related costs and the share impact from the Recall reduced smokeless products segment operating companies income by approximately $60 million in the first quarter of 2017.

The following table summarizes smokeless products segment shipment volume performance:

	Shipment Volume					
	For the Nine Months Ended September 30,			For the Three Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
	(cans and packs in millions)					
Copenhagen	396.1	392.3	1.0 %	134.1	133.5	0.4 %
Skoal	183.0	197.3	(7.2)%	61.6	66.2	(6.9)%
Copenhagen and Skoal	579.1	589.6	(1.8)%	195.7	199.7	(2.0)%
Other	50.3	50.8	(1.0)%	16.9	16.7	1.2 %
Total smokeless products	629.4	640.4	(1.7)%	212.6	216.4	(1.8)%

Smokeless products shipment volume includes cans and packs sold, as well as promotional units, but excludes international volume, which is not material to the smokeless products segment. New types of smokeless products, as well as new packaging configurations of existing smokeless products, may or may not be equivalent to existing MST products on a can-for-can basis. To calculate volumes of cans and packs shipped, one pack of snus, irrespective of the number of pouches in the pack, is assumed to be equivalent to one can of MST.

The following table summarizes smokeless products segment retail share performance (excluding international volume):

	Retail Share					
	For the Nine Months Ended September 30,			For the Three Months Ended September 30,		
	2017	2016	Percentage Point Change	2017	2016	Percentage Point Change
Copenhagen	33.6%	33.0%	0.6	33.9%	33.7%	0.2
Skoal	16.8	18.3	(1.5)	16.5	17.9	(1.4)
Copenhagen and Skoal	50.4	51.3	(0.9)	50.4	51.6	(1.2)
Other	3.4	3.4	—	3.4	3.3	0.1
Total smokeless products	53.8%	54.7%	(0.9)	53.8%	54.9%	(1.1)

Retail share results for smokeless products are based on data from IRI InfoScan, a tracking service that uses a sample of stores to project market share and depict share trends. This service tracks sales in the food, drug, mass merchandisers, convenience, military, dollar store and club trade classes on the number of cans and packs sold. Smokeless products is defined by IRI as moist smokeless and spit-free tobacco products. New types of smokeless products, as well as new packaging configurations of existing smokeless products, may or may not be equivalent to existing MST products on a can-for-can basis. For example, one pack of snus, irrespective of the number of pouches in the pack, is assumed to be equivalent to one can of MST. Because this service represents retail share performance only in key trade channels, it should not be considered a precise measurement of actual retail share. It is IRI's standard practice to periodically refresh its InfoScan services, which could restate retail share results that were previously released in this service.

Table of Contents

USSTC executed the following pricing actions during 2017 and 2016:

Effective September 26, 2017, USSTC increased the list price on Copenhagen and Skoal popular price products by $0.12 per can. In addition, USSTC increased the list price on all its brands, except for Copenhagen and Skoal popular price products, by $0.07 per can.
Effective April 25, 2017, USSTC increased the list price on all its brands by $0.07 per can.
Effective December 6, 2016, USSTC increased the list price on Copenhagen and Skoal popular price products by $0.12 per can. In addition, USSTC increased the list price on all its brands, except for Copenhagen and Skoal popular price products, by $0.07 per can.
Effective May 10, 2016, USSTC increased the list price on all its brands by $0.07 per can.

Net revenues, which include excise taxes billed to customers, for the nine months ended September 30, 2017 increased $50 million (3.3%), primarily driven by higher pricing ($106 million), partially offset by unfavorable mix and lower shipment volume ($19 million). Operating companies income for the nine months ended September 30, 2017 increased $21 million (2.3%), due primarily to higher pricing ($106 million), partially offset by higher restructuring charges ($38 million), unfavorable mix and lower shipment volume ($15 million).

Net revenues, which include excise taxes billed to customers, for the three months ended September 30, 2017 increased $22 million (4.2%), due primarily to higher pricing ($47 million), which includes lower promotional investments, partially offset by lower shipment volume ($13 million) and unfavorable mix. Operating companies income for the three months ended September 30, 2017 increased $40 million (12.8%), due primarily to higher pricing ($47 million), which includes lower promotional investments, and lower costs, partially offset by lower shipment volume ($11 million), unfavorable mix and costs in connection with the facilities consolidation ($10 million).

USSTC's reported domestic shipment volume decreased 1.7% and 1.8% for the nine and three months ended September 30, 2017, respectively, driven primarily by declines in Skoal.

After adjusting for trade inventory movements and other factors, USSTC estimates that its domestic smokeless products shipment volume declined approximately 1.5% and 3% for the nine and three months ended September 30, 2017, respectively. USSTC estimates that the smokeless products category volume grew approximately 0.5% over the six months ended September 30, 2017.

For the nine months ended September 30, 2017, Copenhagen grew 0.6 retail share points offset by Skoal's 1.5 share point loss, contributing to a combined share decline of 0.9 share points.

Copenhagen grew 0.2 retail share points in the third quarter of 2017. Copenhagen and Skoal's combined retail share decreased 1.2 share points in the quarter, driven by Skoal's 1.4 share point decline.

Wine segment

Business Environment

Ste. Michelle is a leading producer of Washington state wines, primarily Chateau Ste. Michelle, Columbia Crest and 14 Hands, and owns wineries in or distributes wines from several other domestic and foreign wine regions. Ste. Michelle holds an 85% ownership interest in Michelle-Antinori, LLC, which owns Stag's Leap Wine Cellars in Napa Valley. Ste. Michelle also owns Conn Creek in Napa Valley, Patz & Hall in Sonoma and Erath in Oregon. In addition, Ste. Michelle imports and markets Antinori, Torres and Villa Maria Estate wines and Champagne Nicolas Feuillatte in the United States. Key elements of Ste. Michelle's strategy are expanded domestic distribution of its wines, especially in certain account categories such as restaurants, wholesale clubs, supermarkets, wine shops and mass merchandisers, and a focus on improving product mix to higher-priced, premium products.

Ste. Michelle’s business is subject to significant competition, including competition from many larger, well-established domestic and international companies, as well as from many smaller wine producers. Wine segment competition is primarily based on quality, price, consumer and trade wine tastings, competitive wine judging, third-party acclaim and advertising. Substantially all of Ste. Michelle’s sales occur in the United States through state-licensed distributors. Ste. Michelle also sells to domestic consumers through retail and e-commerce channels and exports wines to international distributors.

Table of Contents

Federal, state and local governmental agencies regulate the beverage alcohol industry through various means, including licensing requirements, pricing rules, labeling and advertising restrictions, and distribution and production policies. Further regulatory restrictions or additional excise or other taxes on the manufacture and sale of alcoholic beverages may have an adverse effect on Ste. Michelle's wine business.

Operating Results

Ste. Michelle's results for the nine and three months ended September 30, 2017 were negatively impacted by increased competitive activity, continued trade inventory reductions and slower premium wine category growth.

The following discussion compares wine segment results for the nine and three months ended September 30, 2017, with the nine and three months ended September 30, 2016.

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2017	2016	2017	2016
	(in millions)			
Net revenues	$471	$498	$181	$182
Operating companies income	$82	$100	$36	$38

Net revenues, which include excise taxes billed to customers, for the nine months ended September 30, 2017 decreased $27 million (5.4%), due primarily to lower shipment volume, partially offset by improved premium mix. Operating companies income for the nine months ended September 30, 2017 decreased $18 million (18.0%), due primarily to lower shipment volume and higher costs.

Net revenues, which include excise taxes billed to customers, for the three months ended September 30, 2017 were essentially unchanged. Operating companies income for the three months ended September 30, 2017 decreased $2 million (5.3%), due primarily to higher costs.

For the nine and three months ended September 30, 2017, Ste. Michelle's reported wine shipment volume of 5,728 and 2,247 thousand cases, decreased 8.1% and 0.4%, respectively.

Financial Review

Net Cash Provided by Operating Activities

During the first nine months of 2017, net cash provided by operating activities was $4,165 million compared with $3,530 million during the first nine months of 2016. This increase was due primarily to voluntary contributions totaling $500 million to Altria Group, Inc.'s pension plans in 2016 and lower payments for tobacco and health litigation items in 2017.

Altria Group, Inc. had a working capital deficit at September 30, 2017 and December 31, 2016. Altria Group, Inc.'s management believes that it has the ability to fund these working capital deficits with cash provided by operating activities and/or short-term borrowings under its commercial paper program as discussed in the Debt and Liquidity section below.

Net Cash Used in/Provided by Investing Activities

During the first nine months of 2017, net cash used in investing activities was $202 million compared with net cash provided by investing activities of $35 million during the first nine months of 2016. This change was due primarily to the acquisition of a business in 2017.

Table of Contents

Net Cash Used in Financing Activities

During the first nine months of 2017, net cash used in financing activities was $5,950 million compared with $3,636 million during the first nine months of 2016. This increase was due primarily to the following:

- debt issuance of $2.0 billion of senior unsecured notes during the first nine months of 2016 used in part to repurchase senior unsecured notes in connection with the 2016 debt tender offer, as more fully described in Note 7;
- higher repurchases of common stock during the first nine months of 2017; and
- higher dividends paid during the first nine months of 2017;

partially offset by:

- debt repayments of $0.9 billion and premiums and fees of $0.8 billion in connection with the debt tender offer during the first nine months of 2016.

Debt and Liquidity

Credit Ratings - Altria Group, Inc.’s cost and terms of financing and its access to commercial paper markets may be impacted by applicable credit ratings. The impact of credit ratings on the cost of borrowings under Altria Group, Inc.’s credit agreement is discussed below. See the discussion below regarding the potential adverse impact of certain events on Altria Group, Inc.’s credit ratings in Cautionary Factors That May Affect Future Results.

At September 30, 2017, the credit ratings and outlook for Altria Group, Inc.’s indebtedness by major credit rating agencies were:

	Short-term Debt	Long-term Debt	Outlook
Moody’s Investors Service, Inc. (“Moody’s”)	P-2	A3	Stable
Standard & Poor’s Ratings Services (“Standard & Poor’s”)	A-1	A-	Stable
Fitch Ratings Ltd. (“Fitch”)[1]	F2	A-	Stable

[1] On April 3, 2017, Fitch raised the long-term debt credit rating for Altria Group, Inc. to A- from BBB+.

Credit Lines - From time to time, Altria Group, Inc. has short-term borrowing needs to meet its working capital requirements and generally uses its commercial paper program to meet those needs. At September 30, 2017 and 2016, and at December 31, 2016, Altria Group, Inc. had no short-term borrowings.

At September 30, 2017, Altria Group, Inc. had in place a senior unsecured 5-year revolving credit agreement (the “Credit Agreement”). The Credit Agreement provides for borrowings up to an aggregate principal amount of $3.0 billion and expires August 19, 2020.

Pricing for interest and fees under the Credit Agreement may be modified in the event of a change in the rating of Altria Group, Inc.’s long-term senior unsecured debt. Interest rates on borrowings under the Credit Agreement are expected to be based on the London Interbank Offered Rate (“LIBOR”) plus a percentage based on the higher of the ratings of Altria Group, Inc.’s long-term senior unsecured debt from Moody’s and Standard & Poor’s. The applicable percentage based on Altria Group, Inc.’s long-term senior unsecured debt ratings at September 30, 2017 for borrowings under the Credit Agreement was 1.125%. The Credit Agreement does not include any other rating triggers, nor does it contain any provisions that could require the posting of collateral. At September 30, 2017, credit available to Altria Group, Inc. under the Credit Agreement was $3.0 billion.

The Credit Agreement is used for general corporate purposes and to support Altria Group, Inc.’s commercial paper issuances. The Credit Agreement requires that Altria Group, Inc. maintain (i) a ratio of debt to consolidated earnings before interest, taxes, depreciation and amortization (“EBITDA”) of not more than 3.0 to 1.0 and (ii) a ratio of consolidated EBITDA to consolidated interest expense of not less than 4.0 to 1.0, each calculated as of the end of the applicable quarter on a rolling four quarters basis. At September 30, 2017, the ratios of debt to consolidated EBITDA and consolidated EBITDA to consolidated interest expense, calculated in accordance with the Credit Agreement, were 1.3 to 1.0 and 14.6 to 1.0, respectively. Altria Group, Inc. expects to continue to meet its covenants associated with the Credit Agreement. The terms “consolidated EBITDA,” “debt” and “consolidated interest expense,” as defined in the Credit Agreement, include certain adjustments. Exhibit 99.3 to Altria Group, Inc.'s Form 10-Q for the period ended September 30, 2013 sets forth the definitions of these terms as they appear in the Credit Agreement and is incorporated herein by reference.

Any commercial paper issued by Altria Group, Inc. and borrowings under the Credit Agreement are guaranteed by PM USA as further discussed in Note 10. Condensed Consolidating Financial Information to the condensed consolidated financial statements in Item 1 ("Note 10").

Financial Market Environment - Altria Group, Inc. believes it has adequate liquidity and access to financial resources to meet its anticipated obligations and ongoing business needs in the foreseeable future. Altria Group, Inc. continues to monitor the credit quality of its bank group and is not aware of any potential non-performing credit provider in that group. Altria Group, Inc. believes the lenders in its bank group will be willing and able to advance funds in accordance with their legal obligations. See the discussion below regarding access to debt capital markets in Cautionary Factors That May Affect Future Results for certain risk factors associated with the foregoing discussion.

Debt - At September 30, 2017 and December 31, 2016, Altria Group, Inc.'s total debt was $13.9 billion.

Guarantees and Other Similar Matters - As discussed in Note 9, Altria Group, Inc. and certain of its subsidiaries had unused letters of credit obtained in the ordinary course of business, guarantees (including third-party guarantees) and a redeemable noncontrolling interest outstanding at September 30, 2017. From time to time, subsidiaries of Altria Group, Inc. also issue lines of credit to affiliated entities. In addition, as discussed in Note 10, PM USA has issued guarantees relating to Altria Group, Inc.'s obligations under its outstanding debt securities, borrowings under the Credit Agreement and amounts outstanding under its commercial paper program. These items have not had, and are not expected to have, a significant impact on Altria Group, Inc.'s liquidity.

Payments Under State Settlement Agreements and FDA Regulation - As discussed previously and in Note 9, PM USA has entered into State Settlement Agreements with the states and territories of the United States that call for certain payments. In addition, in June 2009, PM USA and USSTC became subject to quarterly user fees imposed by the FDA as a result of the FSPTCA. Payments under the State Settlement Agreements and the FDA user fees are based on variable factors, such as volume, operating income, market share and inflation, depending on the subject payment. Altria Group, Inc.'s subsidiaries account for the cost of the State Settlement Agreements and FDA user fees as a component of cost of sales. As a result of the State Settlement Agreements and FDA user fees, Altria Group, Inc.'s subsidiaries recorded approximately $3.6 billion and $3.8 billion of charges to cost of sales for the nine months ended September 30, 2017 and 2016, respectively, and approximately $1.2 billion and $1.3 billion of charges to cost of sales for the three months ended September 30, 2017 and 2016, respectively. For a detailed discussion of settlements of, and determinations made in connection with, disputes with certain states and territories related to the NPM Adjustment provision under the MSA for the years 2003-2012, see Health Care Cost Recovery Litigation - NPM Adjustment Disputes in Note 9.

Based on current agreements, 2016 market share and historical annual industry volume decline rates, the estimated amounts that Altria Group, Inc.'s subsidiaries may charge to cost of sales for payments related to State Settlement Agreements and FDA user fees approximate $4.9 billion in 2017 and each year thereafter. These amounts exclude the potential impact of the NPM Adjustment provision applicable under the MSA and the revised NPM Adjustment provisions applicable under the settlements of the NPM Adjustment disputes.

The estimated amounts due under the State Settlement Agreements charged to cost of sales in each year would generally be paid in the following year. The amounts charged to cost of sales for FDA user fees are generally paid in the quarter in which the fees are incurred. As previously stated, the payments due under the terms of the State Settlement Agreements and FDA user fees are subject to adjustment for several factors, including volume, operating income, inflation and certain contingent events and, in general, are allocated based on each manufacturer's market share. The future payment amounts discussed above are estimates, and actual payment amounts will differ to the extent underlying assumptions differ from actual future results.

Litigation-Related Deposits and Payments - With respect to certain adverse verdicts currently on appeal, to obtain stays of judgments pending appeals, as of September 30, 2017, PM USA had posted various forms of security totaling approximately $61 million, the majority of which have been collateralized with cash deposits. These cash deposits are included in other assets on the condensed consolidated balance sheet.

Although litigation is subject to uncertainty and an adverse outcome or settlement of litigation could have a material adverse effect on the financial position, cash flows or results of operations of PM USA, UST or Altria Group, Inc. in a particular fiscal quarter or fiscal year, as more fully disclosed in Note 9 and in Cautionary Factors That May Affect Future Results,

Table of Contents

management expects cash flow from operations, together with Altria Group, Inc.'s access to capital markets, to provide sufficient liquidity to meet ongoing business needs.

Equity and Dividends

On January 30, 2017, Altria Group, Inc. granted an aggregate of 0.6 million restricted stock units and 0.2 million performance stock units to eligible employees. The service restrictions for the restricted stock units and the performance stock units lapse in the first quarter of 2020. In addition, the payout of the performance stock units requires the achievement of certain performance measures, which are predetermined at the time of grant, over a three-year performance cycle. These performance measures consist of Altria Group, Inc.'s adjusted diluted EPS growth rate and Altria Group, Inc.'s total shareholder return relative to a predetermined peer group. The weighted-average market value per share of the restricted stock units and the performance stock units granted on January 30, 2017 was $70.94 on the date of grant.

During the nine months ended September 30, 2017, 1.3 million shares of restricted stock and restricted stock units vested. The total fair value of restricted stock and restricted stock units that vested during the nine months ended September 30, 2017 was $95 million. The weighted-average grant date fair value per share of these awards was $36.26.

Dividends paid during the first nine months of 2017 and 2016 were $3,544 million and $3,321 million, respectively, an increase of 6.7%, reflecting a higher dividend rate, partially offset by fewer shares outstanding as a result of shares repurchased by Altria Group, Inc. under its share repurchase program.

During the third quarter of 2017, Altria Group, Inc.'s Board of Directors (the "Board of Directors") approved an 8.2% increase in the quarterly dividend rate to $0.66 per share of Altria Group, Inc. common stock versus the previous rate of $0.61 per share. Altria Group, Inc. expects to continue to maintain a dividend payout ratio target of approximately 80% of its adjusted diluted EPS. The current annualized dividend rate is $2.64 per share. Future dividend payments remain subject to the discretion of the Board of Directors.

In July 2015, the Board of Directors authorized a $1.0 billion share repurchase program that it expanded to $3.0 billion in October 2016 and to $4.0 billion in July 2017 (as expanded, the "July 2015 share repurchase program"). At September 30, 2017, Altria Group, Inc. had approximately $576 million remaining in the July 2015 share repurchase program, which Altria Group, Inc. expects to complete by the end of the second quarter of 2018. The timing of share repurchases under this program depends upon marketplace conditions and other factors, and the program remains subject to the discretion of the Board of Directors. For further discussion of Altria Group, Inc.'s share repurchase program, see Note 1. Background and Basis of Presentation to the condensed consolidated financial statements in Item 1 and Part II, Item 2. Unregistered Sales of Equity Securities and Use of Proceeds of this Form 10-Q.

Recent Accounting Guidance Not Yet Adopted

See Note 11. Recent Accounting Guidance Not Yet Adopted to the condensed consolidated financial statements in Item 1 for a discussion of recently issued accounting guidance applicable to, but not yet adopted by, Altria Group, Inc.

Contingencies

See Note 9 for a discussion of contingencies.

Cautionary Factors That May Affect Future Results

Forward-Looking and Cautionary Statements

We (1) may from time to time make written or oral forward-looking statements, including earnings guidance and other statements contained in filings with the Securities and Exchange Commission ("SEC"), reports to security holders, press releases and investor webcasts. You can identify these forward-looking statements by use of words such as "strategy," "expects," "continues," "plans," "anticipates," "believes," "will," "estimates," "forecasts," "intends," "projects," "goals," "obje "targets" and other words of similar meaning. You can also identify them by the fact that they do not relate strictly to historical or current facts.

---

[1] This section uses the terms "we," "our" and "us" when it is not necessary to distinguish among Altria Group, Inc. and its various operating subsidiaries or when any distinction is clear from the context.

Table of Contents

We cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans, estimates and assumptions. Achievement of future results is subject to risks, uncertainties and assumptions that may prove to be inaccurate. Should known or unknown risks or uncertainties materialize, or should underlying estimates or assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. You should bear this in mind as you consider forward-looking statements and whether to invest in or remain invested in Altria Group, Inc.'s securities. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, we are identifying important factors that, individually or in the aggregate, could cause actual results and outcomes to differ materially from those contained in, or implied by, any forward-looking statements made by us; any such statement is qualified by reference to the following cautionary statements. We elaborate on these and other risks we face throughout this Form 10-Q, particularly in the "Business Environment" sections preceding our discussion of the operating results of our subsidiaries' businesses above. You should understand that it is not possible to predict or identify all risk factors. Consequently, you should not consider the following to be a complete discussion of all potential risks or uncertainties. We do not undertake to update any forward-looking statement that we may make from time to time except as required by applicable law.

Unfavorable litigation outcomes could materially adversely affect the consolidated results of operations, cash flows or financial position of Altria Group, Inc., or the businesses of one or more of its subsidiaries.

Legal proceedings covering a wide range of matters are pending or threatened in various United States and foreign jurisdictions against Altria Group, Inc. and its subsidiaries, including PM USA and UST and its subsidiaries, as well as their respective indemnitees. Various types of claims may be raised in these proceedings, including product liability, consumer protection, antitrust, tax, contraband-related claims, patent infringement, employment matters, claims for contribution and claims of competitors and distributors.

Litigation is subject to uncertainty and it is possible that there could be adverse developments in pending or future cases. An unfavorable outcome or settlement of pending tobacco-related or other litigation could encourage the commencement of additional litigation. Damages claimed in some tobacco-related or other litigation are significant and, in certain cases, have ranged in the billions of dollars. The variability in pleadings in multiple jurisdictions, together with the actual experience of management in litigating claims, demonstrate that the monetary relief that may be specified in a lawsuit bears little relevance to the ultimate outcome. In certain cases, plaintiffs claim that defendants' liability is joint and several. In such cases, Altria Group, Inc. or its subsidiaries may face the risk that one or more co-defendants decline or otherwise fail to participate in the bonding required for an appeal or to pay their proportionate or jury-allocated share of a judgment. As a result, Altria Group, Inc. or its subsidiaries under certain circumstances may have to pay more than their proportionate share of any bonding- or judgment-related amounts. Furthermore, in those cases where plaintiffs are successful, Altria Group, Inc. or its subsidiaries may also be required to pay interest and attorneys' fees.

Although PM USA has historically been able to obtain required bonds or relief from bonding requirements in order to prevent plaintiffs from seeking to collect judgments while adverse verdicts have been appealed, there remains a risk that such relief may not be obtainable in all cases. This risk has been substantially reduced given that 47 states and Puerto Rico now limit the dollar amount of bonds or require no bond at all. As discussed in Note 9, tobacco litigation plaintiffs have challenged the constitutionality of Florida's bond cap statute in several cases and plaintiffs may challenge state bond cap statutes in other jurisdictions as well. Such challenges may include the applicability of state bond caps in federal court. Although we cannot predict the outcome of such challenges, it is possible that the consolidated results of operations, cash flows or financial position of Altria Group, Inc., or the businesses of one or more of its subsidiaries, could be materially adversely affected in a particular fiscal quarter or fiscal year by an unfavorable outcome of one or more such challenges.

In certain litigation, Altria Group, Inc. and its subsidiaries may face potentially significant non-monetary remedies, which may cause reputational harm. For example, in the lawsuit brought by the United States Department of Justice, discussed in detail in Note 9, the district court did not impose monetary penalties but ordered significant non-monetary remedies, including the issuance of “corrective statements” that Altria Group, Inc. and PM USA will make in various media beginning in the fourth quarter of 2017.

Altria Group, Inc. and its subsidiaries have achieved substantial success in managing litigation. Nevertheless, litigation is subject to uncertainty, and significant challenges remain.

It is possible that the consolidated results of operations, cash flows or financial position of Altria Group, Inc., or the businesses of one or more of its subsidiaries, could be materially adversely affected in a particular fiscal quarter or fiscal year by an unfavorable outcome or settlement of certain pending litigation. Altria Group, Inc. and each of its subsidiaries named as a defendant believe, and each has been so advised by counsel handling the respective cases, that it has valid defenses to the litigation pending against it, as well as valid bases for appeal of adverse verdicts. Each of the companies has defended, and will continue to defend, vigorously against litigation challenges. However, Altria Group, Inc. and its subsidiaries may enter into settlement discussions in particular cases if they believe it is in the best interests of Altria Group, Inc. to do so. See Note 9 and Exhibits 99.1 and 99.2 to this Form 10-Q for a discussion of pending tobacco-related litigation.

Significant federal, state and local governmental actions, including actions by the FDA, and various private sector actions may continue to have an adverse impact on our tobacco subsidiaries' businesses and sales volumes.

As described in Tobacco Space - Business Environment above, our cigarette subsidiaries face significant governmental and private sector actions, including efforts aimed at reducing the incidence of tobacco use and efforts seeking to hold these subsidiaries responsible for the adverse health effects associated with both smoking and exposure to environmental tobacco smoke. These actions, combined with the diminishing social acceptance of smoking, have resulted in reduced cigarette industry volume, and we expect that these factors will continue to reduce cigarette consumption levels.

Actions by the FDA and other federal, state or local governments or agencies, including those specific actions described in Tobacco Space - Business Environment above, may impact the adult tobacco consumer acceptability of or access to tobacco products (for example, through product standards), limit adult tobacco consumer choices, delay or prevent the launch of new or modified tobacco products or products with claims of reduced risk, require the recall or other removal of tobacco products from the marketplace (for example as a result of product contamination, a determination by the FDA that one or more tobacco products do not satisfy the statutory requirements for substantial equivalence, or because the FDA requires that a modification to a currently-marketed tobacco product proceed through the pre-market review process), restrict communications to adult tobacco consumers, restrict the ability to differentiate tobacco products, create a competitive advantage or disadvantage for certain tobacco companies, impose additional manufacturing, labeling or packing requirements, interrupt manufacturing or otherwise significantly increase the cost of doing business, or restrict or prevent the use of specified tobacco products in certain locations or the sale of tobacco products by certain retail establishments. Any one or more of these actions may have a material adverse impact on the business, consolidated results of operations, cash flows or financial position of Altria Group, Inc. and its tobacco subsidiaries. See Tobacco Space - Business Environment above for a more detailed discussion.

Tobacco products are subject to substantial taxation, which could have an adverse impact on sales of the tobacco products of Altria Group, Inc.'s tobacco subsidiaries.

Tobacco products are subject to substantial excise taxes, and significant increases in tobacco product-related taxes or fees have been proposed or enacted and are likely to continue to be proposed or enacted within the United States at the state, federal and local levels. Tax increases are expected to continue to have an adverse impact on sales of the tobacco products of our tobacco subsidiaries through lower consumption levels and the potential shift in adult consumer purchases from the premium to the non-premium or discount segments or to other low-priced or low-taxed tobacco products or to counterfeit and contraband products. Such shifts may have an adverse impact on the reported share performance of tobacco products of Altria Group, Inc.'s tobacco subsidiaries. For further discussion, see Tobacco Space - Business Environment - Excise Taxes above.

Our tobacco businesses face significant competition and their failure to compete effectively could have an adverse effect on the consolidated results of operations or cash flows of Altria Group, Inc., or the business of Altria Group, Inc.'s tobacco subsidiaries.

Each of Altria Group, Inc.'s tobacco subsidiaries operates in highly competitive tobacco categories. Significant methods of competition include product quality, taste, price, product innovation, marketing, packaging, distribution and promotional activities. A highly competitive environment could negatively impact the profitability, market share and shipment volume of our tobacco subsidiaries, which could have an adverse effect on the consolidated results of operations or cash flows of Altria Group, Inc.

PM USA also faces competition from lowest priced brands sold by certain United States and foreign manufacturers that have cost advantages because they are not parties to settlements of certain tobacco litigation in the United States. These settlements, among other factors, have resulted in substantial cigarette price increases. These manufacturers may fail to comply with related state escrow legislation or may avoid escrow deposit obligations on the majority of their sales by concentrating on certain states where escrow deposits are not required or are required on fewer than all such manufacturers' cigarettes sold in such states. Additional competition has resulted from diversion into the United States market of cigarettes intended for sale outside the United States, the sale of counterfeit cigarettes by third parties, the sale of cigarettes by third parties over the Internet and by other means designed to avoid collection of applicable taxes, and imports of foreign lowest priced brands. USSTC faces significant competition in the smokeless tobacco category and has experienced consumer down-trading to lower-priced brands. In the cigar category, additional competition has resulted from increased imports of machine-made large cigars manufactured offshore.

Table of Contents

Altria Group, Inc. and its subsidiaries may be unsuccessful in anticipating changes in adult consumer preferences, responding to changes in consumer purchase behavior or managing through difficult competitive and economic conditions.

Each of our tobacco and wine subsidiaries is subject to intense competition and changes in adult consumer preferences. To be successful, they must continue to:

- promote brand equity successfully;
- anticipate and respond to new and evolving adult consumer preferences;
- develop, manufacture, market and distribute products that appeal to adult consumers (including, where appropriate, through arrangements with, or investments in, third parties);
- improve productivity; and
- protect or enhance margins through cost savings and price increases.

See Tobacco Space - Business Environment - Summary above for additional discussion concerning evolving adult tobacco consumer preferences, including e-vapor products. Growth of this product category could contribute to reductions in cigarette consumption levels and cigarette industry sales volume and could adversely affect the growth rates of other tobacco products.

The willingness of adult consumers to purchase premium consumer product brands depends in part on economic conditions. In periods of economic uncertainty, adult consumers may purchase more discount brands and/or, in the case of tobacco products, consider lower-priced tobacco products, which could have a material adverse effect on the business, consolidated results of operations, cash flows or financial position of Altria Group, Inc. and its subsidiaries. While our tobacco and wine subsidiaries work to broaden their brand portfolios to compete effectively with lower-priced products, the failure to do so could negatively impact our companies' ability to compete in these circumstances.

Our financial services business (conducted through PMCC) holds investments in finance leases, principally in transportation (including aircraft), power generation, real estate and manufacturing equipment. Its lessees are subject to significant competition and uncertain economic conditions. If parties to PMCC's leases fail to manage through difficult economic and competitive conditions, PMCC may have to increase its allowance for losses, which would adversely affect our earnings.

Altria Group, Inc.'s tobacco subsidiaries may be unsuccessful in developing and commercializing adjacent products or processes, including innovative tobacco products that may reduce the health risks associated with current tobacco products and that appeal to adult tobacco consumers, which may have an adverse effect on their ability to grow new revenue streams and/or put them at a competitive disadvantage.

Altria Group, Inc. and its subsidiaries have growth strategies involving moves and potential moves into adjacent products or processes, including innovative tobacco products. Some innovative tobacco products may reduce the health risks associated with current tobacco products, while continuing to offer adult tobacco consumers (within and outside the United States) products that meet their taste expectations and evolving preferences. Examples include tobacco-containing and nicotine-containing products that reduce or eliminate exposure to cigarette smoke and/or constituents identified by public health authorities as harmful. These efforts may include arrangements with, or investments in, third parties. Our tobacco subsidiaries may not succeed in these efforts, which would have an adverse effect on the ability to grow new revenue streams.

Further, we cannot predict whether regulators, including the FDA, will permit the marketing or sale of products with claims of reduced risk to consumers, the speed with which they may make such determinations or whether regulators will impose an unduly burdensome regulatory framework on such products. Nor can we predict whether adult tobacco consumers' purchasing decisions would be affected by such claims if permitted. Adverse developments on any of these matters could negatively impact the commercial viability of such products.

If our tobacco subsidiaries do not succeed in their efforts to develop and commercialize innovative tobacco products or to obtain regulatory approval for the marketing or sale of products with claims of reduced risk, but one or more of their competitors do succeed, our tobacco subsidiaries may be at a competitive disadvantage.

Significant changes in tobacco leaf price, availability or quality could have an adverse effect on the profitability and business of Altria Group, Inc.'s tobacco subsidiaries.

Table of Contents

Any significant change in tobacco leaf prices, quality or availability could adversely affect our tobacco subsidiaries' profitability and business. For further discussion, see Tobacco Space - Business Environment - Price, Availability and Quality of Agricultural Products above.

Because Altria Group, Inc.'s tobacco subsidiaries rely on a few significant facilities and a small number of key suppliers, an extended disruption at a facility or in service by a supplier could have a material adverse effect on the business, the consolidated results of operations, cash flows or financial position of Altria Group, Inc. and its tobacco subsidiaries.

Altria Group, Inc.'s tobacco subsidiaries face risks inherent in reliance on a few significant facilities and a small number of key suppliers. A natural or man-made disaster or other disruption that affects the manufacturing operations of any of Altria Group, Inc.'s tobacco subsidiaries or the operations of any key suppliers of any of Altria Group, Inc.'s tobacco subsidiaries, including as a result of a key supplier's unwillingness to supply goods or services to a tobacco company, could adversely impact the operations of the affected subsidiaries. An extended disruption in operations experienced by one or more of Altria Group, Inc.'s subsidiaries or key suppliers could have a material adverse effect on the business, the consolidated results of operations, cash flows or financial position of Altria Group, Inc. and its tobacco subsidiaries.

Altria Group, Inc.'s subsidiaries could decide or be required to recall products, which could have a material adverse effect on the business, reputation, consolidated results of operations, cash flows or financial position of Altria Group, Inc. and its subsidiaries.

In addition to a recall required by the FDA, as referenced above, our subsidiaries could decide, or laws or regulations could require them, to recall products due to the failure to meet quality standards or specifications, suspected or confirmed and deliberate or unintentional product contamination, or other adulteration, product misbranding or product tampering. In January 2017, USSTC announced that it was voluntarily recalling certain of its smokeless tobacco products manufactured at a USSTC facility due to product tampering. USSTC recorded a charge during the first quarter of 2017 related to this recall. While this charge was not material to Altria Group, Inc.'s financial statements, future recalls (if any) could have a material adverse effect on the business, reputation, consolidated results of operations, cash flows or financial position of Altria Group, Inc. and its subsidiaries.

Altria Group, Inc. may be unable to attract and retain the best talent due to the impact of decreasing social acceptance of tobacco usage and tobacco control actions.

Our ability to implement our strategy of attracting and retaining the best talent may be impaired by the impact of decreasing social acceptance of tobacco usage and tobacco regulation and control actions. The tobacco industry competes for talent with the consumer products industry and other companies that enjoy greater societal acceptance. As a result, we may be unable to attract and retain the best talent.

Acquisitions or other events may adversely affect Altria Group, Inc.'s credit rating, and Altria Group, Inc. may not achieve its anticipated strategic or financial objectives.

From time to time, Altria Group, Inc. considers acquisitions and may engage in confidential acquisition negotiations that are not publicly announced unless and until those negotiations result in a definitive agreement. Although we seek to maintain or improve our credit ratings over time, it is possible that completing a given acquisition or the occurrence of other events could negatively impact our credit ratings or the outlook for those ratings. Any such change in ratings or outlook may negatively affect the amount of credit available to us and may also increase our costs and adversely affect our earnings or our dividend rate.

Furthermore, acquisition opportunities are limited, and acquisitions present risks of failing to achieve efficient and effective integration, strategic objectives and anticipated revenue improvements and cost savings. There can be no assurance that we will be able to acquire attractive businesses on favorable terms or that we will realize any of the anticipated benefits from an acquisition.

Disruption and uncertainty in the debt capital markets could adversely affect Altria Group, Inc.’s access to the debt capital markets, earnings and dividend rate.

Access to the debt capital markets is important for us to satisfy our liquidity and financing needs. Disruption and uncertainty in the credit and debt capital markets and any resulting adverse impact on credit availability, pricing, credit terms or credit rating may negatively affect the amount of credit available to us and may also increase our costs and adversely affect our earnings or our dividend rate.

Table of Contents

Altria Group, Inc. may be required to write down intangible assets, including goodwill, due to impairment, which would reduce earnings.

We periodically calculate the fair value of our reporting units and intangible assets to test for impairment. This calculation may be affected by several factors, including general economic conditions, regulatory developments, changes in category growth rates as a result of changing adult consumer preferences, success of planned new product introductions, competitive activity and tobacco-related taxes. Certain events can also trigger an immediate review of intangible assets. If an impairment is determined to exist in either situation, we will incur impairment losses, which will reduce our earnings.

Competition, unfavorable changes in grape supply and new governmental regulations or revisions to existing governmental regulations could adversely affect Ste. Michelle's wine business.

Ste. Michelle's business is subject to significant competition, including from many large, well-established domestic and international companies. The adequacy of Ste. Michelle's grape supply is influenced by consumer demand for wine in relation to industry-wide production levels as well as by weather and crop conditions, particularly in eastern Washington. Supply shortages related to any one or more of these factors could increase production costs and wine prices, which ultimately may have a negative impact on Ste. Michelle's sales. In addition, federal, state and local governmental agencies regulate the alcohol beverage industry through various means, including licensing requirements, pricing, labeling and advertising restrictions, and distribution and production policies. New regulations or revisions to existing regulations, resulting in further restrictions or taxes on the manufacture and sale of alcoholic beverages, may have an adverse effect on Ste. Michelle's wine business. For further discussion, see Wine Segment - Business Environment above.

The failure of Altria Group, Inc.'s information systems or service providers' information systems to function as intended, or cyberattacks or security breaches, could result in loss of revenue, assets, personal data, intellectual property, trade secrets or other sensitive data, violation of applicable privacy and data security laws, reputational harm and significant costs.

Altria Group, Inc. and its subsidiaries rely on information systems to help manage business processes, collect and interpret business data, comply with regulatory, financial reporting and tax requirements, engage in marketing and e-commerce activities, collect and store sensitive data and confidential information, and communicate internally and externally with employees, investors, suppliers, trade customers, adult consumers and others. Many of these information systems are managed by third-party service providers. We have implemented administrative, technical and physical safeguards, including testing and auditing protocols, backup systems and business continuity plans, intended to protect our systems and data. However, because the techniques used in cyberattacks and security breaches change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. To date, interruptions of our information systems have been infrequent and have not had a material impact on our operations. Failure of our systems or service providers' systems to function as intended or cyberattacks or security breaches by parties intent on extracting or corrupting information or otherwise disrupting business processes could result in loss of revenue, assets, personal data, intellectual property, trade secrets or other sensitive and confidential data, violation of applicable privacy and data security laws, damage to the reputation of our companies and their brands, legal challenges and significant remediation and other costs to Altria Group, Inc. and its subsidiaries.

Unfavorable outcomes of any governmental investigations could materially affect the businesses of Altria Group, Inc. and its subsidiaries.

From time to time, Altria Group, Inc. and its subsidiaries are subject to governmental investigations on a range of matters. We cannot predict whether new investigations may be commenced or the outcome of any such investigation, and it is possible that our business could be materially adversely affected by an unfavorable outcome of a future investigation.

Expanding international business operations subjects Altria Group, Inc. and its subsidiaries to various United States and foreign laws and regulations, and violations of such laws or regulations could result in reputational harm, legal challenges and/or significant costs.

While Altria Group, Inc. and its subsidiaries are primarily engaged in business activities in the United States, they do engage (directly or indirectly) in certain international business activities that are subject to various United States and foreign laws and regulations, such as the U.S. Foreign Corrupt Practices Act and other laws prohibiting bribery and corruption. Although we have a Code of Conduct and a compliance system designed to prevent and detect violations of applicable law, no system can provide assurance that it will always protect against improper actions by employees or third parties. Violations of these laws, or allegations of such violations, could result in reputational harm, legal challenges and/or significant costs.

Table of Contents

Altria Group, Inc.'s reported earnings from and carrying value of its equity investment in AB InBev and the dividends paid by AB InBev on shares owned by Altria Group, Inc. may be adversely affected by unfavorable foreign currency exchange rates and other factors.

For purposes of financial reporting, the earnings from and carrying value of our equity investment in AB InBev are translated into U.S. dollars from various local currencies. In addition, AB InBev pays dividends in euros, which we convert into U.S. dollars. During times of a strengthening U.S. dollar against these currencies, our reported earnings from and carrying value of our equity investment in AB InBev will be reduced because these currencies will translate into fewer U.S. dollars and the dividends that we receive from AB InBev will convert into fewer U.S. dollars. Dividends and earnings from and carrying value of our equity investment in AB InBev are also subject to the risks encountered by AB InBev in its business.

AB InBev may not achieve the intended benefits of the Transaction, which could have a negative effect on our reported earnings from and carrying value of our equity investment in AB InBev.

There can be no assurance that AB InBev will be able to successfully integrate SABMiller's business or otherwise realize the expected benefits of the Transaction. Any of these outcomes could adversely affect AB InBev's financial condition, results of operations or cash flows and Altria Group, Inc.'s reported earnings from and carrying value of our equity investment in AB InBev.

We received a substantial portion of our consideration from the Transaction in the form of restricted shares subject to a five-year lock-up. Furthermore, if our percentage ownership in AB InBev were to decrease below certain levels, we may be subject to additional tax liabilities, suffer a reduction in the number of directors that we can have appointed to the AB InBev Board of Directors and be unable to account for our investment under the equity method of accounting.

Upon completion of the Transaction, we received a substantial portion of our consideration in the form of restricted shares that cannot be sold or transferred for a period of five years following the Transaction, subject to limited exceptions. These transfer restrictions will require us to bear the risks associated with our investment in AB InBev for a five-year period that expires on October 10, 2021. Further, in the event that our ownership percentage in AB InBev were to decrease below certain levels, we may be subject to additional tax liabilities, the number of directors that we have the right to have appointed to the AB InBev Board of Directors could be reduced from two to one or zero and our use of the equity method of accounting for our investment in AB InBev could be challenged.

Our tax treatment of the Transaction consideration may be challenged and the tax treatment of AB InBev dividends may not be as favorable as Altria Group, Inc. anticipates.

While we expect the equity consideration that we received from the Transaction to qualify for tax-deferred treatment, we cannot provide any assurance that federal and state tax authorities will not challenge the expected tax treatment and, if they do, what the outcome of any such challenge will be. In addition, there is a risk that the tax treatment of the dividends Altria Group, Inc. expects to receive from AB InBev may not be as favorable as Altria Group, Inc. anticipates.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in Altria Group, Inc.'s market risk during the nine months ended September 30, 2017. For additional information regarding quantitative and qualitative disclosures about market risk, see Part II, Item 7A. Quantitative and Qualitative Disclosures About Market Risk of Altria Group, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2016 (the "2016 Form 10-K").

Item 4. Controls and Procedures.

Altria Group, Inc. carried out an evaluation, with the participation of Altria Group, Inc.'s management, including Altria Group, Inc.'s Chief Executive Officer and Chief Financial Officer, of the effectiveness of Altria Group, Inc.'s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Form 10-Q. Based upon that evaluation, Altria Group, Inc.'s Chief Executive Officer and Chief Financial Officer concluded that Altria Group, Inc.'s disclosure controls and procedures are effective.

There have been no changes in Altria Group, Inc.'s internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, Altria Group, Inc.'s internal control over financial reporting.

Table of Contents

Part II – OTHER INFORMATION

Item 1. Legal Proceedings.

See Note 9 for a discussion of legal proceedings pending against Altria Group, Inc. and its subsidiaries. See also Exhibits 99.1 and 99.2 to this Form 10-Q.

Item 1A. Risk Factors.
Information regarding Risk Factors appears under Cautionary Factors That May Affect Future Results in Part I, Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-Q (“Item 2”) and in Part I, Item 1A. Risk Factors of the 2016 Form 10-K. Other than as set forth in Item 2, there have been no material changes from the risk factors previously disclosed in the 2016 Form 10-K.
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

In July 2015, the Board of Directors authorized a $1.0 billion share repurchase program that it expanded to $3.0 billion in October 2016 and to $4.0 billion in July 2017. Altria Group, Inc. expects to complete the July 2015 share repurchase program by the end of the second quarter of 2018. The timing of share repurchases under this program depends upon marketplace conditions and other factors, and the program remains subject to the discretion of the Board of Directors.

Altria Group, Inc.’s share repurchase activity for each of the three months in the period ended September 30, 2017, was as follows:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
July 1 - 31, 2017	4,300,000	$ 73.78	4,300,000	$ 1,018,149,682
August 1 - 31, 2017	3,820,505	$ 65.54	3,820,505	$ 767,742,247
September 1 - 30, 2017	3,051,404	$ 62.90	3,051,404	$ 575,803,508
For the Quarter Ended September 30, 2017	11,171,909	$ 67.99	11,171,909	

Table of Contents

Item 6. Exhibits.

12	Statements regarding computation of ratios of earnings to fixed charges.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Certain Litigation Matters.
99.2	Trial Schedule for Certain Cases.
99.3	Definitions of Terms Related to Financial Covenants included in Altria Group, Inc.'s Amended and Restated 5-Year Revolving Credit Agreement, dated as of August 19, 2013. Incorporated by reference to Altria Group, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2013 (File No. 1-08940).
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.

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

/s/ WILLIAM F. GIFFORD, JR.
William F. Gifford, Jr.
Executive Vice President and
Chief Financial Officer
October 26, 2017