

ALTRIA GROUP, INC.

Form 10-Q

April 26, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2018

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File 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 ☒ 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 ☒ 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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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 ☒

At April 16, 2018, there were 1,892,648,384 shares outstanding of the registrant's common stock, par value \$0.33 1/3 per share.

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements.

Altria Group, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(in millions of dollars)

(Unaudited)

	March 31, December 31,	
	2018	2017
Assets		
Cash and cash equivalents	\$ 2,191	\$ 1,253
Receivables	133	142
Inventories:		
Leaf tobacco	920	941
Other raw materials	184	170
Work in process	547	560
Finished product	606	554
	2,257	2,225
Income taxes	—	461
Other current assets	243	263
Total current assets	4,824	4,344
Property, plant and equipment, at cost	4,879	4,879
Less accumulated depreciation	2,988	2,965
	1,891	1,914
Goodwill	5,307	5,307
Other intangible assets, net	12,400	12,400
Investment in AB InBev	18,199	17,952
Finance assets, net	854	899
Other assets	424	386
Total Assets	\$ 43,899	\$ 43,202

See notes to condensed consolidated financial statements.

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

	March 31, 2018	December 31, 2017
Liabilities		
Current portion of long-term debt	\$ 864	\$ 864
Accounts payable	203	374
Accrued liabilities:		
Marketing	707	695
Employment costs	68	188
Settlement charges	3,458	2,442
Other	845	971
Dividends payable	1,330	1,258
Total current liabilities	7,475	6,792
Long-term debt	13,033	13,030
Deferred income taxes	5,292	5,247
Accrued pension costs	382	445
Accrued postretirement health care costs	1,987	1,987
Other liabilities	296	283
Total liabilities	28,465	27,784
Contingencies (Note 10)		
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	5,938	5,952
Earnings reinvested in the business	42,816	42,251
Accumulated other comprehensive losses	(1,927 )	(1,897 )
Cost of repurchased stock (912,135,431 shares at March 31, 2018 and 904,702,125 shares at December 31, 2017)	(32,368 )	(31,864 )
Total stockholders' equity attributable to Altria Group, Inc.	15,394	15,377
Noncontrolling interests	3	3
Total stockholders' equity	15,397	15,380
Total Liabilities and Stockholders' Equity	\$43,899	\$ 43,202
See notes to condensed consolidated financial statements.		

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

	For the Three Months Ended March 31,	
	2018	2017
Net revenues	\$6,108	\$6,083
Cost of sales	1,734	1,813
Excise taxes on products	1,438	1,494
Gross profit	2,936	2,776
Marketing, administration and research costs	618	533
Asset impairment and exit costs	2	4
Operating income	2,316	2,239
Interest and other debt expense, net	166	179
Net periodic benefit income, excluding service cost	(7 )	(8 )
Earnings from equity investment in AB InBev	(342 )	(23 )
Loss on AB InBev/SABMiller business combination	33	—
Earnings before income taxes	2,466	2,091
Provision for income taxes	571	689
Net earnings	1,895	1,402
Net earnings attributable to noncontrolling interests	(1 )	(1 )
Net earnings attributable to Altria Group, Inc.	\$1,894	\$1,401
Per share data:		
Basic and diluted earnings per share attributable to Altria Group, Inc.	\$1.00	\$0.72
Dividends declared	\$0.70	\$0.61
See notes to condensed consolidated financial statements.		

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

	For the Three Months Ended March 31,	
	2018	2017
Net earnings	\$1,895	\$1,402
Other comprehensive earnings (losses), net of deferred income taxes:		
Benefit plans	45	32
AB InBev	(75 )	(192 )
Other comprehensive losses, net of deferred income taxes	(30 )	(160 )
Comprehensive earnings	1,865	1,242
Comprehensive earnings attributable to noncontrolling interests	(1 )	(1 )
Comprehensive earnings attributable to Altria Group, Inc.	\$1,864	\$1,241
See notes to condensed consolidated financial statements.		

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Altria Group, Inc. and Subsidiaries  
Condensed Consolidated Statements of Stockholders' Equity  
for the Year Ended December 31, 2017 and  
the Three Months Ended March 31, 2018  
(in millions of dollars, except per share data)  
(Unaudited)

	Attributable to Altria Group, Inc.						Total
	Common Stock	Additional Paid-in Capital	Earnings Reinvested in the Business	Accumulated Other Comprehensive Losses	Cost of Repurchased Stock	Non-controlling Interests	Stockholders' Equity
Balances, December 31, 2016	\$935	\$ 5,893	\$36,906	\$ (2,052 )	\$ (28,912 )	\$ 3	\$ 12,773
Net earnings <sup>(1)</sup>	—	—	10,222	—	—	—	10,222
Other comprehensive earnings, net of deferred income taxes	—	—	—	155	—	—	155
Stock award activity	—	59	—	—	(35 )	—	24
Cash dividends declared (\$2.54 per share)	—	—	(4,877 )	—	—	—	(4,877 )
Repurchases of common stock	—	—	—	—	(2,917 )	—	(2,917 )
Balances, December 31, 2017	935	5,952	42,251	(1,897 )	(31,864 )	3	15,380
Net earnings <sup>(1)</sup>	—	—	1,894	—	—	—	1,894
Other comprehensive losses, net of deferred income taxes	—	—	—	(30 )	—	—	(30 )
Stock award activity	—	(14 )	—	—	9	—	(5 )
Cash dividends declared (\$0.70 per share)	—	—	(1,329 )	—	—	—	(1,329 )
Repurchases of common stock	—	—	—	—	(513 )	—	(513 )
Balances, March 31, 2018	\$935	\$ 5,938	\$ 42,816	\$ (1,927 )	\$ (32,368 )	\$ 3	\$ 15,397

Amounts attributable to noncontrolling interests for the three months ended March 31, 2018 and for the year ended  
<sup>(1)</sup> December 31, 2017 exclude net earnings of \$1 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 March 31, 2018 and December 31, 2017.

See notes to condensed consolidated financial statements.

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

For the Three  
Months Ended  
March 31,  
2018      2017

Cash Provided by (Used in) Operating Activities		
Net earnings	\$1,895	\$1,402
Adjustments to reconcile net earnings to operating cash flows:		
Depreciation and amortization	53	52
Deferred income tax provision (benefit)	54	(23 )
Earnings from equity investment in AB InBev	(342 )	(23 )
Loss on AB InBev/SABMiller business combination	33	—
Asset impairment and exit costs, net of cash paid	(7 )	(16 )
Cash effects of changes:		
Receivables	9	18
Inventories	(30 )	(68 )
Accounts payable	(164 )	(189 )
Income taxes	521	719
Accrued liabilities and other current assets	(267 )	(289 )
Accrued settlement charges	1,018	1,089
Pension plan contributions	(7 )	(8 )
Pension provisions and postretirement, net	—	(15 )
Other	43	26
Net cash provided by operating activities	2,809	2,675
Cash Provided by (Used in) Investing Activities		
Capital expenditures	(34 )	(33 )
Proceeds from finance assets	—	2
Other	(7 )	(199 )
Net cash used in investing activities	\$(41 )	\$(230 )

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

	For the Three Months Ended March 31, 2018      2017	
Cash Provided by (Used in) Financing Activities		
Repurchases of common stock	\$(513 )	\$ (551 )
Dividends paid on common stock	(1,257 )	(1,187 )
Other	(23 )	(38 )
Cash used in financing activities	(1,793 )	(1,776 )
Cash, cash equivalents and restricted cash:		
Increase	975	669
Balance at beginning of period	1,314	4,651
Balance at end of period	\$2,289	\$ 5,320

The following table provides a reconciliation of cash, cash equivalents and restricted cash to the amounts reported on Altria Group, Inc.'s condensed consolidated balance sheets:

	At March 31, 2018	At December 31, 2017
Cash and cash equivalents	\$2,191	\$ 1,253
Restricted cash included in other current assets <sup>(1)</sup>	41	25
Restricted cash included in other assets <sup>(1)</sup>	57	36
Cash, cash equivalents and restricted cash	\$2,289	\$ 1,314

<sup>(1)</sup> Restricted cash consisted of cash deposits collateralizing various forms of security posted by PM USA to obtain stays of judgments pending appeals. See Note 10. Contingencies.

See notes to condensed consolidated financial statements.

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 1. Background and Basis of Presentation:

Background

At March 31, 2018, 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 and distribution services to certain Altria Group, Inc. operating subsidiaries, and Altria Client Services LLC, which provides various support services in areas such as legal, regulatory, consumer engagement, 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 March 31, 2018, 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 March 31, 2018, Altria Group, Inc. had an approximate 10.2% ownership of Anheuser-Busch InBev SA/NV ("AB InBev"), which Altria Group, Inc. accounts for under the equity method of accounting using a one-quarter lag. 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 first quarter of 2018, Altria Group, Inc.'s Board of Directors (the "Board of Directors") approved a 6.1% increase in the quarterly dividend rate to \$0.70 per share of Altria Group, Inc. common stock versus the previous rate of \$0.66 per share. The current annualized dividend rate is \$2.80 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"). In January 2018, Altria Group, Inc. repurchased 0.3 million shares of its common stock (at an aggregate cost of approximately \$18 million, and at an average price of \$71.68 per share), which completed the July 2015 share repurchase program. Under this program, Altria Group, Inc. repurchased a total of 58.7 million shares of its common stock at an average price of \$68.15 per share.

Following the completion of the July 2015 share repurchase program, the Board of Directors authorized a new \$1.0 billion share repurchase program (the "January 2018 share repurchase program"). During the three months ended March 31, 2018, Altria Group, Inc. repurchased 7.7 million shares of its common stock (at an aggregate cost of approximately \$495 million, and at an average price of \$64.08 per share) under the January 2018 share repurchase program. At March 31, 2018, Altria Group, Inc. had approximately \$505 million remaining in the January 2018 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.

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

	For the Three Months Ended March 31, 2018 2017 (in millions, except per share data)	
Total number of shares repurchased	8.0	7.7
Aggregate cost of shares repurchased	\$513	\$551
Average price per share of shares repurchased	\$64.33	\$71.77

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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, 2017.

On January 1, 2018, Altria Group, Inc. adopted the following Accounting Standards Updates ("ASU"):  
ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) and all related ASU amendments (collectively "ASU No. 2014-09");  
ASU No. 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities and the related ASU amendment (collectively "ASU No. 2016-01");  
ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments ("ASU No. 2016-15");  
ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash ("ASU No. 2016-18"); and  
ASU No. 2017-07, Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost ("ASU No. 2017-07").

Certain prior-period amounts have been reclassified to conform with the current period's presentation due to Altria Group, Inc.'s adoptions of ASU No. 2016-18 and ASU No. 2017-07.

ASU No. 2014-09 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. Altria Group, Inc. has elected to apply the guidance using the modified retrospective transition method. For further discussion, see Note 2. Revenues from Contracts with Customers.

ASU No. 2016-01 addresses certain aspects of the recognition, measurement, presentation and disclosure of financial instruments. The adoption of ASU No. 2016-01 did not impact Altria Group, Inc.'s condensed consolidated financial statements.

ASU No. 2016-15 addresses how eight specific cash flow issues are to be presented and classified in the statement of cash flows. The adoption of ASU 2016-15 did not impact Altria Group, Inc.'s condensed consolidated statements of cash flows. In addition, Altria Group, Inc. made an accounting policy election to continue to classify distributions received from equity method investees using the nature of distribution approach.

ASU No. 2016-18, which was retrospectively adopted, 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. As a result of the adoption, restricted cash of \$98 million, \$92 million, \$61 million and \$82 million at March 31, 2018, March 31, 2017, December 31, 2017 and December 31, 2016, respectively, was included in cash, cash equivalents and restricted cash on the condensed consolidated statements of cash flows.

ASU No. 2017-07 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. Altria Group, Inc. retrospectively adopted the guidance 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 adopted the capitalization of service cost. Altria Group, Inc. used the practical expedient provided in ASU No. 2017-07 that permits Altria Group, Inc. to use the amounts disclosed in its benefit plans note for the prior comparative periods as the estimation basis for applying the retrospective presentation requirements. For the three months ended March 31, 2017, the adoption of ASU No.

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

2017-07 resulted in a reclassification of net periodic benefit income of \$3 million and \$5 million from cost of sales and marketing, administration and research costs, respectively, to net periodic benefit income, excluding service cost in Altria Group, Inc.'s condensed consolidated statement of earnings. In addition, certain prior-period segment data has been reclassified to conform with the current period's presentation. For further discussion, see Note 7. Segment Reporting.

For a description of recently issued accounting guidance applicable to, but not yet adopted by, Altria Group, Inc., see Note 12. Recent Accounting Guidance Not Yet Adopted.

Note 2. Revenues from Contracts with Customers:

On January 1, 2018, Altria Group, Inc. adopted ASU No. 2014-09, which 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. Altria Group, Inc. elected to apply the guidance using the modified retrospective transition method. The adoption of this guidance had no impact on the amount and timing of revenue recognized by Altria Group, Inc.'s businesses; therefore, no adjustments were recorded to Altria Group, Inc.'s condensed consolidated financial statements.

Altria Group, Inc.'s businesses generate substantially all of their revenue from sales contracts with customers. While Altria Group, Inc.'s businesses enter into separate sales contracts with each customer for each product type, all sales contracts are similarly structured. These contracts create an obligation to transfer product to the customer. Contract durations do not exceed one year; therefore, there is no significant financing component, costs to obtain contracts are expensed as incurred and unsatisfied performance obligations are not disclosed.

Altria Group, Inc.'s businesses define net revenues as revenues, which include excise taxes and shipping and handling charges billed to customers, net of cash discounts for prompt payment, sales returns (also referred to as returned goods) and sales incentives. Altria Group, Inc.'s businesses exclude from the transaction price, sales taxes and value-added taxes imposed at the time of sale (which do not include excise taxes on cigarettes, cigars, smokeless tobacco or wine).

Altria Group, Inc.'s businesses recognize revenues from sales contracts with customers upon shipment of goods when control of such products is obtained by the customer. Altria Group, Inc.'s businesses determine that a customer obtains control of the product upon shipment when title of such product and risk of loss transfers to the customer. Altria Group, Inc.'s businesses account for shipping and handling costs as fulfillment costs and such amounts are classified as part of cost of sales in Altria Group, Inc.'s condensed consolidated statements of earnings. Altria Group, Inc.'s businesses record an allowance for returned goods, based principally on historical volume and return rates, which is included in other accrued liabilities on Altria Group, Inc.'s condensed consolidated balance sheets. Altria Group, Inc.'s businesses record sales incentives, which consist of consumer incentives and trade promotion activities, as a reduction to revenues (a portion of which is based on amounts estimated as being due to wholesalers, retailers and consumers at the end of a period) based principally on historical volume, utilization and redemption rates. Expected payments for sales incentives are included in accrued marketing liabilities on Altria's Group, Inc.'s condensed consolidated balance sheets.

Payment terms vary depending on product type. Altria Group, Inc.'s businesses consider payments received in advance of product shipment as deferred revenue, which is included in other accrued liabilities on Altria Group, Inc.'s condensed consolidated balance sheets until revenue is recognized. PM USA receives payment in advance of a

customer obtaining control of the product. USSTC receives substantially all payments within one business day of the customer obtaining control of the product. Ste. Michelle receives substantially all payments from customers within 45 days of the customer obtaining control of the product. Amounts due from customers are included in receivables on Altria Group, Inc.'s condensed consolidated balance sheets.

Altria Group, Inc.'s businesses promote their products with consumer incentives, trade promotions and consumer engagement programs. These consumer incentive and trade promotion activities, which include discounts, coupons, rebates, in-store display incentives and volume-based incentives, do not create a distinct deliverable and are, therefore, recorded as a reduction of revenues. Consumer engagement program payments are made to third parties. Altria Group, Inc.'s businesses expense these consumer engagement programs, which include event marketing, as incurred and such expenses are included in marketing, administration and research costs on Altria Group, Inc.'s condensed consolidated statements of earnings. For interim reporting purposes, Altria Group, Inc.'s businesses charge consumer engagement programs and certain consumer incentive expenses to operations as a percentage of sales, based on estimated sales and related expenses for the full year.

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Altria Group, Inc. disaggregates net revenues based on product type. For further discussion, see Note 7. Segment Reporting.

Altria Group, Inc.'s businesses offer cash discounts to customers for prompt payment and calculate cash discounts as a percentage of the list price based on historical experience and agreed-upon payment terms. Altria Group, Inc.'s businesses record an allowance for cash discounts, which is included as a contra-asset against receivables on Altria Group, Inc.'s condensed consolidated balance sheets. There was no allowance for cash discounts at March 31, 2018 and December 31, 2017, and there were no differences between amounts recorded as an allowance for cash discounts and cash discounts subsequently given to customers.

Altria Group, Inc.'s businesses that receive payments in advance of product shipment record such payments as deferred revenue. These payments are included in other accrued liabilities on Altria Group, Inc.'s condensed consolidated balance sheets until control of such products is obtained by the customer. Deferred revenue was \$135 million and \$267 million at March 31, 2018 and December 31, 2017, respectively. When cash is received in advance of product shipment, Altria Group, Inc.'s businesses satisfy their performance obligations within three days of receiving payment. At March 31, 2018 and December 31, 2017, there were no differences between amounts recorded as deferred revenue and amounts subsequently recognized as revenue.

Receivables, which primarily reflect sales of wine produced and/or distributed by Ste. Michelle, were \$133 million and \$142 million at March 31, 2018 and December 31, 2017, respectively. At March 31, 2018 and December 31, 2017, there were no expected differences between amounts recorded and subsequently received, and Altria Group, Inc.'s businesses did not record an allowance for doubtful accounts against these receivables.

Altria Group, Inc.'s businesses record an allowance for returned goods, which is included in other accrued liabilities on Altria Group, Inc.'s condensed consolidated balance sheets. While all of Altria Group, Inc.'s tobacco operating companies sell tobacco products with dates relative to freshness as printed on product packaging, due to the limited shelf life of USSTC's smokeless tobacco products, it is USSTC's policy to accept authorized sales returns from its customers for products that have passed such dates. Altria Group, Inc.'s businesses record estimated sales returns, which are based principally on historical volume and return rates, as a reduction to revenues. Actual sales returns will differ from estimated sales returns to the extent actual results differ from estimated assumptions. Altria Group, Inc.'s businesses reflect differences between actual and estimated sales returns in the period in which the actual amounts become known. These differences, if any, have not had a significant impact on Altria Group, Inc.'s condensed consolidated financial statements. All returned goods are destroyed upon return and not included in inventory. Consequently, Altria Group, Inc.'s businesses do not record an asset for their right to recover goods from customers upon return.

Sales incentives include variable payments related to goods sold by Altria Group, Inc.'s businesses. Altria Group, Inc.'s businesses include estimates of variable consideration as a reduction to revenues upon shipment of goods to customers. The sales incentives that require significant estimates and judgments are as follows:

Price promotion payments- Altria Group, Inc.'s businesses make price promotion payments, substantially all of which are made to their retail partners to incent the promotion of certain product offerings in select geographic areas.

Wholesale and retail participation payments- Altria Group, Inc.'s businesses make payments to their wholesale and retail partners to incent merchandising and sharing of sales data in accordance with each business's trade agreements.

These estimates primarily include estimated wholesale to retail sales volume and historical acceptance rates. Actual payments will differ from estimated payments to the extent actual results differ from estimated assumptions. Differences between actual and estimated payments are reflected in the period such information becomes available. These differences, if any, have not had a significant impact on Altria Group, Inc.'s condensed consolidated financial statements.

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

## Note 3. Asset Impairment, Exit and Implementation Costs:

Pre-tax asset impairment, exit and implementation costs recorded in connection with the facilities consolidation, as discussed below, consisted of the following:

	For the Three Months Ended March 31, 2018			For the Three Months Ended March 31, 2017		
	Asset Impairment and Exit Costs (in millions)	Implementation Costs <sup>(1)</sup>	Total	Asset Impairment and Exit Costs	Implementation Costs <sup>(1)</sup>	Total
Smokeable products	\$—	\$ 1	\$ 1	\$ 1	\$ 5	\$ 6
Smokeless products	2	—	2	3	18	21
Total	\$2	\$ 1	\$ 3	\$4	\$ 23	\$ 27

<sup>(1)</sup> The pre-tax implementation costs were included in cost of sales in Altria Group, Inc.'s condensed consolidated statements of earnings.

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

	For the Three Months Ended March 31, 2018 (in millions)
Balances at December 31, 2017	\$ 33
Charges	2
Cash spent	(9 )
Balances at March 31, 2018	\$ 26

## 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. In the first quarter of 2018, Middleton completed the transfer of its Limerick, Pennsylvania operations to the Manufacturing Center site in Richmond, Virginia ("Richmond Manufacturing Center"), and USSTC completed the transfer of its Franklin Park, Illinois operations to its Nashville, Tennessee facility and the Richmond Manufacturing Center. The pre-tax charges related to the consolidation have been substantially completed.

As a result of the consolidation, Altria Group, Inc. has recorded total pre-tax charges of approximately \$150 million, or \$0.05 per share since inception.

Cash payments related to the consolidation of \$10 million were made during the three months ended March 31, 2018 for total cash payments of \$73 million since inception. Altria Group, Inc. expects a total of approximately \$100 million in cash expenditures.

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## Note 4. Benefit Plans:

### Components of Net Periodic Benefit Cost (Income)

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

	For the Three Months Ended March 31,			
	Pension		Postretirement	
	2018	2017	2018	2017
	(in millions)			
Service cost	\$21	\$19	\$4	\$4
Interest cost	68	72	19	20
Expected return on plan assets	(146)	(150)	(5)	—
Amortization:				
Net loss	57	50	9	8
Prior service cost (credit)	1	1	(10)	(9)
Net periodic benefit cost (income)	\$1	\$(8)	\$17	\$23

### 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 regulations. Employer contributions of \$7 million were made to Altria Group, Inc.'s pension plans during the three months ended March 31, 2018. Currently, Altria Group, Inc. anticipates making additional employer contributions to its pension plans during the remainder of 2018 of up to approximately \$35 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, changes in interest rates, or other considerations. In December 2017, Altria Group, Inc. made a contribution of \$270 million to a trust to fund certain postretirement benefits. Prior to this contribution, Altria Group, Inc.'s postretirement plans were not funded. Altria Group, Inc. did not make any employer contributions to its postretirement plans during the three months ended March 31, 2018. Currently, Altria Group, Inc. anticipates making employer contributions to its postretirement plans of up to approximately \$70 million in 2018. 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 postretirement assets, or other considerations.

## Note 5. Earnings Per Share:

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

	For the Three Months Ended March 31,	
	2018	2017
	(in millions)	
Net earnings attributable to Altria Group, Inc.	\$1,894	\$1,401
Less: Distributed and undistributed earnings attributable to share-based awards	(2)	(2)
Earnings for basic and diluted EPS	\$1,892	\$1,399

Weighted-average shares for basic and diluted EPS	1,899	1,939
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## Note 6. 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 Three Months Ended March 31, 2018			
	Benefit Plans	AB InBev	Currency Translation Adjustments and Other	Accumulated Other Comprehensive Losses
	(in millions)			
Balances, December 31, 2017	\$(1,839)	\$(54 )	\$ (4 )	\$ (1,897 )
Other comprehensive losses before reclassifications	—	(81 )	—	(81 )
Deferred income taxes	—	16	—	16
Other comprehensive losses before reclassifications, net of deferred income taxes	—	(65 )	—	(65 )
Amounts reclassified to net earnings	61	(13 )	—	48
Deferred income taxes	(16 )	3	—	(13 )
Amounts reclassified to net earnings, net of deferred income taxes	45	(10 )	—	35
Other comprehensive earnings (losses), net of deferred income taxes	45	(75 ) <sup>(1)</sup>	—	(30 )
Balances, March 31, 2018	\$(1,794)	\$(129)	\$ (4 )	\$ (1,927 )
	For the Three Months Ended March 31, 2017			
	Benefit Plans	AB InBev	Currency Translation Adjustments and Other	Accumulated Other Comprehensive Losses
	(in millions)			
Balances, December 31, 2016	\$(2,048)	\$—	\$ (4 )	\$ (2,052 )
Other comprehensive losses before reclassifications	—	(296 )	—	(296 )
Deferred income taxes	—	104	—	104
Other comprehensive losses before reclassifications, net of deferred income taxes	—	(192 )	—	(192 )
Amounts reclassified to net earnings	54	—	—	54
Deferred income taxes	(22 )	—	—	(22 )
Amounts reclassified to net earnings, net of deferred income taxes	32	—	—	32
Other comprehensive earnings (losses), net of deferred income taxes	32	(192 ) <sup>(1)</sup>	—	(160 )
Balances, March 31, 2017	\$(2,016)	\$(192)	\$ (4 )	\$ (2,212 )

<sup>(1)</sup> Primarily reflects currency translation adjustments.



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

	For the Three Months Ended March 31, 2018	2017 (in millions)
Benefit Plans: <sup>(1)</sup>		
Net loss	\$70	\$62
Prior service cost/credit	(9 )	(8 )
	61	54
AB InBev <sup>(2)</sup>	(13 )	—

Pre-tax amounts reclassified from accumulated other comprehensive losses to net earnings \$48 \$54

<sup>(1)</sup> Amounts are included in net defined benefit plan costs. For further details, see Note 4. Benefit Plans.

<sup>(2)</sup> Amounts are primarily included in earnings from equity investment in AB InBev.

Note 7. Segment Reporting:

The products of Altria Group, Inc.'s subsidiaries include smokeable tobacco products, consisting of combustible 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, consisting of moist smokeless tobacco and snus 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.

As discussed in Note 1. Background and Basis of Presentation, on January 1, 2018, Altria Group, Inc. adopted ASU 2017-07, which resulted in a change to prior-period operating income. As a result, certain immaterial prior-period operating companies income (loss) data has been reclassified to conform with the current period's presentation.

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, net periodic benefit cost/income, excluding service cost, 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.

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Segment data were as follows:

	For the Three Months Ended March 31, 2018 2017 (in millions)	
Net revenues:		
Smokeable products	\$5,414	\$5,458
Smokeless products	525	466
Wine	142	140
All other	27	19
Net revenues	\$6,108	\$6,083
Earnings before income taxes:		
Operating companies income (loss):		
Smokeable products	\$2,038	\$2,036
Smokeless products	338	246
Wine	17	21
All other	(26 )	(13 )
Amortization of intangibles	(5 )	(5 )
General corporate expenses	(46 )	(46 )
Operating income	2,316	2,239
Interest and other debt expense, net	(166 )	(179 )
Net periodic benefit income, excluding service cost	7	8
Earnings from equity investment in AB InBev	342	23
Loss on AB InBev/SABMiller business combination	(33 )	—
Earnings before income taxes	\$2,466	\$2,091

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

Non-Participating Manufacturer (“NPM”) Adjustment Items - Pre-tax (income) expense for NPM adjustment items was recorded in Altria Group, Inc.’s condensed consolidated statements of earnings as follows:

	For the Three Months Ended March 31, 2018 2017 (in millions)	
Smokeable products segment	\$(68)	\$(8 )
Interest and other debt expense, net	—	7
Total	\$(68)	\$(1 )

NPM adjustment items result from the resolutions of certain disputes with states and territories related to the NPM adjustment provision under the 1998 Master Settlement Agreement (such dispute resolutions are referred to as “NPM Adjustment Items” and are more fully described in Health Care Cost Recovery Litigation - NPM Adjustment Disputes

in Note 10. Contingencies). The amounts shown in the table above for the smokeable products segment were recorded by PM USA as reductions to cost of sales, which increased operating companies income in the smokeable products segment.

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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 Three Months Ended March 31, 2018 2017 (in millions)	
Smokeable products segment	\$ 24	\$ 1
Interest and other debt expense, net	4	—
Total	\$ 28	\$ 1

During the first quarter of 2018, PM USA recorded pre-tax charges of \$24 million in marketing, administration and research costs and \$4 million in interest costs, substantially all of which related to three Engle progeny cases. For further discussion, see Note 10. 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 estimated that 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 3. Asset Impairment, Exit and Implementation Costs for a breakdown of these costs by segment.

Note 8. Debt:

At March 31, 2018 and December 31, 2017, 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 March 31, 2018 and December 31, 2017, was \$14.7 billion and \$15.3 billion, respectively, as compared with its carrying value of \$13.9 billion for each period.

At March 31, 2018 and December 31, 2017, accrued interest on long-term debt of \$155 million and \$219 million, respectively, was included in other accrued liabilities on Altria Group, Inc.'s condensed consolidated balance sheets.

Note 9. Income Taxes:

On December 22, 2017, the U.S. Government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Reform Act"). The main provisions of the Tax Reform Act that impact Altria Group, Inc. include: (i) a reduction in the U.S. federal statutory corporate income tax rate from 35% to 21% effective January 1, 2018, and (ii) changes in the treatment of foreign-source income, commonly referred to as a modified territorial tax

system. The transition to a modified territorial tax system required Altria Group, Inc. to record a deemed repatriation tax and an associated tax basis benefit in 2017. Substantially all of the deemed repatriation tax was related to Altria Group, Inc.'s share of AB InBev's accumulated earnings. Dividends received from AB InBev beginning in 2017, to the extent that such dividends represent previously taxed income attributable to the deemed repatriation tax, result in an associated tax basis expense, which reverses the tax basis benefit recorded in 2017.

The income tax rate of 23.2% for the three months ended March 31, 2018 decreased 9.8 percentage points from the three months ended March 31, 2017. This decrease was due primarily to a reduction in tax expense from the decrease in the U.S. federal statutory corporate income tax rate as a result of the Tax Reform Act.

During the three months ended March 31, 2018, Altria Group, Inc. recorded \$11 million of net tax benefits as an adjustment to the provisional estimates recorded in 2017 for the tax basis adjustment and the deemed repatriation tax attributable to the Tax

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Reform Act. Altria Group, Inc. may be required to adjust these provisional estimates based on (i) additional guidance related to, or interpretation of, the Tax Reform Act and associated tax laws and (ii) additional information to be received from AB InBev, including information regarding AB InBev's accumulated earnings and associated taxes for the 2016 and 2017 tax years. This additional guidance and information could result in increases or decreases to the provisional estimates, which may be significant in relation to these estimates. Altria Group, Inc. will record any such adjustments in 2018.

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 March 31, 2018, Altria Group, Inc.'s total unrecognized tax benefits were \$68 million. The amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate at March 31, 2018 was \$45 million, along with \$23 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 \$16 million. At December 31, 2017, Altria Group, Inc.'s total unrecognized tax benefits were \$66 million. The amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate at December 31, 2017 was \$43 million, along with \$23 million affecting deferred taxes.

Note 10. 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 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 10. 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.

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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 April 23, 2018, April 27, 2017 and April 25, 2016:

	April 23, 2018	April 27, 2017	April 25, 2016
Individual Smoking and Health Cases <sup>(1)</sup>	102	80	62
Smoking and Health Class Actions and Aggregated Claims Litigation <sup>(2)</sup>	4	5	5
Health Care Cost Recovery Actions <sup>(3)</sup>	1	1	1
“Lights/Ultra Lights” Class Actions	3	5	11

<sup>(1)</sup> Does not include 1,491 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. In March 2018, 923 cases were voluntarily dismissed without prejudice. 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 (these Engle progeny cases are discussed below in Smoking and Health Litigation - Engle Class Action).

<sup>(2)</sup> Includes as one case the 30 civil actions that were to be tried in six consolidated trials in West Virginia (In re: Tobacco Litigation). PM USA is a defendant in nine of the 30 cases. The parties agreed to resolve the cases for an immaterial amount and as of April 23, 2018, the court has dismissed 25 of the 30 cases and stated that it will dismiss

the remaining five cases, two of which are against PM USA, by April 27, 2018.

<sup>(3)</sup> See Health Care Cost Recovery Litigation - Federal Government's Lawsuit below.

#### International Tobacco-Related Cases

As of April 23, 2018, 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.

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Tobacco-Related Cases Set for Trial

As of April 23, 2018, 12 Engle progeny cases are set for trial through June 30, 2018. There are no other individual smoking and health cases against PM USA set for trial during this period. One individual smoking and health case is currently in trial. 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 63 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 42 of the 63 cases. These 42 cases were tried in Alaska (1), California (7), Connecticut (1), 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. Upon retrial, in April 2018, the jury returned a verdict in favor of PM USA. 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, 19 have reached final resolution.

As of April 23, 2018, 118 state and federal Engle progeny cases involving PM USA have resulted in verdicts since the Florida Supreme Court's Engle decision as follows: 63 verdicts were returned in favor of plaintiffs; 45 verdicts were returned in favor of PM USA. Eight 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 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 \$506 million and interest totaling approximately \$187 million as of March 31, 2018. These amounts include payments for Engle progeny judgments (and related costs and fees) totaling approximately \$114 million, interest totaling approximately \$25 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  
Three

	Months Ended March 31, 2018 2017 (in millions)	
Accrued liability for tobacco and health litigation items at beginning of period <sup>(1)</sup>	\$ 106	\$ 47
Pre-tax charges for:		
Tobacco and health judgments	24	1
Related interest costs	4	—
Payments <sup>(1)</sup>	(23 )	(1 )
Accrued liability for tobacco and health litigation items at end of period <sup>(1)</sup>	\$ 111	\$ 47

<sup>(1)</sup> Includes amounts related to the costs of implementing the corrective communications remedy related to the Federal Government's Lawsuit discussed below.

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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 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 March 31, 2018, PM USA has posted various forms of security totaling approximately \$98 million, which have been collateralized with cash deposits that are included in 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 2018 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). Subsequently, in October 2017, PM USA filed various post-trial motions. In April 2018, the trial court denied defendant's post-trial motions and entered final judgment in favor of plaintiff. Also in April 2018, PM USA posted a bond in the amount of approximately \$8 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. In December 2017, the U.S. Court of Appeals for the Ninth Circuit affirmed the judgment. In the fourth quarter of 2017, PM USA recorded a provision on its consolidated balance sheet of approximately \$1 million for the judgment plus interest and associated costs. In the first quarter of 2018, PM USA paid the judgment plus interest of approximately \$900,000, concluding this litigation.

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.

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(Unaudited)

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 and plaintiffs sought rehearing from the Florida Supreme Court on parts of its July 2006 opinion. 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. In May 2007, defendants filed a petition for writ of certiorari with the United States Supreme Court, which was denied. In February 2008, the trial court decertified the class.

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 April 23, 2018, approximately 2,300 state court cases were pending against PM USA or Altria Group, Inc. asserting individual claims by or on behalf of approximately 3,000 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 April 23, 2018, approximately 11 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.

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Engle Progeny Trial Results

As of April 23, 2018, 118 federal and state Engle progeny cases involving PM USA have resulted in verdicts since the Florida Supreme Court Engle decision. Sixty-three verdicts were returned in favor of plaintiffs and eight verdicts (Skolnick, Calloway, Pollari, McCoy, Duignan, Caprio, Oshinsky-Blacker and McCall) 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 and McCoy were 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; Duignan was reversed and remanded for a new trial on an appellate finding that the trial judge erred in responding to a question from the jury during deliberations; Caprio was reversed post-trial after defendants agreed to voluntarily dismiss their appeal in exchange for a full retrial; Oshinsky-Blacker was reversed post-trial based on plaintiff's counsel's improper arguments at trial; and McCall was reversed based on an appellate finding that the trial judge erred in instructing the jury on the warning labels on cigarette packs.

Forty-five verdicts were returned in favor of PM USA, of which 36 were state cases. In addition, there have been a number of mistrials, only some of which have resulted in new trials as of April 23, 2018. 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. The first chart lists such cases that are pending as of April 23, 2018; the second chart lists such cases that were pending within the previous 12 months, but that are now concluded. Unless otherwise noted for a particular case, the jury's award for compensatory damages will not be reduced by any finding of plaintiff's comparative fault (see Engle Progeny Appellate Issues below for a discussion of the Florida Supreme Court's decision in Schoeff).

Currently-Pending Engle Cases

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Plaintiff: Freeman

Date: March 2018

Verdict:

An Alachua County jury returned a verdict in favor of plaintiff and against PM USA awarding compensatory damages of \$4 million. The jury did not award any punitive damages.

Post-Trial Developments:

In March 2018, PM USA filed various post-trial motions, including motions to enter judgment in defendant's favor and for a new trial. In April 2018, the trial court denied all post-trial motions and entered final judgment in favor of plaintiff.

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Plaintiff: Gloger

Date: February 2018

Verdict:

A Miami-Dade County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds awarding compensatory damages of \$7.5 million. The jury also awarded \$5 million in punitive damages against PM USA.

Post-Trial Developments:

In February 2018, defendants filed various post-trial motions, including motions to enter judgment in defendants' favor and for a new trial, which remain pending. Also in February 2018, defendants filed a notice of appeal to the Florida Third District Court of Appeal and posted a bond in the amount of \$2.5 million.

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Plaintiff: Bryant

Date: December 2017

Verdict:

An Escambia County jury returned a verdict in favor of plaintiff and against PM USA awarding compensatory damages of \$581,000. The jury also awarded \$225,000 in punitive damages against PM USA.

Post-Trial Developments:

In December 2017, PM USA filed various post-trial motions, including motions to enter judgment in its favor and for a new trial. Plaintiff also filed a motion for a new trial on the amount of punitive damages. In February 2018, the trial court denied all post-trial motions and entered final judgment in favor of plaintiff. In March 2018, PM USA filed a notice of appeal to the Florida First District Court of Appeal and posted a bond in the amount of \$681,000.

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Plaintiff: R. Douglas

Date: November 2017

Verdict:

A Duval County jury returned a verdict in favor of plaintiff and against PM USA awarding compensatory damages of \$131,371 and allocating 4% of the fault to PM USA (an amount of \$5,255).

Post-Trial Developments:

In November 2017, PM USA filed a motion to set aside the verdict, and plaintiff filed a motion for a new trial or, in the alternative, for an additur of the damages award. In February 2018, the trial court denied the parties' post-trial motions.

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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. The jury also awarded plaintiff \$16 million in punitive damages against PM USA.

Post-Trial Developments:

In November 2017, defendants filed post-trial motions, including for a new trial or remittitur of the damages awards. In December 2017, the court denied certain post-trial motions. In January 2018, the court denied the remaining post-trial motions and entered final judgment against PM USA and R.J. Reynolds. In February 2018, defendants filed an appeal to the Florida Fifth District Court of Appeal and posted a bond in the amount of approximately \$3 million, and plaintiff cross-appealed.

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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 to the Florida Third District Court of Appeal and posted a bond in the amount of approximately \$1.9 million. In September 2017, plaintiff cross-appealed.

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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. The court dismissed the punitive damages claim prior to trial.

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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. In January 2018, the trial court granted plaintiff's motion for a new trial on punitive damages, denied PM USA's post-trial motions, and PM USA filed a notice of appeal to the Florida Third District Court of Appeal. In February 2018, plaintiff cross-appealed. In April 2018, the trial court entered final judgment in favor of plaintiff.

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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. In December 2017, the trial court granted defendants' motion to set aside the verdict as to all claims except plaintiff's conspiracy claim. In January 2018, plaintiff filed a motion to amend the final judgment to award the full compensatory damages without reduction for plaintiff's comparative fault.

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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. 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. 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.

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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. 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. 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.

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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.

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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.

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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. In March 2018, the Florida Fourth District Court of Appeal affirmed the judgment in favor of plaintiff. In the first quarter of 2018, PM USA recorded a provision on its condensed consolidated balance sheet of approximately \$6 million for the judgment plus interest and associated costs.

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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.

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.

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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 of the damages awards. In February 2018, the trial court denied plaintiff's post-trial motions.

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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

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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. In November 2017, defendants filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court, which was denied in March 2018. In the first quarter of 2018, PM USA recorded a provision on its condensed consolidated balance sheet of approximately \$10 million for the judgment plus interest and associated costs and increased its bond by approximately \$3 million.

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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. In December 2017, the Florida Fourth District Court of Appeal reversed the judgment and remanded the case for a new trial on an appellate finding that the trial judge erred in instructing the jury on the warning labels on cigarette packs.

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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. 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 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. In December 2017, the Florida Supreme Court held in Schoeff that comparative fault does not reduce compensatory damages awards for intentional torts. As a result, in the fourth quarter of 2017, PM USA recorded a provision on its consolidated balance sheet of approximately \$7 million for the judgment plus interest and associated costs. In February 2018, PM USA increased its bond by \$5 million. In March 2018, the Florida Supreme Court denied defendants' petition for review in light of the Schoeff decision.

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. 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. In February 2016, the trial court

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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. In November 2017, defendants filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court, contending that the final judgment conflicts with Schoeff, discussed below under Engle Progeny Appellate Issues. In December 2017, the Florida Supreme Court held in Schoeff that comparative fault does not reduce compensatory damages awards for intentional torts. As a result, in the fourth quarter of 2017, PM USA recorded a provision on its consolidated balance sheet of approximately \$20 million for the judgment plus interest and associated costs. In February 2018, PM USA increased its bond by \$5 million. In March 2018, the Florida Supreme Court denied defendants' petition for review in light of the Schoeff decision.

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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. 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 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 and granted defendants' March 2017 motion for rehearing en banc or certification to the Florida Supreme Court. In November 2017, defendants filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court, contending that the final judgment conflicts with Schoeff. In December 2017, the Florida Supreme Court held in Schoeff that comparative fault does not reduce compensatory damages awards for intentional torts. As a result, in the fourth quarter of 2017, PM USA recorded a provision on its consolidated balance sheet of approximately \$12 million for the judgment plus interest and associated costs. In February 2018, PM USA increased its bond by \$8 million. In March 2018, the Florida Supreme Court denied defendants' petition for review in light of the Schoeff decision.

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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. In December

2017, the Florida Supreme Court held in Schoeff that comparative fault does not reduce compensatory damages awards for intentional torts. As a result, in the fourth quarter of 2017, PM USA recorded a provision on its consolidated balance sheet of approximately \$1 million for the judgment plus interest. In March 2018, the Florida Supreme Court accepted jurisdiction of plaintiff's petition for review and remanded the case for reconsideration in light of the Schoeff decision. Also in March 2018, PM USA posted a bond in the amount of \$157,500. In April 2018, the Fourth District Court of Appeal reversed and remanded the case to the trial court to amend the final judgment to award plaintiff the full amount of the jury's compensatory damages.

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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. 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.

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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. 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 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. In November 2017, the Florida Second District Court of Appeal reversed the judgment against PM USA and R.J. Reynolds and ordered a new trial on an appellate finding that the trial judge erred in responding to a question from the jury during deliberations. Also in November 2017, plaintiff filed a motion for rehearing with the Florida Second District Court of Appeal, which the court denied in January 2018.

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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. In January 2018, the Florida Fourth District Court of Appeal affirmed the judgment in favor of plaintiff and granted plaintiff a new trial on punitive damages.

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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. The jury also awarded approximately \$3.2 million in punitive damages.

Post-Trial Developments:

In August 2015, the trial court entered final judgment against PM USA and 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

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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. In April 2018, the Florida First District Court of Appeal issued a per curiam decision affirming the trial court's judgment in favor of plaintiff and PM USA filed a motion for rehearing.

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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. In November 2017, the Florida Fourth District Court of Appeal reversed the judgment against PM USA and R.J. Reynolds 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 December 2017, plaintiff filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court and the case was stayed pending the Florida Supreme Court's decision in Pollari, discussed below.

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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 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. In April 2018, the Florida First District Court of Appeal issued a per curiam decision affirming the trial court's judgment against PM USA.

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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.

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 against PM USA and R.J. Reynolds. In October 2015, defendants filed 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. In February 2018, the Florida Fourth District Court of Appeal affirmed the judgment in favor of plaintiff and granted plaintiff leave to seek a new trial on punitive damages. In the first quarter of 2018, PM USA recorded a provision on its condensed consolidated balance sheet of approximately \$1 million for the judgment plus interest.

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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, which the Florida Fourth District Court of Appeal denied in November 2017. In December 2017, plaintiff filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court.

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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.

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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. 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. 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. In April 2017, the Florida Supreme Court rejected R.J. Reynolds's federal preemption defense in Marotta. In December 2017, the Florida Supreme Court held in Schoeff that comparative fault does not reduce compensatory damages awards for intentional torts. As a result, in the fourth quarter of 2017, PM USA recorded a provision on its consolidated balance sheet of approximately \$20 million for the judgment plus interest. In February 2018, PM USA increased its bond by \$10 million.

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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. The jury also awarded plaintiff \$9 million in punitive damages.

Post-Trial Developments:

In February 2015, the trial court entered final judgment. 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 and Searcy cases, discussed below under Engle Progeny Appellate Issues.

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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. 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. 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. In November 2017, defendants filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court, which was denied in February 2018. In the first quarter of 2018, PM USA recorded a provision on its condensed consolidated balance sheet of approximately \$10 million for the judgment plus interest and increased its bond by \$5 million.

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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.

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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.

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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. In December 2017, the Florida Supreme Court held in Schoeff that comparative fault does not reduce compensatory damages awards for intentional torts. In February 2018, PM USA requested that the Florida Supreme Court remand the case to the Second District Court of Appeal for further consideration and PM USA increased its bond by approximately \$11 million.

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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. 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. 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.

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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 appeal.

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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.

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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 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. In February 2018, the trial court lifted the stay on the post-trial proceedings.

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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 September 2017, the Eleventh Circuit lifted the stay on the appeal. 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. In April 2018, the Eleventh Circuit affirmed the judgment.

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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. 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. Subsequently, the trial court entered final judgment. 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. In November 2017, the Eleventh Circuit further stayed the appeal pending Schoeff, discussed below under Engle Progeny Appellate Issues. In December 2017, the Florida Supreme Court held in Schoeff that comparative fault does not reduce compensatory damages awards for intentional torts. In March 2018, the Eleventh Circuit affirmed the judgment in favor of plaintiff and defendants filed a motion for rehearing.

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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

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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.

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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 and \$10 million in punitive damages against each defendant.

Post-Trial Developments:

In June 2013, the trial court entered final judgment. 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 arguing that application of the Engle findings to the Engle progeny plaintiffs' concealment and conspiracy claims violated defendants' due process rights. 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. In January 2018, the U.S. Court of Appeals for the Eleventh Circuit ordered supplemental briefing on the due process issue.

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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. 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. 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.

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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.

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Engle Cases Concluded Within Past 12 Months

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. In March 2018, in a new trial on punitive damages, the jury found in favor of defendants and did not

award any punitive damages. In the first quarter of 2018, PM USA recorded an additional provision on its condensed consolidated balance sheet of approximately \$40,000 and in the same quarter paid the judgment plus interest and associated costs of approximately \$100,000.

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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. In January 2018, the United States Supreme Court denied PM USA's petition for writ of certiorari in Graham. In February 2018, the trial court entered final judgment in favor of plaintiff. In the first quarter of 2018, PM USA recorded a provision on its condensed consolidated balance sheet of approximately \$34,000 for the judgment plus interest and paid this amount in March 2018.

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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, which the court denied in January 2018. PM USA paid the judgment plus interest and associated costs in the amount of approximately \$1 million in January 2018.

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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

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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 Appeal 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, which PM USA dismissed after the court denied PM USA's petition in Graham. PM USA paid the judgment plus interest and associated costs in the amount of approximately \$13.5 million in January 2018.

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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, which PM USA dismissed after the court denied PM USA's petition in Graham. PM USA paid the judgment plus interest and associated costs in the amount of approximately \$2.5 million in January 2018.

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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. In November 2017, the Florida Fourth District Court of Appeal rejected defendants' appeal, granted plaintiff's cross-appeal finding that the trial court erred in applying the comparative fault deduction and remanded the case to the trial court with directions to enter an amended final judgment. In the fourth quarter of 2017, PM USA recorded a provision of approximately \$1 million on its

consolidated balance sheet for the judgment plus interest and paid this amount in January 2018.

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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. The jury also awarded \$6.5 million in punitive damages.

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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 against PM USA. 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 its 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.

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Engle Progeny Appellate Issues

In Douglas, an Engle progeny case against PM USA and R.J. Reynolds, 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's subsequent petition for writ of certiorari with the United States Supreme Court was unsuccessful.

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, which the court denied in January 2018. 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 and Burkhart, Engle progeny cases 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. Both appeals are pending. In January 2018, in Searcy, a panel of the Eleventh Circuit ordered supplemental briefing on the due process issues. In March 2018, in Burkhart, a different panel of the Eleventh Circuit rejected defendants' due process arguments and affirmed the final judgment entered in plaintiff's favor. Defendants filed a motion for rehearing challenging that decision.

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 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. In December 2017, the Florida Supreme Court reversed the Court of Appeal's decision, finding that comparative fault does not reduce compensatory damages awards for intentional torts.

#### 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

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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.

From time to time, legislation has been presented to the Florida legislature that would repeal the 2009 appeal bond cap statute; however to date, no legislation repealing the statute has passed.

**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 April 23, 2018, 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.

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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 tobacco product manufacturers entered into the 1998 Master Settlement Agreement (the "MSA") with 46 states, the District of Columbia and certain U.S. territories to settle asserted and unasserted health care cost recovery and other claims. PM USA and certain other 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 certain brands, ITG Brands, LLC ("ITG")) 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 March 31, 2018 and 2017, the

aggregate amount recorded in cost of sales with respect to the State Settlement Agreements was approximately \$1.0 billion and \$1.1 billion, respectively. These amounts include PM USA's estimate of amounts related to NPM Adjustments discussed below.

The State Settlement Agreements also include advertising and marketing restrictions, require public disclosure of certain industry documents, limit challenges to certain tobacco control and underage use laws, and restrict lobbying activities.

#### NPM Adjustment Disputes

PM USA is participating in proceedings regarding the NPM Adjustment for 2003-2017. The NPM Adjustment is a reduction in MSA payments (the "NPM Adjustment") made by the OPMs and those manufacturers that are subsequent signatories to the

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MSA (collectively, the “participating manufacturers” or “PMs”) that applies if the PMs collectively lose at least a specified level of market share to non-participating manufacturers since 1997, subject to certain conditions and defenses. The independent auditor (the “IA”) appointed under the MSA calculates the maximum amount of the NPM Adjustment, if any, for each year.

NPM Adjustment Disputes - Settlement with 35 States and Territories and Settlement with New York.

PM USA has entered into two settlements of NPM Adjustment disputes with a total of 36 states and territories. The first settlement was originally entered into in 2012 with 19 states and territories and has been subsequently expanded to include a total of 35 of the 52 MSA states and territories (the “signatory states”), most recently (in the first quarter of 2018) the states of Alaska, Colorado, Delaware, Hawaii, Maine, North Dakota, South Dakota, Utah and Vermont (the “additional nine states”). In the first settlement, PM USA settled the NPM Adjustment disputes for 2003-2015 with 26 states in exchange for a total of \$740 million and more recently settled the NPM Adjustment disputes for 2004-2017 with the additional nine states. As a result of the additional nine states joining the first settlement, PM USA will receive approximately \$81 million for 2004-2017 (\$13 million of which relates to the 2015-2017 “transition years”). PM USA recorded a reduction to cost of sales in the amount of \$81 million in the first quarter of 2018. In the second settlement, related specifically to New York, which was entered into in 2015, PM USA has received a total of approximately \$217 million for 2004-2016. Both settlements also contain provisions resolving certain disputes regarding the application of the NPM Adjustment going forward, although the applicability of those provisions to the additional nine states is contingent on satisfaction, in the PMs’ sole discretion, of certain conditions.

2003 and Subsequent NPM Adjustment Disputes - Continuing Disputes with States that have not Settled.

2003 NPM Adjustment. In September 2013, an arbitration panel issued rulings regarding the 15 states and territories that remained in the arbitration, ruling that six of them did not establish valid defenses to the NPM Adjustment for 2003. Two of these states later joined the first settlement discussed above. With respect to the remaining four states, following the outcome of challenges in state courts, PM USA ultimately recorded \$74 million primarily as a reduction to cost of sales. Two potential disputes remain outstanding regarding the amount of interest and there is no assurance that PM USA will prevail in either of these disputes.

2004 and Subsequent NPM Adjustments. PM USA has continued to pursue the NPM Adjustments for 2004 and subsequent years in multi-state arbitrations against the states that did not join either of the settlements discussed above. New Mexico is currently appealing a trial court ruling that the state must participate in the multi-state arbitration for 2004. The Montana state courts ruled that Montana may litigate its claims in state court, rather than participate in arbitration.

The 2004 multi-state arbitration is currently pending with all of the states that have not settled other than Montana and New Mexico. Decisions are not expected until the middle of 2019 at the earliest.

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 IA 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; \$224 million for 2013; \$253 million for 2014; \$300 million for 2015; \$295 million for 2016 and \$288 million for

2017. These maximum amounts will be reduced, likely substantially, to reflect the settlements with the signatory states and New York, and potentially for current and future calculation disputes and other developments. Finally, PM USA's recovery of these amounts, even as reduced, is dependent upon subsequent determinations regarding state-specific defenses and disputes with other PMs.

#### 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 and related settlements, have been and may continue to be affected by R.J. Reynolds' acquisition of Lorillard and its related sale of certain cigarette brands to ITG (the "ITG brands"). In particular, R.J. Reynolds and ITG have asserted that they do not have to make payments on the ITG brands under the Florida, Minnesota and Texas State

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Settlement Agreements or include the ITG brands for purposes of certain calculations under the State Settlement Agreements. PM USA believes that R.J. Reynolds' and ITG's position violates the State Settlement Agreements and applicable law. PM USA further believes that these actions: (i) improperly increased PM USA's payments for 2015-2017 by at least \$146 million; (ii) may improperly increase PM USA's payments for subsequent years; (iii) may improperly decrease PM USA's share of the 2015-2017 NPM Adjustments and the settlements of related disputes; and (iv) may improperly decrease PM USA's share of NPM Adjustments and related settlements for subsequent years.

PM USA and the State of Florida each filed a motion in Florida state court against R.J. Reynolds and ITG seeking to enforce the Florida State Settlement Agreement. In December 2017, the Florida trial court ruled that R.J. Reynolds (and not ITG) must make settlement payments under the Florida State Settlement Agreement on the ITG brands. After the Florida court ruled, the IA issued revised calculations for the 2015-2017 period, which reduced the amount by which PM USA's payments were improperly increased. The Florida court's ruling is subject to further proceedings, which may result in further modifications to PM USA's settlement payments under the Florida State Settlement Agreement.

In March 2018, PM USA and the State of Minnesota filed pleadings in Minnesota state court asserting claims against R.J. Reynolds and ITG seeking to enforce the Minnesota State Settlement Agreement.

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. The case ultimately proceeded only under the civil provisions of RICO, and the trial ended in June 2005. In August 2006, the district 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.

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Defendants appealed and, in May 2009, a three judge panel of the Court of Appeals for the District of Columbia Circuit (“D.C. Court of Appeals”) largely affirmed the trial court’s remedial order, but 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 appellate panel remanded the case for the trial court to reconsider these four aspects of the injunction and to reformulate its remedial order accordingly.

In November 2012, the district court issued its order specifying the content of the corrective communications described above and defendants appealed. In April 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, which the district court approved in June 2014. In May 2015, the D.C. Court of Appeals affirmed in part and reversed in part the appeal on the content of the corrective communications, concluding that certain portions of the statements exceeded the district court’s jurisdiction under RICO, but upheld other portions challenged by defendants. The D.C. Court of Appeals remanded the case to the trial court for further proceedings.

In February 2016, the district court issued an order adopting modified corrective statements. Defendants appealed and, in April 2017, the D.C. Court of Appeals 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 district court 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 began appearing in newspapers and on television in the fourth quarter of 2017. In January 2018, the parties submitted a status report and a request for a status conference to address open issues regarding onsert and website implementation details. The defendants also filed a motion in the U.S. District Court for the District of Columbia seeking to mediate the remaining implementation details and for an order clarifying that the DOJ may not enforce the previous consent order with respect to onserts and websites prior to resolution of all implementation details. In February 2018, the U.S. District Court agreed not to enforce the previous consent order and, in April 2018, the parties reached agreement on the implementation details of the corrective communications remedy for onserts and websites. Under the agreement, the corrective statements will begin appearing on websites in the second quarter of 2018 and the onserts will begin appearing in the fourth quarter of 2018.

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.

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 have sought certification of their cases as class actions, alleging 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 have sought 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

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under state statutory provisions exempting conduct that complies with federal regulatory directives, and the First Amendment. As of April 23, 2018, a total of three such cases are pending in various U.S. state courts, none of which is active.

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

As of April 23, 2018, 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, all such cases have been dismissed by the courts at the summary judgment stage, were settled by the parties or were resolved in favor of PM USA.

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 before a panel of the Delaware Supreme Court in September 2017. In January 2018, the case was re-argued before the Delaware Supreme Court en banc. In March 2018, the Delaware Supreme Court affirmed the trial court's dismissal of all six cases.

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UST Litigation

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

First, UST and/or its tobacco subsidiaries were 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 were 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, remained severed from such proceedings since December 2001. In March 2018, the court dismissed all smokeless claims, concluding this litigation for UST and its tobacco subsidiaries.

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. Trial is currently scheduled to begin September 20, 2019.

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 March 31, 2018, Altria Group, Inc. and certain of its subsidiaries (i) had \$56 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

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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 March 31, 2018 as the fair value of this indemnification is insignificant.

As more fully discussed in Note 11. 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.

Note 11. 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 March 31, 2018, 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 March 31, 2018 and December 31, 2017, condensed consolidating statements of earnings and comprehensive earnings for the three months ended March 31, 2018 and 2017, and condensed consolidating statements of cash flows for the three months ended March 31, 2018 and 2017 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.

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Condensed Consolidating Balance Sheets

March 31, 2018

(in millions of dollars)

	Altria Group, Inc.	PM USA	Non- Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Assets					
Cash and cash equivalents	\$ 2,152	\$ 1	\$ 38	\$ —	\$ 2,191
Receivables	—	11	122	—	133
Inventories:					
Leaf tobacco	—	543	377	—	920
Other raw materials	—	112	72	—	184
Work in process	—	7	540	—	547
Finished product	—	174	432	—	606
	—	836	1,421	—	2,257
Due from Altria Group, Inc. and subsidiaries	—	4,874	676	(5,550)	) —
Other current assets	20	217	83	(77)	) 243
Total current assets	2,172	5,939	2,340	(5,627)	) 4,824
Property, plant and equipment, at cost	—	2,924	1,955	—	4,879
Less accumulated depreciation	—	2,101	887	—	2,988
	—	823	1,068	—	1,891
Goodwill	—	—	5,307	—	5,307
Other intangible assets, net	—	2	12,398	—	12,400
Investment in AB InBev	18,199	—	—	—	18,199
Investment in consolidated subsidiaries	14,018	2,825	—	(16,843)	) —
Finance assets, net	—	—	854	—	854
Due from Altria Group, Inc. and subsidiaries	4,790	—	—	(4,790)	) —
Other assets	56	689	154	(475)	) 424
Total Assets	\$ 39,235	\$ 10,278	\$ 22,121	\$ (27,735)	) \$ 43,899

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Condensed Consolidating Balance Sheets (Continued)

March 31, 2018

(in millions of dollars)

	Altria Group, Inc.	PM USA	Non- Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
<b>Liabilities</b>					
Current portion of long-term debt	\$ 864	\$—	\$ —	\$ —	\$ 864
Accounts payable	5	78	120	—	203
Accrued liabilities:					
Marketing	—	613	94	—	707
Employment costs	12	11	45	—	68
Settlement charges	—	3,451	7	—	3,458
Other	267	313	342	(77)	) 845
Dividends payable	1,330	—	—	—	1,330
Due to Altria Group, Inc. and subsidiaries	5,128	342	80	(5,550)	) —
Total current liabilities	7,606	4,808	688	(5,627)	) 7,475
Long-term debt	13,033	—	—	—	13,033
Deferred income taxes	2,854	—	2,913	(475)	) 5,292
Accrued pension costs	202	—	180	—	382
Accrued postretirement health care costs	—	1,214	773	—	1,987
Due to Altria Group, Inc. and subsidiaries	—	—	4,790	(4,790)	) —
Other liabilities	146	43	107	—	296
Total liabilities	23,841	6,065	9,451	(10,892)	) 28,465
Contingencies					
Redeemable noncontrolling interest	—	—	37	—	37
<b>Stockholders' Equity</b>					
Common stock	935	—	9	(9)	) 935
Additional paid-in capital	5,938	3,310	12,045	(15,355)	) 5,938
Earnings reinvested in the business	42,816	1,167	2,043	(3,210)	) 42,816
Accumulated other comprehensive losses	(1,927)	) (264)	) (1,467)	) 1,731	(1,927)
Cost of repurchased stock	(32,368)	) —	—	—	(32,368)
Total stockholders' equity attributable to Altria Group, Inc.	15,394	4,213	12,630	(16,843)	) 15,394
Noncontrolling interests	—	—	3	—	3
Total stockholders' equity	15,394	4,213	12,633	(16,843)	) 15,397
Total Liabilities and Stockholders' Equity	\$ 39,235	\$ 10,278	\$ 22,121	\$ (27,735)	) \$ 43,899

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Condensed Consolidating Balance Sheets

December 31, 2017

(in millions of dollars)

	Altria Group, Inc.	PM USA	Non- Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Assets					
Cash and cash equivalents	\$ 1,203	\$ 1	\$ 49	\$ —	\$ 1,253
Receivables	1	10	131	—	142
Inventories:					
Leaf tobacco	—	579	362	—	941
Other raw materials	—	111	59	—	170
Work in process	—	5	555	—	560
Finished product	—	128	426	—	554
	—	823	1,402	—	2,225
Due from Altria Group, Inc. and subsidiaries	2	2,413	1,022	(3,437 )	—
Income taxes	—	542	17	(98 )	461
Other current assets	11	147	105	—	263
Total current assets	1,217	3,936	2,726	(3,535 )	4,344
Property, plant and equipment, at cost	—	2,930	1,949	—	