

ALTRIA GROUP, INC.

Form 10-Q

July 27, 2017

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 June 30, 2017

OR

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

For the transition period from _____ to _____

Commission File Number 1-08940

Altria Group, Inc.

(Exact name of registrant as specified in its charter)

Virginia 13-3260245

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

6601 West Broad Street, Richmond, Virginia 23230

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (804) 274-2200

Former name, former address and former fiscal year, if changed since last report

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

At July 18, 2017, there were 1,918,567,642 shares outstanding of the registrant's common stock, par value \$0.33 1/3 per share.

Table of Contents

ALTRIA GROUP, INC.
TABLE OF CONTENTS

	Page No.
PART I - FINANCIAL INFORMATION	
Item 1. Financial Statements (Unaudited)	
<u>Condensed Consolidated Balance Sheets at June 30, 2017 and December 31, 2016</u>	<u>3</u>
<u>Condensed Consolidated Statements of Earnings for the Six Months Ended June 30, 2017 and 2016</u>	<u>5</u>
<u>Three Months Ended June 30, 2017 and 2016</u>	<u>6</u>
<u>Condensed Consolidated Statements of Comprehensive Earnings for the Six Months Ended June 30, 2017 and 2016</u>	<u>7</u>
<u>Three Months Ended June 30, 2017 and 2016</u>	<u>8</u>
<u>Condensed Consolidated Statements of Stockholders' Equity for the Year Ended December 31, 2016 and the Six Months Ended June 30, 2017</u>	<u>9</u>
<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2017 and 2016</u>	<u>10</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>11</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>67</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>97</u>
Item 4. <u>Controls and Procedures</u>	<u>98</u>
PART II - OTHER INFORMATION	
Item 1. <u>Legal Proceedings</u>	<u>98</u>
Item 1A. <u>Risk Factors</u>	<u>98</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>98</u>
Item 6. <u>Exhibits</u>	<u>99</u>

Signature Signature

100

2

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Altria Group, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(in millions of dollars)

(Unaudited)

	June 30, December 31,	
	2017	2016
Assets		
Cash and cash equivalents	\$2,255	\$ 4,569
Receivables	119	151
Inventories:		
Leaf tobacco	769	892
Other raw materials	178	164
Work in process	434	512
Finished product	618	483
	1,999	2,051
Other current assets	238	489
Total current assets	4,611	7,260
Property, plant and equipment, at cost	4,852	4,835
Less accumulated depreciation	2,952	2,877
	1,900	1,958
Goodwill	5,307	5,285
Other intangible assets, net	12,196	12,036
Investment in AB InBev	18,219	17,852
Finance assets, net	988	1,028
Other assets	505	513
Total Assets	\$43,726	\$ 45,932

See notes to condensed consolidated financial statements.

Table of Contents

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

	June 30, 2017	December 31, 2016
Liabilities		
Accounts payable	\$194	\$ 425
Accrued liabilities:		
Marketing	763	747
Employment costs	111	289
Settlement charges	2,223	3,701
Other	1,007	1,025
Income taxes	108	—
Dividends payable	1,176	1,188
Total current liabilities	5,582	7,375
Long-term debt	13,887	13,881
Deferred income taxes	8,527	8,416
Accrued pension costs	676	805
Accrued postretirement health care costs	2,203	2,217
Other liabilities	394	427
Total liabilities	31,269	33,121
Contingencies (Note 9)		
Redeemable noncontrolling interest	36	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	5,928	5,893
Earnings reinvested in the business	37,939	36,906
Accumulated other comprehensive losses	(1,838)	(2,052)
Cost of repurchased stock (885,168,675 shares at June 30, 2017 and 862,689,093 shares at December 31, 2016)	(30,546)	(28,912)
Total stockholders' equity attributable to Altria Group, Inc.	12,418	12,770
Noncontrolling interests	3	3
Total stockholders' equity	12,421	12,773
Total Liabilities and Stockholders' Equity	\$43,726	\$ 45,932
See notes to condensed consolidated financial statements.		

Table of Contents

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

	For the Six Months Ended June 30,	
	2017	2016
Net revenues	\$12,746	\$12,587
Cost of sales	3,759	3,798
Excise taxes on products	3,089	3,176
Gross profit	5,898	5,613
Marketing, administration and research costs	1,096	1,105
Asset impairment and exit costs	16	121
Operating income	4,786	4,387
Interest and other debt expense, net	356	392
Earnings from equity investment in AB InBev/SABMiller	(163)	(265)
Gain on AB InBev/SABMiller business combination	(408)	(157)
Earnings before income taxes	5,001	4,417
Provision for income taxes	1,609	1,545
Net earnings	3,392	2,872
Net earnings attributable to noncontrolling interests	(2)	(2)
Net earnings attributable to Altria Group, Inc.	\$3,390	\$2,870
Per share data:		
Basic and diluted earnings per share attributable to Altria Group, Inc.	\$1.75	\$1.47
Dividends declared	\$1.22	\$1.13
See notes to condensed consolidated financial statements.		

Table of Contents

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

	For the Three Months Ended June 30,	
	2017	2016
Net revenues	\$6,663	\$6,521
Cost of sales	1,949	1,924
Excise taxes on products	1,595	1,640
Gross profit	3,119	2,957
Marketing, administration and research costs	568	546
Asset impairment and exit costs	12	1
Operating income	2,539	2,410
Interest and other debt expense, net	177	192
Earnings from equity investment in AB InBev/SABMiller	(140)	(199)
Gain on AB InBev/SABMiller business combination	(408)	(117)
Earnings before income taxes	2,910	2,534
Provision for income taxes	920	880
Net earnings	1,990	1,654
Net earnings attributable to noncontrolling interests	(1)	(1)
Net earnings attributable to Altria Group, Inc.	\$1,989	\$1,653
Per share data:		
Basic and diluted earnings per share attributable to Altria Group, Inc.	\$1.03	\$0.84
Dividends declared	\$0.61	\$0.565
See notes to condensed consolidated financial statements.		

Table of Contents

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

	For the Six Months Ended June 30,	
	2017	2016
Net earnings	\$3,392	\$2,872
Other comprehensive earnings (losses), net of deferred income taxes:		
Currency translation adjustments	1	1
Benefit plans	65	(144)
AB InBev/SABMiller	148	83
Other comprehensive earnings (losses), net of deferred income taxes	214	(60)
Comprehensive earnings	3,606	2,812
Comprehensive earnings attributable to noncontrolling interests	(2)	(2)
Comprehensive earnings attributable to Altria Group, Inc.	\$3,604	\$2,810
See notes to condensed consolidated financial statements.		

Table of Contents

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

	For the Three Months Ended June 30,	
	2017	2016
Net earnings	\$1,990	\$1,654
Other comprehensive earnings (losses), net of deferred income taxes:		
Currency translation adjustments	1	—
Benefit plans	33	30
AB InBev/SABMiller	340	(43)
Other comprehensive earnings (losses), net of deferred income taxes	374	(13)
Comprehensive earnings	2,364	1,641
Comprehensive earnings attributable to noncontrolling interests	(1)	(1)
Comprehensive earnings attributable to Altria Group, Inc.	\$2,363	\$1,640

See notes to condensed consolidated financial statements.

Table of Contents

Altria Group, Inc. and Subsidiaries
Condensed Consolidated Statements of Stockholders' Equity
for the Year Ended December 31, 2016 and
the Six Months Ended June 30, 2017
(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, 2015	\$935	\$5,813	\$27,257	\$ (3,280)	\$ (27,845)	\$ (7)	\$ 2,873
Net earnings ⁽¹⁾	—	—	14,239	—	—	—	14,239
Other comprehensive earnings, net of deferred income taxes	—	—	—	1,228	—	—	1,228
Stock award activity	—	90	—	—	(37)	—	53
Cash dividends declared (\$2.35 per share)	—	—	(4,590)	—	—	—	(4,590)
Repurchases of common stock	—	—	—	—	(1,030)	—	(1,030)
Other	—	(10)	—	—	—	10	—
Balances, December 31, 2016	935	5,893	36,906	(2,052)	(28,912)	3	12,773
Net earnings ⁽¹⁾	—	—	3,390	—	—	—	3,390
Other comprehensive earnings, net of deferred income taxes	—	—	—	214	—	—	214
Stock award activity	—	35	—	—	(34)	—	1
Cash dividends declared (\$1.22 per share)	—	—	(2,357)	—	—	—	(2,357)
Repurchases of common stock	—	—	—	—	(1,600)	—	(1,600)
Balances, June 30, 2017	\$935	\$5,928	\$37,939	\$ (1,838)	\$ (30,546)	\$ 3	\$ 12,421

Amounts attributable to noncontrolling interests for the six months ended June 30, 2017 and for the year ended

⁽¹⁾ December 31, 2016 exclude net earnings of \$2 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 June 30, 2017 and December 31, 2016.

See notes to condensed consolidated financial statements.

Table of Contents

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

	For the Six Months Ended June 30,	
	2017	2016
Cash Provided by (Used in) Operating Activities		
Net earnings	\$3,392	\$2,872
Adjustments to reconcile net earnings to operating cash flows:		
Depreciation and amortization	104	98
Deferred income tax provision	30	15
Earnings from equity investment in AB InBev/SABMiller	(163)	(265)
Dividends from AB InBev	434	—
Gain on AB InBev/SABMiller business combination	(408)	(157)
Asset impairment and exit costs, net of cash paid	(25)	91
Cash effects of changes:		
Receivables	33	3
Inventories	55	72
Accounts payable	(233)	(203)
Income taxes	379	(53)
Accrued liabilities and other current assets	(63)	(133)
Accrued settlement charges	(1,478)	(1,326)
Pension plan contributions	(10)	(6)
Pension provisions and postretirement, net	(36)	(43)
Other	(63)	123
Net cash provided by operating activities	1,948	1,088
Cash Provided by (Used in) Investing Activities		
Capital expenditures	(91)	(77)
Proceeds from finance assets	45	56
Other	(200)	(42)
Net cash used in investing activities	(246)	(63)
Cash Provided by (Used in) Financing Activities		
Repurchases of common stock	(1,600)	(341)
Dividends paid on common stock	(2,369)	(2,215)
Other	(47)	(19)
Cash used in financing activities	(4,016)	(2,575)
Cash and cash equivalents:		
Decrease	(2,314)	(1,550)
Balance at beginning of period	4,569	2,369
Balance at end of period	\$2,255	\$819
See notes to condensed consolidated financial statements.		

Table of Contents

Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 1. Background and Basis of Presentation:

Background

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

At September 30, 2016, Altria Group, Inc. had an approximate 27% ownership of SABMiller plc ("SABMiller"), which Altria Group, Inc. accounted for under the equity method of accounting. In October 2016, Anheuser-Busch InBev SA/NV ("Legacy AB InBev") completed its business combination with SABMiller, and Altria Group, Inc. received cash and shares representing a 9.6% ownership in the combined company (the "Transaction"). The newly formed Belgian company, which retained the name Anheuser-Busch InBev SA/NV ("AB InBev"), became the holding company for the combined businesses. Subsequently, Altria Group, Inc. purchased approximately 12 million ordinary shares of AB InBev, increasing Altria Group, Inc.'s ownership to approximately 10.2% at December 31, 2016. At June 30, 2017, Altria Group, Inc. had an approximate 10.2% ownership of AB InBev, which Altria Group, Inc. accounts for under the equity method of accounting using a one-quarter lag. For the six and three months ended June 30, 2017, Altria Group, Inc. recorded a pre-tax gain of \$408 million related to the completion of AB InBev's planned divestitures of certain SABMiller assets and businesses resulting from Legacy AB InBev obtaining necessary regulatory clearances to proceed with the Transaction ("AB InBev divestitures"). For the six and three months ended June 30, 2016, Altria Group, Inc. recorded a pre-tax gain of \$157 million and \$117 million, respectively, for the change in the fair value of the derivative financial instrument that it entered into in connection with the Transaction ("derivative financial instrument"). The pre-tax gains related to the AB InBev divestitures and the derivative financial instrument were included in gain on AB InBev/SABMiller business combination in Altria Group, Inc.'s condensed consolidated statements of earnings. Altria Group, Inc. receives cash dividends on its interest in AB InBev if and when AB InBev pays such dividends.

Share Repurchases

In July 2015, Altria Group, Inc.'s Board of Directors (the "Board of Directors") authorized a \$1.0 billion share repurchase program that it expanded to \$3.0 billion in October 2016 (as expanded, the "July 2015 share repurchase

program”). At June 30, 2017, Altria Group, Inc. had approximately \$335 million remaining in the July 2015 share repurchase program. In July 2017, the Board of Directors authorized a \$1.0 billion expansion of the July 2015 share repurchase program from \$3.0 billion to \$4.0 billion. The timing of share repurchases under this program depends upon marketplace conditions and other factors, and the program remains subject to the discretion of the Board of Directors.

Table of Contents

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

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

	For the Six Months Ended June 30, 2017		For the Three Months Ended June 30, 2016	
	2017	2016	2017	2016
	(in millions, except per share data)			
Total number of shares repurchased	22.1	5.5	14.4	2.7
Aggregate cost of shares repurchased	\$1,600	\$341	\$1,049	\$173
Average price per share of shares repurchased	\$72.47	\$61.90	\$72.85	\$64.06

Basis of Presentation

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

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

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

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

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

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

Table of Contents

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

Note 2. Asset Impairment, Exit and Implementation Costs:

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

	For the Six Months Ended June 30, 2017			For the Six Months Ended June 30, 2016		
	Asset Impairment and Exit Costs	Implementation Costs	Total	Asset Impairment and Exit Costs (1)	Implementation Costs	Total
	(in millions)					
Smokeable products	\$2	\$ 12	\$ 14	\$98	\$ 3	\$101
Smokeless products	14	28	42	13	—	13
All other	—	—	—	5	—	5
General corporate	—	—	—	5	—	5
Total	\$16	\$ 40	\$ 56	\$121	\$ 3	\$124

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

	For the Three Months Ended June 30, 2017			For the Three Months Ended June 30, 2016		
	Asset Impairment and Exit Costs	Implementation Costs	Total	Asset Impairment and Exit Costs	Implementation Costs	Total
	(in millions)					
Smokeable products	\$1	\$ 7	\$ 8	\$ 1	\$ 1	\$ 2
Smokeless products	11	10	21	—	—	—
Total	\$12	\$ 17	\$ 29	\$ 1	\$ 1	\$ 2

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

	For the Six Months Ended June 30, 2017 (in millions)
Balances at December 31, 2016	\$ 79
Charges	9
Cash spent	(41)
Balances at June 30, 2017	\$ 47

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

Facilities Consolidation

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

As a result of the consolidation, Altria Group, Inc. expects to record total pre-tax charges of approximately \$150 million, or \$0.05 per share. Of this amount, during 2016, Altria Group, Inc. incurred pre-tax charges of \$71 million, or approximately \$0.03 per share, and expects to record approximately \$70 million in 2017 and the remainder in 2018. The total estimated charges relate primarily to accelerated depreciation and asset impairment (\$55 million), employee separation costs (\$45 million)

Table of Contents

Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

and other exit and implementation costs (\$50 million). Approximately \$90 million of the total pre-tax charges are expected to result in cash expenditures.

For the six and three months ended June 30, 2017, Altria Group, Inc. incurred pre-tax asset impairment, exit and implementation costs of \$56 million and \$29 million, respectively. The pre-tax implementation costs were included in cost of sales in Altria Group, Inc.'s condensed consolidated statement of earnings. Total pre-tax charges incurred since the inception of the consolidation through June 30, 2017 were \$127 million.

Cash payments related to the consolidation of \$29 million were made during the six months ended June 30, 2017, for total cash payments of \$34 million since inception.

Productivity Initiative

In January 2016, Altria Group, Inc. announced a productivity initiative designed to maintain its operating companies' leadership and cost competitiveness. The initiative reduces spending on certain selling, general and administrative infrastructure and implements a leaner organizational structure. As a result of the initiative, for the six and three months ended June 30, 2016, Altria Group, Inc. incurred pre-tax asset impairment, exit and implementation costs of \$124 million and \$2 million, respectively. At December 31, 2016, total pre-tax charges related to this initiative were substantially completed.

Cash payments related to the initiative of \$28 million were made during the six months ended June 30, 2017, for total cash payments of \$102 million since inception.

Note 3. Benefit Plans:**Components of Net Periodic Benefit (Income) Cost**

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

	For the Six Months Ended				For the Three Months			
	June 30,		June 30,		Ended June 30,		Ended June 30,	
	Pension	Postretirement	Pension	Postretirement	Pension	Postretirement	Pension	Postretirement
	2017	2016	2017	2016	2017	2016	2017	2016
	(in millions)							
Service cost	\$38	\$37	\$9	\$8	\$19	\$19	\$5	\$4
Interest cost	144	141	40	40	72	70	20	19
Expected return on plan assets	(300)	(277)	—	—	(150)	(139)	—	—
Amortization:								
Net loss	98	87	16	16	48	43	8	9
Prior service cost (credit)	2	2	(19)	(19)	1	1	(10)	(9)
Termination and curtailment	—	20	—	—	—	—	—	—
Net periodic benefit (income) cost	\$(18)	\$10	\$46	\$45	\$(10)	\$(6)	\$23	\$23

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

Table of Contents

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

Employer Contributions

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

Note 4. Earnings Per Share:

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

	For the Six Months Ended June 30, 2017		For the Three Months Ended June 30, 2016	
	2017	2016	2017	2016
	(in millions)			
Net earnings attributable to Altria Group, Inc.	\$3,390	\$2,870	\$1,989	\$1,653
Less: Distributed and undistributed earnings attributable to unvested restricted shares and restricted stock units	(5)	(5)	(3)	(3)
Earnings for basic and diluted EPS	\$3,385	\$2,865	\$1,986	\$1,650
Weighted-average shares for basic and diluted EPS	1,933	1,955	1,928	1,954

Note 5. Other Comprehensive Earnings/Losses:

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

	For the Six Months Ended June 30, 2017			
	Currency Translation Adjustments	Benefit Plans	AB InBev	Accumulated Other Comprehensive Losses
	(in millions)			
Balances, December 31, 2016	\$(4)	\$(2,048)	\$—	\$ (2,052)
Other comprehensive earnings before reclassifications	1	—	225	226
Deferred income taxes	—	—	(78)	(78)
Other comprehensive earnings before reclassifications, net of deferred income taxes	1	—	147	148
Amounts reclassified to net earnings	—	106	2	108
Deferred income taxes	—	(41)	(1)	(42)

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Amounts reclassified to net earnings, net of deferred income taxes	—	65	1	66
Other comprehensive earnings, net of deferred income taxes	1	65	148	(1) 214
Balances, June 30, 2017	\$(3)	\$(1,983)	\$ 148	\$ (1,838)

15

Table of Contents

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

	For the Three Months Ended June 30, 2017			
	Currency Translation Adjustments	Benefit Plans	AB InBev	Accumulated Other Comprehensive Losses
	(in millions)			
Balances, March 31, 2017	\$ (4)	\$ (2,016)	\$ (192)	\$ (2,212)
Other comprehensive earnings before reclassifications	1	—	521	522
Deferred income taxes	—	—	(182)	(182)
Other comprehensive earnings before reclassifications, net of deferred income taxes	1	—	339	340
Amounts reclassified to net earnings	—	52	2	54
Deferred income taxes	—	(19)	(1)	(20)
Amounts reclassified to net earnings, net of deferred income taxes	—	33	1	34
Other comprehensive earnings, net of deferred income taxes	1	33	340	⁽¹⁾ 374
Balances, June 30, 2017	\$ (3)	\$ (1,983)	\$ 148	\$ (1,838)

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

	For the Six Months Ended June 30, 2016			
	Currency Translation Adjustments	Benefit Plans	SABMiller	Accumulated Other Comprehensive Losses
	(in millions)			
Balances, December 31, 2015	\$ (5)	\$ (2,010)	\$ (1,265)	\$ (3,280)
Other comprehensive earnings (losses) before reclassifications	1	(318)	110	(207)
Deferred income taxes	—	122	(39)	83
Other comprehensive earnings (losses) before reclassifications, net of deferred income taxes	1	(196)	71	(124)
Amounts reclassified to net earnings	—	85	19	104
Deferred income taxes	—	(33)	(7)	(40)
Amounts reclassified to net earnings, net of deferred income taxes	—	52	12	64
Other comprehensive earnings (losses), net of deferred income taxes	1	(144)	83	⁽²⁾ (60)
Balances, June 30, 2016	\$ (4)	\$ (2,154)	\$ (1,182)	\$ (3,340)

Table of Contents

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

	For the Three Months Ended June 30, 2016			Accumulated
	Currency Translation Adjustments	Benefit Plans	SABMiller	Other Comprehensive Losses
	(in millions)			
Balances, March 31, 2016	\$ (4)	\$ (2,184)	\$ (1,139)	\$ (3,327)
Other comprehensive losses before reclassifications	—	—	(72)	(72)
Deferred income taxes	—	—	25	25
Other comprehensive losses before reclassifications, net of deferred income taxes	—	—	(47)	(47)
Amounts reclassified to net earnings	—	49	7	56
Deferred income taxes	—	(19)	(3)	(22)
Amounts reclassified to net earnings, net of deferred income taxes	—	30	4	34
Other comprehensive earnings (losses), net of deferred income taxes	—	30	(43) ⁽²⁾	(13)
Balances, June 30, 2016	\$ (4)	\$ (2,154)	\$ (1,182)	\$ (3,340)

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

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

	For the Six Months Ended June 30,		For the Three Months Ended June 30,	
	2017	2016	2017	2016
	(in millions)			
Benefit Plans: ⁽¹⁾				
Net loss	\$ 123	\$ 112	\$ 61	\$ 57
Prior service cost/credit	(17)	(27)	(9)	(8)
	106	85	52	49
AB InBev/SABMiller ⁽²⁾	2	19	2	7
Pre-tax amounts reclassified from accumulated other comprehensive losses to net earnings	\$ 108	\$ 104	\$ 54	\$ 56

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

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

Table of Contents

Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 6. Segment Reporting:

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

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

	For the Six Months Ended June 30,		For the Three Months Ended June 30,	
	2017	2016	2017	2016
	(in millions)			
Net revenues:				
Smokeable products	\$11,380	\$11,251	\$5,922	\$5,829
Smokeless products	1,030	1,002	564	523
Wine	290	316	150	171
All other	46	18	27	(2)
Net revenues	\$12,746	\$12,587	\$6,663	\$6,521
Earnings before income taxes:				
Operating companies income (loss):				
Smokeable products	\$4,274	\$3,869	\$2,233	\$2,118
Smokeless products	599	618	350	338
Wine	46	62	25	34
All other	(21)	(54)	(8)	(33)
Amortization of intangibles	(10)	(10)	(5)	(5)
General corporate expenses	(102)	(93)	(56)	(42)
Corporate asset impairment and exit costs	—	(5)	—	—
Operating income	4,786	4,387	2,539	2,410
Interest and other debt expense, net	(356)	(392)	(177)	(192)
Earnings from equity investment in AB InBev/SABMiller	163	265	140	199
Gain on AB InBev/SABMiller business combination	408	157	408	117
Earnings before income taxes	\$5,001	\$4,417	\$2,910	\$2,534

Table of Contents

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

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

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 Six Months Ended June 30, 2017	2016
	(in millions)	
Smokeable products segment	\$(8)	\$ 12
Interest and other debt expense, net	7	6
Total	\$(1)	\$ 18

NPM adjustment items result from the settlement of, and determinations made in connection with, disputes with certain states and territories related to the NPM adjustment provision under the 1998 Master Settlement Agreement (such settlements and determinations are referred to collectively as “NPM Adjustment Items” and are more fully described in Health Care Cost Recovery Litigation - NPM Adjustment Disputes in Note 9. Contingencies). The amounts shown in the table above for the smokeable products segment were recorded by PM USA as (reductions) increases to cost of sales, which (increased) decreased operating companies income in the smokeable products segment.

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 Six Months Ended June 30, 2017	For the Three Months Ended June 30, 2016	For the Six Months Ended June 30, 2017	For the Three Months Ended June 30, 2016
	(in millions)			
Smokeable products segment	\$16	\$ 27	\$15	\$ 1
Interest and other debt expense, net	2	16	2	4
Total	\$18	\$ 43	\$17	\$ 5

During the second quarter of 2017, PM USA recorded pre-tax charges related to four Engle progeny cases of \$15 million in marketing, administration and research costs and \$2 million in interest costs related to those cases. For further discussion, see Smoking and Health Litigation in Note 9. Contingencies.

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

Smokeless Products Recall - During the first quarter of 2017, USSTC voluntarily recalled certain smokeless tobacco products manufactured at its Franklin Park, Illinois facility due to a product tampering incident (the “Recall”). USSTC estimates that the Recall-related costs and the share impact from the Recall reduced smokeless products segment operating companies income by approximately \$60 million in the first quarter of 2017.

Asset Impairment, Exit and Implementation Costs - See Note 2. Asset Impairment, Exit and Implementation Costs for a breakdown of these costs by segment.

Note 7. Debt:

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

Long-term Debt

Altria Group, Inc.'s estimate of the fair value of its debt is based on observable market information derived from a third-party pricing source and is classified in Level 2 of the fair value hierarchy. The aggregate fair value of Altria Group, Inc.'s total long-

Table of Contents

Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

term debt at June 30, 2017 and December 31, 2016, was \$15.3 billion and \$15.1 billion, respectively, as compared with its carrying value of \$13.9 billion for each period.

Note 8. Income Taxes:

The income tax rate of 32.2% for the six months ended June 30, 2017 decreased 2.8 percentage points from the six months ended June 30, 2016. The income tax rate of 31.6% for the three months ended June 30, 2017 decreased 3.1 percentage points from the three months ended June 30, 2016. These decreases were due primarily to the following:

tax benefits of \$152 million related primarily to the effective settlement in June 2017 of the Internal Revenue Service audit of Altria Group, Inc. and its consolidated subsidiaries' 2010-2013 tax years, of which \$110 million was recorded in the second quarter of 2017; and

excess tax benefits of \$19 million for share-based awards that vested during the first half of 2017.

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 June 30, 2017, Altria Group, Inc.'s total unrecognized tax benefits were \$48 million. The amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate at June 30, 2017 was \$40 million, along with \$8 million affecting deferred taxes. It is reasonably possible that within the next 12 months certain examinations will be resolved, which could result in an increase in unrecognized tax benefits of approximately \$21 million. At December 31, 2016, Altria Group, Inc.'s total unrecognized tax benefits were \$169 million. The amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate at December 31, 2016 was \$67 million, along with \$102 million affecting deferred taxes.

At June 30, 2017 and December 31, 2016, a valuation allowance of \$240 million was included in Altria Group, Inc.'s net deferred income tax liabilities for tax credit carryforwards that more-likely-than-not will not be realized. Altria Group, Inc. may be required to change the valuation allowance with respect to foreign tax credit carryforwards, based upon additional information to be received from AB InBev in 2017.

Note 9. Contingencies:

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

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

circumstances may have to pay more than their proportionate share of any bonding- or judgment-related amounts. Furthermore, in those cases where plaintiffs are successful, Altria Group, Inc. or its subsidiaries may also be required to pay interest and attorneys' fees.

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

Table of Contents

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

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

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

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

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

Types and Number of Cases

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

The table below lists the number of certain tobacco-related cases pending in the United States against PM USA and, in some instances, Altria Group, Inc. as of July 24, 2017, July 22, 2016 and July 24, 2015:

	July 24, 2017	July 22, 2016	July 24, 2015
Individual Smoking and Health Cases ⁽¹⁾	90	62	65

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Smoking and Health Class Actions and Aggregated Claims Litigation ⁽²⁾	4	5	5
Health Care Cost Recovery Actions ⁽³⁾	1	1	1
“Lights/Ultra Lights” Class Actions	4	9	12

⁽¹⁾ Does not include 2,486 cases brought by flight attendants seeking compensatory damages for personal injuries allegedly caused by exposure to environmental tobacco smoke (“ETS”). The flight attendants allege that they are members of an ETS smoking and health class action in Florida, which was settled in 1997 (Broin). The terms of the court-approved settlement in that case allowed class members to file individual lawsuits seeking compensatory damages, but prohibited them from seeking punitive damages. Also, does not include individual smoking and health cases brought by or on behalf of plaintiffs in Florida state and federal courts following the decertification of the Engle case (discussed below in Smoking and Health Litigation - Engle Class Action).

Table of Contents

Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

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

International Tobacco-Related Cases

As of July 24, 2017, PM USA is a named defendant in 10 health care cost recovery actions in Canada, eight of which also name Altria Group, Inc. as a defendant. PM USA and Altria Group, Inc. are also named defendants in seven smoking and health class actions filed in various Canadian provinces. See Guarantees and Other Similar Matters below for a discussion of the Distribution Agreement between Altria Group, Inc. and Philip Morris International Inc. ("PMI") that provides for indemnities for certain liabilities concerning tobacco products.

Tobacco-Related Cases Set for Trial

As of July 24, 2017, four Engle progeny cases are set for trial through September 30, 2017. There is one individual smoking and health case and no "Lights/Ultra Lights" class actions against PM USA set for trial during this period. Cases against other companies in the tobacco industry are 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 61 smoking and health, "Lights/Ultra Lights" and health care cost recovery cases in which PM USA was a defendant. Verdicts in favor of PM USA and other defendants were returned in 41 of the 61 cases. These 41 cases were tried in Alaska (1), California (7), Florida (10), Louisiana (1), Massachusetts (2), Mississippi (1), Missouri (4), New Hampshire (1), New Jersey (1), New York (5), Ohio (2), Pennsylvania (1), Rhode Island (1), Tennessee (2) and West Virginia (2). A motion for a new trial was granted in one of the cases in Florida and in the case in Alaska. In the Alaska case (Hunter), the trial court withdrew its order for a new trial upon PM USA's motion for reconsideration. In December 2015, the Alaska Supreme Court reversed the trial court decision and remanded the case with directions for the trial court to reassess whether to grant a new trial. In March 2016, the trial court granted a new trial and PM USA filed a petition for review of that order with the Alaska Supreme Court, which the court denied in July 2016. The retrial began in October 2016. In November 2016, the court declared a mistrial after the jury failed to reach a verdict. The plaintiff subsequently moved for a new trial, which is scheduled to begin October 16, 2017. 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 20 non-Engle progeny cases in which verdicts were returned in favor of plaintiffs, 18 have reached final resolution.

As of July 24, 2017, 110 state and federal Engle progeny cases involving PM USA have resulted in verdicts since the Florida Supreme Court's Engle decision as follows: 62 verdicts were returned in favor of plaintiffs; 44 verdicts were returned in favor of PM USA. Two verdicts in favor of plaintiffs were partially or entirely reversed on appeal and two verdicts in favor of PM USA were reversed for a new trial. See Smoking and Health Litigation - Engle Progeny Trial Court Results below for a discussion of these verdicts.

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

After exhausting all appeals in those cases resulting in adverse verdicts associated with tobacco-related litigation, since October 2004, PM USA has paid in the aggregate judgments and settlements (including related costs and fees) totaling approximately \$490 million and interest totaling approximately \$184 million as of June 30, 2017. These amounts include payments for Engle progeny judgments (and related costs and fees) totaling approximately \$99 million, interest totaling approximately \$22 million and payment of approximately \$43 million in connection with the Federal Engle Agreement, discussed below.

Table of Contents

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

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 Six Months Ended June 30,		For the Three Months Ended June 30,	
	2017	2016	2017	2016
	(in millions)			
Accrued liability for tobacco and health litigation items at beginning of period	\$47	\$132	\$47	\$153
Pre-tax charges for:				
Tobacco and health judgments	16	5	15	1
Related interest costs	2	6	2	4
Agreement to resolve Aspinall including related interest costs	—	32	—	—
Payments	(18)	(145)	(17)	(128)
Accrued liability for tobacco and health litigation items at end of period	\$47	\$30	\$47	\$30

The accrued liability for tobacco and health litigation items, including related interest costs, was included in liabilities on Altria Group, Inc.'s condensed consolidated balance sheets. Pre-tax charges for tobacco and health judgments and the agreement to resolve the Aspinall case (excluding related interest costs of approximately \$10 million) 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 June 30, 2017, PM USA has posted various forms of security totaling approximately \$79 million, the majority of which has been collateralized with cash deposits that are included in other assets on the condensed consolidated balance sheet.

Smoking and Health Litigation

Overview

Plaintiffs' allegations of liability in smoking and health cases are based on various theories of recovery, including negligence, gross negligence, strict liability, fraud, misrepresentation, design defect, failure to warn, nuisance, breach of express and implied warranties, breach of special duty, conspiracy, concert of action, violations of deceptive trade practice laws and consumer protection statutes, and claims under the federal and state anti-racketeering statutes. Plaintiffs in the smoking and health cases seek various forms of relief, including compensatory and punitive damages, treble/multiple damages and other statutory damages and penalties, creation of medical monitoring and smoking cessation funds, disgorgement of profits, and injunctive and equitable relief. Defenses raised in these cases include lack of proximate cause, assumption of the risk, comparative fault and/or contributory negligence, statutes of limitations and preemption by the Federal Cigarette Labeling and Advertising Act.

Non-Engle Progeny Litigation

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

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.

Table of Contents

Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

Engle Class Action

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

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

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

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

Court of Appeal or by the Florida Supreme Court. In February 2007, the Florida Third District Court of Appeal denied defendants' motion. In May 2007, defendants' motion for a partial stay of the mandate pending the completion of appellate review was denied by the Florida Third District Court of Appeal. In May 2007, defendants filed a petition for writ of certiorari with the United States Supreme Court, which the United States Supreme Court denied later in 2007.

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

Table of Contents

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

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

Engle Progeny Cases

The deadline for filing Engle progeny cases, as required by the Florida Supreme Court's Engle decision, expired in January 2008. As of July 24, 2017, approximately 2,500 state court cases were pending against PM USA or Altria Group, Inc. asserting individual claims by or on behalf of approximately 3,300 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 July 24, 2017, approximately 12 cases were pending against PM USA in federal court representing the cases excluded from that agreement.

Agreement to Resolve Federal Engle Progeny Cases

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

Engle Progeny Trial Results

As of July 24, 2017, 110 federal and state Engle progeny cases involving PM USA have resulted in verdicts since the Florida Supreme Court Engle decision. Sixty-two verdicts were returned in favor of plaintiffs and two verdicts (Skolnick and Calloway) that were initially returned in favor of plaintiffs were reversed 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.

Forty-four verdicts were returned in favor of PM USA, of which 35 were state cases (Gelep, Kalyvas, Gil de Rubio, Warrick, Willis, Russo (formerly Frazier), C. Campbell, Rohr, Espinosa, Oliva, Weingart, Junious, Szymanski, Hancock, LaMotte, J. Campbell, Dombey, Haldeman, Blasco, Gonzalez, Banks, Surico, Baum, Bishop, Vila, McMannis, Suarez, Shulman, Ewing, E. Smith, Mooney, Chacon, Dubinsky, Lima, and Kogan) and 9 were federal cases (Gollihue, McCray, Denton, Wilder, Jacobson, Reider, Davis, Starbuck and Sowers). In addition, there have been a number of mistrials, only some of which have resulted in new trials as of July 24, 2017. Two verdicts (D. Cohen and Collar) that were returned in favor of PM USA were subsequently reversed for new trials. The juries in the Reider and Banks cases returned zero damages verdicts in favor of PM USA. The juries in the Weingart and Hancock cases returned verdicts against PM USA awarding no damages, but the trial court in each case granted an additur.

The charts below list the verdicts and post-trial developments in certain Engle progeny cases in which verdicts were returned in favor of plaintiffs (including Hancock, where the verdict originally was returned in favor of PM USA). The first chart lists such cases that are pending as of July 24, 2017; the second chart lists such cases that were pending within the previous 12 months, but that are now concluded.

Currently-Pending Engle Cases

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

25

Table of Contents

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

2017, the trial court entered final judgment in favor of plaintiff with a deduction for plaintiff's comparative fault.

Plaintiff: Sommers

Date: April 2017

Verdict:

A Miami-Dade County jury returned a verdict in favor of plaintiff and against PM USA awarding compensatory damages of \$1 million and allocating 40% of the fault to PM USA. The jury did not award punitive damages.

Post-Trial Developments:

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

Plaintiff: Santoro

Date: March 2017

Verdict:

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

Post-Trial Developments:

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

Plaintiff: J. Brown

Date: February 2017

Verdict:

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

Post-Trial Developments:

In March 2017, defendants filed various post-trial motions, including motions to set aside the verdict and for a new trial. The court ruled that it will not apply the comparative fault reduction to the compensatory damages.

Plaintiff: Pardue

Date: December 2016

Verdict:

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

Post-Trial Developments:

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

Plaintiff: S. Martin

Date: November 2016

Table of Contents

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

Verdict:

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

Post-Trial Developments:

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

Plaintiff: Howles

Date: November 2016

Verdict:

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

Post-Trial Developments:

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

Plaintiff: Oshinsky-Blacker

Date: September 2016

Verdict:

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

Post-Trial Developments:

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

Plaintiff: Sermons

Date: July 2016

Verdict:

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

Post-Trial Developments:

In July 2016, plaintiff filed a motion for a new trial or, in the alternative, for an additur.

Plaintiff: Purdo

Date: April 2016

Verdict:

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

27

Table of Contents

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

Post-Trial Developments:

In May 2016, PM USA and R.J. Reynolds filed various post-trial motions, including motions to set aside the verdict and for a new trial, all of which the court denied and entered final judgment in favor of plaintiff with a deduction for plaintiff's comparative fault. In June 2016, defendants filed a notice of appeal to the Florida Fourth District Court of Appeal and PM USA posted a bond in the amount of approximately \$1.5 million.

Plaintiff: McCall

Date: March 2016

Verdict:

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

Post-Trial Developments:

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

Plaintiff: Ahrens

Date: February 2016

Verdict:

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

Post-Trial Developments:

In February 2016, the trial court entered final judgment against PM USA and R.J. Reynolds without any deduction for plaintiff's comparative fault and defendants filed various post-trial motions, including motions to set aside the verdict and for a new trial. In March 2016, the trial court denied defendants' post-trial motions. In April 2016, defendants filed a notice of appeal to the Florida Second District Court of Appeal and PM USA posted a bond in the amount of \$2.5 million. In May 2017, the Florida Second District Court of Appeal issued a per curiam affirmance of the final judgment against defendants and defendants filed a motion for rehearing. In July 2017, the Second District Court of Appeal withdrew its prior decision and replaced it with a written opinion affirming the trial court's judgment, but certifying to the Florida Supreme Court a conflict with Schoeff, discussed below under Engle Progeny Appellate Issues.

Plaintiff: Ledoux

Date: December 2015

Verdict:

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

Post-Trial Developments:

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

Table of Contents

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

Plaintiff: Barbose
Date: November 2015

Verdict:

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

Post-Trial Developments:

In November 2015, the court entered final judgment in favor of plaintiff without any deduction for plaintiff's comparative fault and in December 2015, PM USA and R.J. Reynolds filed various post-trial motions, including motions to set aside the verdict and for a new trial, which the court denied in January 2016. In February 2016, PM USA posted a bond in the amount of \$2.5 million and filed a notice of appeal to the Florida Second District Court of Appeal.

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.

Plaintiff: Danielson
Date: November 2015

Verdict:

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

Post-Trial Developments:

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

Plaintiff: Marchese

Date: October 2015

Verdict:

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

Post-Trial Developments:

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

Table of Contents

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

in the amount of approximately \$475,000.

Plaintiff: Duignan
Date: September 2015

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

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

Plaintiff: Cooper
Date: September 2015

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

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

Plaintiff: Jordan
Date: August 2015

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

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

Plaintiff: McCoy

Date: July 2015

Verdict:

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

Post-Trial Developments:

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

30

Table of Contents

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

amount of approximately \$1.65 million and plaintiff filed a notice of cross-appeal.

Plaintiff: M. Brown

Date: May 2015

Verdict:

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

Post-Trial Developments:

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

Plaintiff: Gore

Date: March 2015

Verdict:

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

Post-Trial Developments:

In April 2015, defendants filed post-trial motions, including motions to set aside the verdict and for a new trial. In September 2015, the trial court entered final judgment with a deduction for plaintiff's comparative fault. In October 2015, defendants filed a notice of appeal to the Florida Fourth District Court of Appeal and plaintiff cross-appealed. PM USA subsequently posted a bond in the amount of \$460,000.

Plaintiff: Pollari

Date: March 2015

Verdict:

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

Post-Trial Developments:

In April 2015, defendants filed post-trial motions, including motions to set aside the verdict and for a new trial, and the trial court entered final judgment without any deduction for plaintiff's comparative fault. In January 2016, the trial court denied defendants' post-trial motions and amended the final judgment to apply the comparative fault deduction. Also in January 2016, defendants filed a notice of appeal to the Florida Fourth District Court of Appeal and PM USA posted a bond in the amount of \$2.5 million. In February 2016, plaintiff cross-appealed.

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

Table of Contents

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

case pending the Eleventh Circuit's final disposition in the Graham case.

Plaintiff: Caprio

Date: February 2015

Verdict:

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

Post-Trial Developments:

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

Plaintiff: McKeever

Date: February 2015

Verdict:

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

Post-Trial Developments:

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

Plaintiff: D. Brown

Date: January 2015

Verdict:

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

Post-Trial Developments:

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

Plaintiff: Allen

Date: November 2014

Verdict:

A Duval County jury returned a verdict against PM USA and R.J. Reynolds awarding plaintiff approximately \$3.1 million in

32

Table of Contents

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

compensatory damages and allocating 6% of the fault to PM USA. The jury also awarded approximately \$7.76 million in punitive damages against each defendant. This was a retrial of a 2011 trial that awarded plaintiff \$6 million in compensatory damages and \$17 million in punitive damages against each defendant.

Post-Trial Developments:

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

Plaintiff: Perrotto

Date: November 2014

Verdict:

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

Post-Trial Developments:

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

Plaintiff: Boatright

Date: November 2014

Verdict:

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

Post-Trial Developments:

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

Progeny Appellate Issues.

Plaintiff: Kerrivan

Date: October 2014

Verdict:

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

33

Table of Contents

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

Post-Trial Developments:

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

Plaintiff: Lourie

Date: October 2014

Verdict:

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

Post-Trial Developments:

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

Plaintiff: Berger

Date: September 2014

Verdict:

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

Post-Trial Developments:

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

Graham, which the court granted in June 2016. In August 2016, the trial court denied plaintiff's motion to reinstate the jury's punitive damages or to order a new trial and, in September 2016, plaintiff cross-appealed. In June 2017, the U.S. Court of Appeals for the Eleventh Circuit lifted the stay on the post-trial motions.

Plaintiff: Harris

Date: July 2014

Verdict:

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

Post-Trial Developments:

Defendants filed motions for a defense verdict because the jury's findings indicated that plaintiff was not a member of the Engle

34

Table of Contents

Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

class. In December 2014, the trial court entered final judgment without any deduction for plaintiff's comparative fault and, in January 2015, defendants filed a renewed motion for judgment as a matter of law or, in the alternative, a motion for a new trial. Defendants also filed a motion to alter or amend the final judgment. In April 2015, the trial court stayed the post-trial proceedings pending the Eleventh Circuit's final disposition in the Graham case, discussed below under Engle Progeny Appellate Issues.

Plaintiff: Griffin

Date: June 2014

Verdict:

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

Post-Trial Developments:

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

Plaintiff: Burkhart

Date: May 2014

Verdict:

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

Post-Trial Developments:

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

Plaintiff: Skolnick

Date: June 2013

Verdict:

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

Post-Trial Developments:

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

Table of Contents

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

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.

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.

Plaintiff: Searcy
Date: April 2013

Verdict:

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

Post-Trial Developments:

In June 2013, the trial court entered final judgment without any deduction for plaintiff's comparative fault. In July 2013, defendants filed various post-trial motions, including motions requesting reductions in damages. In September 2013, the district court reduced the compensatory damages award to \$1 million and the punitive damages award to \$1.67 million against each defendant. The district court denied all other post-trial motions. Plaintiff filed a motion to reconsider the district court's remittitur and, in the alternative, to certify the issue to the U.S. Court of Appeals for the Eleventh Circuit, both of which the

Table of Contents

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

court denied in October 2013. In November 2013, defendants filed a notice of appeal to the U.S. Court of Appeals for the Eleventh Circuit. In December 2013, defendants filed an amended notice of appeal after the district court corrected a clerical error in the final judgment, and PM USA posted a bond in the amount of approximately \$2.2 million.

Plaintiff: Calloway
Date: May 2012

Verdict:

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

Post-Trial Developments:

In May and June 2012, defendants filed motions to set aside the verdict and for a new trial. In August 2012, the trial court denied the remaining post-trial motions, reduced the compensatory damages to \$16.1 million and entered final judgment without any deduction for plaintiff's comparative fault. In September 2012, PM USA posted a bond in an amount of \$1.5 million and defendants filed a notice of appeal to the Florida Fourth District Court of Appeal. In August 2013, plaintiff filed a motion to determine the sufficiency of the bond in the trial court on the ground that the bond cap statute is unconstitutional, which the court denied. In January 2016, a panel of the Florida Fourth District Court of Appeal vacated the punitive damages award and remanded the case for retrial on plaintiff's claims of concealment and conspiracy, and punitive damages. The court also found that the trial court should have applied the comparative fault deduction, reducing the compensatory damages against PM USA to \$4.025 million. In February 2016, defendants and plaintiff filed respective motions for rehearing and rehearing en banc. In March 2016, plaintiff filed a notice of supplemental authority citing the Soffer decision, discussed below under Engle Progeny Appellate Issues. In September 2016, the Florida Fourth District Court of Appeal, ruling en banc, reversed the judgment against PM USA and R.J. Reynolds in its entirety on the grounds that improper arguments by plaintiff's counsel deprived defendants of a fair trial, and ordered a new trial. In October 2016, plaintiff filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court, which the court denied in March 2017. In June 2017, plaintiff filed a petition for writ of certiorari with the United States Supreme Court seeking review of the 2016 en banc ruling by the Florida Fourth District Court of Appeal.

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.

Table of Contents

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

Plaintiff: Naugle
Date: November 2009

Verdict:

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

Post-Trial Developments:

In March 2010, the trial court entered final judgment reflecting a reduced award of approximately \$13 million in compensatory damages and \$26 million in punitive damages, but without any deduction for plaintiff's comparative fault. In April 2010, PM USA filed its notice of appeal and posted a \$5 million bond. In June 2012, the Fourth District Court of Appeal affirmed the final judgment (as amended to correct a clerical error) in the amount of approximately \$12.3 million in compensatory damages and approximately \$24.5 million in punitive damages. In December 2012, the Fourth District withdrew its prior decision, reversed the verdict as to compensatory and punitive damages and returned the case to the trial court for a new trial on the question of damages. Upon retrial, in October 2013, the new jury awarded approximately \$3.7 million in compensatory damages and \$7.5 million in punitive damages. PM USA filed post-trial motions, which the trial court denied in April 2014. In May 2014, PM USA filed a notice of appeal to the Fourth District Court of Appeal and plaintiff cross-appealed. Also in May 2014, PM USA filed a rider with the Florida Supreme Court to make the previously-posted Naugle bond applicable to the retrial judgment. In January 2016, the Fourth District Court of Appeal reversed the trial court's decision and remanded the case to the trial court to conduct a juror interview. In April 2016, PM USA moved for a new trial following the juror interview, which the court denied. In May 2016, PM USA filed a notice of appeal to the Fourth District Court of Appeal. In April 2017, the Fourth District Court of Appeals issued a per curiam decision affirming the trial court's judgment against PM USA. In the second quarter of 2017, PM USA recorded a provision on its condensed consolidated balance sheet of approximately \$13.2 million for the judgment plus interest and associated costs, and increased its bond by \$6.2 million.

Engle Cases Concluded Within Past 12 Months

Plaintiff: Merino
Date: July 2015

Verdict:

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

Post-Trial Developments:

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

2017, PM USA paid the judgment plus interest and associated costs in the amount of approximately \$17.4 million.

Plaintiff: Varner

Date: July 2016

Verdict:

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

Post-Trial Developments:

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

38

Table of Contents

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

and associated costs in the amount of approximately \$600,000.

Plaintiff: Hancock
Date: August 2012

Verdict:

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

Post-Trial Developments:

In August 2012, defendants moved to set aside the verdict and to enter judgment in accordance with their motion for directed verdict. Defendants also moved to reduce damages, which motion the court granted. The trial court granted defendants' motion to set off the damages award by the amount of economic damages paid by third parties, which will reduce further any final award. In October 2012, the trial court entered final judgment with a deduction for plaintiff's comparative fault (PM USA's portion of the damages was approximately \$700) and PM USA filed a motion to amend the judgment to award PM USA attorneys' fees of approximately \$20,000. In November 2012, both sides filed notices of appeal to the Florida Fourth District Court of Appeal. Plaintiff agreed to waive the bond for the appeal. In April 2015, the Florida Fourth District Court of Appeal affirmed the trial court's verdict. In May 2015, plaintiff filed a motion for rehearing and for a written opinion and rehearing en banc, which the Court of Appeal denied in June 2015. In December 2016, plaintiff agreed not to pursue the judgment in exchange for PM USA not pursuing its fee award, thereby resolving the case.

Engle Progeny Appellate Issues

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

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

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

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

Meanwhile, in the Waggoner case, the U.S. District Court for the Middle District of Florida ruled in December 2011 that application of the Engle findings to establish the wrongful conduct elements of plaintiffs' claims consistent with Martin or J. Brown did not violate defendants' due process rights. PM USA and the other defendants sought appellate review of the due process ruling. In February 2012, the district court denied the motion for interlocutory appeal, but did apply the ruling to all active pending federal Engle progeny cases. As a result, R.J. Reynolds appealed the rulings in the Walker and Duke cases to the Eleventh Circuit, which ultimately rejected the due process defense. In March 2014, R.J. Reynolds filed petitions for writ of

Table of Contents

Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

certiorari to the United States Supreme Court in the Walker and Duke cases, as well as in J. Brown. Defendants filed petitions for writ of certiorari in eight other Engle progeny cases that were tried in Florida state courts, including one case, Barbanell, in which PM USA was the defendant. In these eight petitions, defendants asserted questions similar to those in Walker, Duke and J. Brown. In June 2014, the United States Supreme Court denied defendants' petitions for writ of certiorari in all 11 cases.

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

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

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

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

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

Florida Bond Statute

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

intervened in these cases in defense of the constitutionality of the statute.

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

Table of Contents

Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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 in 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.

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 July 24, 2017, PM USA and Altria Group, Inc. are named as defendants, along with other cigarette manufacturers, in seven class actions filed in the Canadian provinces of Alberta, Manitoba, Nova Scotia, Saskatchewan, British Columbia and Ontario. In Saskatchewan, British Columbia (two separate cases) and Ontario, plaintiffs seek class certification on behalf of individuals who suffer or have suffered from various diseases, including chronic obstructive pulmonary disease, emphysema, heart disease or cancer, after smoking defendants' cigarettes. In the actions filed in Alberta, Manitoba and Nova Scotia, plaintiffs seek certification of classes of all individuals who smoked defendants' cigarettes. See Guarantees and Other Similar Matters below for a discussion of the Distribution Agreement between Altria Group, Inc. and PMI that provides for indemnities for certain liabilities concerning tobacco products.

Health Care Cost Recovery Litigation

Overview

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

of anti-smoking programs, additional disclosure of nicotine yields, and payment of attorney and expert witness fees.

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

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

Table of Contents

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

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

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

Settlements of Health Care Cost Recovery Litigation

In November 1998, PM USA and certain other United States tobacco product manufacturers entered into the 1998 Master Settlement Agreement (the "MSA") with 46 states, the District of Columbia, Puerto Rico, Guam, the United States Virgin Islands, American Samoa and the Northern Marianas to settle asserted and unasserted health care cost recovery and other claims. PM USA and certain other United States tobacco product manufacturers had previously entered into agreements to settle similar claims brought by Mississippi, Florida, Texas and Minnesota (together with the MSA, the "State Settlement Agreements"). The State Settlement Agreements require that the original participating manufacturers or "OPMs" (now PM USA and R.J. Reynolds and, with respect to the brands it acquired from R.J. Reynolds and Lorillard, ITG Brands, LLC ("ITG"), subject to a dispute discussed below with respect to some of the State Settlement Agreements) make annual payments of approximately \$9.4 billion, subject to adjustments for several factors, including inflation, market share and industry volume. In addition, the OPMs are required to pay settling plaintiffs' attorneys' fees, subject to an annual cap of \$500 million. For the three months ended June 30, 2017 and 2016, the aggregate amount recorded in cost of sales with respect to the State Settlement Agreements was approximately \$1.2 billion for each period. For the six months ended June 30, 2017 and 2016, the aggregate amount recorded in cost of sales with respect to the State Settlement Agreements was approximately \$2.3 billion for each period.

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

NPM Adjustment Disputes

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

2003-2014 NPM Adjustment Disputes - Settlement with 26 States and Territories and Settlement with New York

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

Table of Contents

Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

“transition years”) in the form of a reduction to its MSA payment in April 2017. As a result of the settlements with Rhode Island and Oregon, PM USA recorded a reduction to cost of sales in the amount of \$25 million in the first quarter of 2017.

The settlement further provides that the NPM Adjustment provision will be revised and streamlined as to the signatory states for 2013 and subsequent years. Under the revised provision, there is a potential downward adjustment to the PMs’ MSA payment relating to NPM sales on which state excise tax (“SET”) is paid. Pursuant to such adjustment, each signatory state will pay an amount to the OPMs tied to the number of NPM cigarettes sold during the year at issue on which that state collected its SET (or, potentially, on which a comparable tax was collected) but on which that state did not collect escrow (“non-compliant NPM sales”). These payments will be made in the form of future reductions to MSA payments by the OPMs. This adjustment for SET-paid NPM sales is subject to certain exceptions and to a “safe harbor” under which a state does not owe any payment if the number or percentage of non-compliant NPM sales is below certain stated benchmarks. In addition, the settlement further provides that the NPM Adjustment for 2015 and subsequent years will continue to apply to the signatory states (except for Oregon, which has settled through 2015 and accordingly the NPM Adjustment for 2015 will not apply to it), subject to certain defenses, but that those states will receive a partial liability reduction tied to the percentage of NPM sales nationwide during the year at issue on which either an MSA state has collected SET (or potentially a comparable tax is collected) or, potentially, Mississippi, Florida, Texas or Minnesota collected an equity fee (as defined in the settlement) on cigarettes sold by NPMs in those respective states. The amount (if any) of the potential adjustments relating to SET-paid NPM sales and the amount of the partial liability reductions for 2015 and 2016 have not yet been determined. In addition, proceedings to determine the availability of and defenses to the 2015 and 2016 NPM Adjustments as to the signatory states will likely not take place for a considerable period of time. In the meantime, pursuant to the settlement, the OPMs and the signatory states have agreed to split the NPM Adjustment amount for 2015 and each subsequent year thereafter pending the ultimate outcome of the applicable proceedings. As a result, \$43 million related to the 2015 NPM Adjustment was returned to PM USA in the second quarter of 2016, and \$46 million related to the 2016 NPM Adjustment was returned to PM USA in the second quarter of 2017. The amounts related to the 2015 and 2016 NPM Adjustments were included in other liabilities on the condensed consolidated balance sheet at June 30, 2017. Once the proceedings to determine the amount of the applicable NPM Adjustment are concluded, the applicable amount will either be paid to the signatory states or retained by PM USA (in each case, without interest) as part of the ultimately determined amount payable. The OPMs have agreed that the amounts they receive under the settlement for 2013 and subsequent years from the signatory states will be allocated among them pursuant to a formula that modifies the MSA allocation formula in a manner favorable to PM USA. The extent to which it remains favorable to PM USA will depend upon future developments, as well as upon the resolution of certain disputes among the OPMs discussed below.

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

In September 2013, the arbitration panel issued rulings regarding the 15 states and territories whose diligent enforcement the PMs contested that had not as of that time joined the settlement, ruling that six of them (Indiana, Kentucky, Maryland, Missouri, New Mexico and Pennsylvania) did not diligently enforce during 2003 and that nine of them did. Based on this ruling, the PMs were entitled to receive from the six non-diligent states the entire 2003 NPM Adjustment remaining after the pro rata judgment reduction. PM USA believed it was entitled to receive an NPM

Table of Contents

Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Adjustment for 2003 based on this ruling, after reflecting the 20% partial liability reduction noted above, of approximately \$145 million. PM USA recorded this \$145 million as a reduction to cost of sales, which increased its reported pre-tax earnings in the third quarter of 2013. In addition, PM USA believed it would be entitled to interest on this amount of approximately \$89 million. PM USA recorded \$64 million of this amount as interest income, which reduced interest and other debt expense, net in the first quarter of 2014, but did not record the remaining \$25 million based on its assessment of certain disputes concerning interest discussed below.

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

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

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

In May 2014, a Missouri state trial court denied Missouri's motion to vacate the arbitration panel's ruling that Missouri had not diligently enforced, but granted Missouri's motion to modify, with respect to Missouri, the pro rata judgment reduction. In September 2015, a Missouri intermediate appellate court reversed the Missouri state trial court's ruling that modified the pro rata judgment reduction, effectively reinstating the application of that reduction method to Missouri. In February 2017, the Supreme Court of Missouri reversed the intermediate appellate court and granted Missouri's motion to modify, with respect to Missouri, the pro rata judgment reduction related to the 2003 NPM Adjustment. As a result of the judgment reduction decision, PM USA returned approximately \$12 million of the 2003 NPM Adjustment and \$7 million of the interest it received, plus applicable interest. In addition, PM USA recorded a corresponding reduction to its pre-tax earnings in the first quarter of 2017. In connection with its appeal of the

Table of Contents

Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Missouri state trial court's ruling, PM USA posted a bond in the amount of \$22 million, which was released in June 2017.

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

No assurance can be given that PM USA's appeal of the New Mexico court ruling on pro rata judgment reduction or the above-referenced disputes concerning calculation or allocation of interest will be resolved in a manner favorable to PM USA.

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

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

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

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

The independent auditor has calculated that PM USA's share of the maximum potential NPM Adjustments for 2004-2016 is (exclusive of interest or earnings): \$388 million for 2004, \$181 million for 2005, \$154 million for 2006,

\$185 million for 2007, \$250 million for 2008, \$211 million for 2009, \$218 million for 2010, \$166 million for 2011, \$214 million for 2012, \$223 million for 2013, \$246 million for 2014, \$292 million for 2015 and \$296 million for 2016. These maximum amounts will be reduced by a judgment reduction to reflect the settlement with the signatory states and the New York settlement. The judgment reduction for the 2004 and subsequent NPM Adjustments has not yet been determined. In addition, these maximum amounts may also be further reduced by other developments, including agreements that may be entered in the future, disputes that may arise or recalculation of the NPM Adjustment amounts by the independent auditor. Further, the maximum amount for 2004 may also be reduced due to a dispute raised by another OPM regarding the allocation of the maximum potential 2004 NPM Adjustment among the OPMs. In addition, as discussed below, PM USA believes that the amounts shown above as PM USA's share of the maximum potential NPM Adjustment for 2015 and 2016 were incorrectly calculated by the independent auditor, and

Table of Contents

Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

that PM USA's correct share is higher. Finally, PM USA's recovery of these amounts, even as reduced, is dependent upon subsequent determinations of state diligent enforcement claims, and is subject (in the case of signatory states found non-diligent) to the partial liability reduction under the settlement. The availability and amount of any NPM Adjustment for 2004 and subsequent years will not be finally determined in the near term. There is no assurance that PM USA will ultimately receive any adjustment as a result of these proceedings. PM USA's receipt of amounts on account of the 2003 NPM Adjustment and interest from non-signatory states does not provide any assurance that PM USA will receive any NPM Adjustment amounts (or associated interest or earnings) for 2004 or any subsequent year. PM USA may enter into settlement discussions regarding the NPM Adjustment disputes with any state if PM USA believes it is in its best interests to do so.

Other Disputes Under the State Settlement Agreements

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

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

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

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

Other MSA-Related Litigation

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

Federal Government's Lawsuit

In 1999, the United States government filed a lawsuit in the U.S. District Court for the District of Columbia against various cigarette manufacturers, including PM USA, and others, including Altria Group, Inc., asserting claims under three federal statutes, namely the Medical Care Recovery Act ("MCRA"), the MSP provisions of the Social Security Act and the civil provisions of RICO. Trial of the case ended in June 2005. The lawsuit sought to recover an unspecified amount of health care costs for tobacco-related illnesses allegedly caused by defendants' fraudulent and tortious conduct and paid for by the

Table of Contents

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

government under various federal health care programs, including Medicare, military and veterans' health benefits programs, and the Federal Employees Health Benefits Program. The complaint alleged that such costs total more than \$20 billion annually. It also sought what it alleged to be equitable and declaratory relief, including disgorgement of profits that arose from defendants' allegedly tortious conduct, an injunction prohibiting certain actions by defendants, and a declaration that defendants are liable for the federal government's future costs of providing health care resulting from defendants' alleged past tortious and wrongful conduct. The case ultimately proceeded only under the civil provisions of RICO.

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

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

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

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

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

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

48

Table of Contents

Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

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

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

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

content and vehicles of the corrective communications and, in July 2014, defendants moved to consolidate this appeal with the appeal filed in January 2013. The U.S. Court of Appeals granted the motion to consolidate in August 2014.

In May 2015, the U.S. Court of Appeals affirmed in part and reversed in part, concluding that certain portions of the statements exceeded the district court's jurisdiction under RICO, but upheld other portions challenged by defendants. The Court of Appeals remanded the case to the trial court for further proceedings. In July 2015, the government filed a petition for panel rehearing, which the U.S. Court of Appeals denied on August 2015. In October 2015, the district court ordered further briefing on the content of the corrective communications reversed by the U.S. Court of Appeals and any implementation changes the parties propose. In February 2016, the U.S. District Court for the District of Columbia issued an order on the content of the corrective communications and ordered the parties to submit proposed changes to the consent order on the implementation details, which the parties jointly submitted and the court approved in April 2016. Also in April 2016, defendants filed a notice of appeal to the U.S. Court of Appeals for the District of Columbia Circuit on the content of the corrective communications. In May 2016, defendants filed a notice of appeal of the consent order for the purpose of perfecting the appeal of the district court's

Table of Contents

Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

February 2016 order on the content of the corrective communications. In April 2017, the U.S. Court of Appeals for the District of Columbia Circuit reversed in part the district court's decision on the content of the corrective communications, striking certain content and remanding to the district court the decision on how to revise certain other content. In June 2017, the U.S. District Court for the District of Columbia issued an order adopting modified corrective statements. In July 2017, the U.S. District Court issued an additional order requiring the parties, by August 11, 2017, to use their best efforts to submit an agreed upon consent order on implementation details or to provide a status report.

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

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

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

“Lights/Ultra Lights” Cases

Overview

Plaintiffs in certain pending matters seek certification of their cases as class actions and allege, among other things, that the uses of the terms “Lights” and/or “Ultra Lights” constitute deceptive and unfair trade practices, common law or statutory fraud, unjust enrichment or breach of warranty, and seek injunctive and equitable relief, including restitution and, in certain cases, punitive damages. These class actions have been brought against PM USA and, in certain instances, Altria Group, Inc. or its other subsidiaries, on behalf of individuals who purchased and consumed various brands of cigarettes, including Marlboro Lights, Marlboro Ultra Lights, Virginia Slims Lights and Superslims, Merit Lights and Cambridge Lights. Defenses raised in these cases include lack of misrepresentation, lack of causation, injury and damages, the statute of limitations, non-liability under state statutory provisions exempting conduct that complies with federal regulatory directives, and the First Amendment. As of July 24, 2017, a total of four such cases are pending in various U.S. state courts.

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

As of July 24, 2017, 21 state courts in 22 “Lights” cases have refused to certify class actions, dismissed class action allegations, reversed prior class certification decisions or have entered judgment in favor of PM USA.

State Trial Court Class Certifications

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

Larsen: In August 2005, a Missouri Court of Appeals affirmed the class certification order. In December 2009, the trial court denied plaintiffs' motion for reconsideration of the period during which potential class members can qualify to become part of the class. The class period remains 1995-2003. In June 2010, PM USA's motion for partial summary judgment regarding plaintiffs' request for punitive damages was denied. In April 2010, plaintiffs moved for partial summary judgment as to an element of liability in the case, claiming collateral estoppel from the findings in the case brought by the Department of Justice (see Health Care Cost Recovery Litigation - Federal Government's Lawsuit described above). The plaintiffs' motion was denied in December 2010. In June 2011, PM USA filed various summary judgment motions challenging the plaintiffs' claims. In August 2011, the trial court granted PM USA's motion for partial summary judgment, ruling that plaintiffs could not present a damages claim based on allegations that Marlboro Lights are more dangerous than Marlboro Reds. The trial court denied PM USA's remaining summary judgment motions. Trial in the case began in September 2011 and, in October 2011, the court declared a mistrial after the jury failed to reach a verdict. In January 2014, the trial court reversed its prior ruling granting partial summary

Table of Contents

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

judgment against plaintiffs' "more dangerous" claim and allowed plaintiffs to pursue that claim. In October 2014, PM USA filed motions to decertify the class and for partial summary judgment on plaintiffs' "more dangerous" claim, which the court denied in June 2015. Upon retrial, in April 2016, the jury returned a verdict in favor of PM USA. In August 2016, plaintiffs filed a notice of appeal and PM USA cross-appealed. In November 2016, the court of appeals dismissed PM USA's cross-appeal without prejudice upon joint motion of the parties. Oral argument at the Missouri Court of Appeals is scheduled for August 8, 2017.

State Trial Court Class Certification Settlements

Aspinall: In August 2004, the Massachusetts Supreme Judicial Court affirmed the class certification order. In September 2013, plaintiffs filed a motion for partial summary judgment on the scope of remedies available in the case, which the Massachusetts Superior Court denied in February 2014, concluding that plaintiffs cannot obtain disgorgement of profits as an equitable remedy and that their recovery is limited to actual damages or \$25 per class member if they cannot prove actual damages greater than \$25. Trial began in October 2015 and concluded in November 2015. In February 2016, the trial court issued its "Findings of Fact and Conclusions of Law," and awarded statutory damages of \$25 per class member, for a total of \$4.9 million, plus interest, attorneys' fees and costs. In April 2016, subject to the court's approval, the parties agreed to settle all claims for approximately \$32 million. In the first quarter of 2016, PM USA recorded a provision on its condensed consolidated balance sheet of approximately \$32 million for the judgment plus interest and associated costs. In May 2016, PM USA paid approximately \$32 million to plaintiffs' escrow agent. In September 2016, the court approved the settlement in which PM USA agreed to pay approximately \$15.3 million to the class and \$16.5 million in attorneys' fees and costs, and dismissed the case with prejudice, concluding this litigation.

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

Other Developments

In December 2009, the state trial court in Carroll (formerly known as Holmes) (pending in Delaware) denied PM USA's motion for summary judgment based on an exemption provision in the Delaware Consumer Fraud Act. In January 2011, the trial court allowed the plaintiffs to file an amended complaint substituting class representatives and naming Altria Group, Inc. and PMI as additional defendants. In February 2013, the trial court approved the parties' stipulation to the dismissal without prejudice of Altria Group, Inc. and PMI, leaving PM USA as the sole defendant in the case. In March 2015, plaintiffs moved for class certification and, in July 2015, PM USA filed a summary judgment motion seeking to dismiss plaintiffs' claims in their entirety on preemption grounds. In May 2017, the court denied plaintiffs' motion for class certification. The named plaintiff agreed to resolve her individual claim for \$3,000 and, pursuant to that agreement, in July 2017, the trial court approved the parties' stipulation to dismiss the case with prejudice, concluding this litigation.

Certain Other Tobacco-Related Litigation

Ignition Propensity Cases

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

Table of Contents

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

Argentine Grower Cases

PM USA and Altria Group, Inc. were sued in six cases (Hupan, Chalanuk, Rodriguez Da Silva, Aranda, Tabora 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, Tabora 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 is scheduled for September 20, 2017.

UST Litigation

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

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

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

2017. In May 2017, the court granted plaintiffs' motion to dismiss all defendants except USSTC.

Nu Mark Patent Litigation

Fontem Ventures B.V. and Fontem Holdings 1 B.V., both subsidiaries of ITG, sued Nu Mark for alleged patent infringement in the U.S. District Court for the Central District of California of one or more claims under various Fontem patents for e-vapor products. The suit sought recovery of an unspecified amount of money damages for alleged past infringement and an injunction against future infringement, which injunction may have resulted in Nu Mark being enjoined from marketing one or more of the products at issue in the suit. In December 2016, the parties entered into a settlement and license agreement, resulting in the dismissal of the litigation. Under the terms of the agreement, in January 2017, Nu Mark made an upfront

Table of Contents

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

payment of \$21 million and will make future royalty payments in amounts that Altria Group, Inc. does not expect to be material. In the fourth quarter of 2016, Nu Mark recorded a provision on its consolidated balance sheet of \$21 million.

Environmental Regulation

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

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

Guarantees and Other Similar Matters

In the ordinary course of business, certain subsidiaries of Altria Group, Inc. have agreed to indemnify a limited number of third parties in the event of future litigation. At June 30, 2017, Altria Group, Inc. and certain of its subsidiaries (i) had \$58 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 \$36 million recorded on its condensed consolidated balance sheet. In addition, from time to time, subsidiaries of Altria Group, Inc. issue lines of credit to affiliated entities. These items have not had, and are not expected to have, a significant impact on Altria Group, Inc.’s liquidity.

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

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

commercial paper program.

53

Table of Contents

Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 10. Condensed Consolidating Financial Information:

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

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

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

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

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

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

At June 30, 2017, the respective principal 100% owned subsidiaries of Altria Group, Inc. and PM USA were not limited by long-term debt or other agreements in their ability to pay cash dividends or make other distributions with respect to their equity interests.

The following sets forth the condensed consolidating balance sheets as of June 30, 2017 and December 31, 2016, condensed consolidating statements of earnings and comprehensive earnings for the six and three months ended June 30, 2017 and 2016, and condensed consolidating statements of cash flows for the six months ended June 30, 2017 and 2016 for Altria Group, Inc., PM USA and, collectively, Altria Group, Inc.'s other subsidiaries that are not guarantors of Altria Group, Inc.'s debt instruments (the "Non-Guarantor Subsidiaries"). The financial information is based on Altria Group, Inc.'s understanding of the Securities and Exchange Commission ("SEC") interpretation and application of Rule 3-10 of SEC Regulation S-X.

The financial information may not necessarily be indicative of results of operations or financial position had PM USA and the Non-Guarantor Subsidiaries operated as independent entities. Altria Group, Inc. and PM USA account for investments in their subsidiaries under the equity method of accounting.

Table of Contents

Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Condensed Consolidating Balance Sheets

June 30, 2017

(in millions of dollars)

	Altria Group, Inc.	PM USA	Non- Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Assets					
Cash and cash equivalents	\$ 2,203	\$ 1	\$ 51	\$ —	\$ 2,255
Receivables	—	8	111	—	119
Inventories:					
Leaf tobacco	—	441	328	—	769
Other raw materials	—	112	66	—	178
Work in process	—	3	431	—	434
Finished product	—	187	431	—	618
	—	743	1,256	—	1,999
Due from Altria Group, Inc. and subsidiaries	17	2,728	1,145	(3,890)) —
Other current assets	34	106	104	(6)	) 238
Total current assets	2,254	3,586	2,667	(3,896)	) 4,611
Property, plant and equipment, at cost	—	2,975	1,877	—	4,852
Less accumulated depreciation	—	2,108	844	—	2,952
	—	867	1,033	—	1,900
Goodwill	—	—	5,307	—	5,307
Other intangible assets, net	—	2	12,194	—	12,196
Investment in AB InBev	18,219	—	—	—	18,219
Investment in consolidated subsidiaries	11,839	2,642	—	(14,481)) —
Finance assets, net	—	—	988	—	988
Due from Altria Group, Inc. and subsidiaries	4,790	—	—	(4,790)) —
Other assets	20	1,736	127	(1,378)	) 505
Total Assets	\$ 37,122	\$ 8,833	\$ 22,316	\$ (24,545)	) \$ 43,726

Table of Contents

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

Condensed Consolidating Balance Sheets (Continued)

June 30, 2017

(in millions of dollars)

	Altria Group, Inc.	PM USA	Non- Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated	
Liabilities						
Accounts payable	\$ —	\$ 64	\$ 130	\$ —	\$ 194	
Accrued liabilities:						
Marketing	—	659	104	—	763	
Employment costs	15	9	87	—	111	
Settlement charges	—	2,216	7	—	2,223	
Other	257	509	241	—	1,007	
Income taxes	1	—	113	(6	) 108
Dividends payable	1,176	—	—	—	1,176	
Due to Altria Group, Inc. and subsidiaries	3,505	327	58	(3,890) —	
Total current liabilities	4,954	3,784	740	(3,896	) 5,582
Long-term debt	13,887	—	—	—	13,887	
Deferred income taxes	5,554	—	4,351	(1,378	) 8,527
Accrued pension costs	203	—	473	—	676	
Accrued postretirement health care costs	—	1,431	772	—	2,203	
Due to Altria Group, Inc. and subsidiaries	—	—	4,790	(4,790) —	
Other liabilities	106	151	137	—	394	
Total liabilities	24,704	5,366	11,263	(10,064	) 31,269
Contingencies						
Redeemable noncontrolling interest	—	—	36	—	36	
Stockholders' Equity						
Common stock	935	—	9	(9	) 935
Additional paid-in capital	5,928	3,310	11,855	(15,165	) 5,928
Earnings reinvested in the business	37,939	421	814	(1,235	) 37,939
Accumulated other comprehensive losses	(1,838) (264) (1,664) 1,928	(1,838)
Cost of repurchased stock	(30,546) —	—	—	(30,546)
Total stockholders' equity attributable to Altria Group, Inc.	12,418	3,467	11,014	(14,481	) 12,418
Noncontrolling interests	—	—	3	—	3	
Total stockholders' equity	12,418	3,467	11,017	(14,481	) 12,421
Total Liabilities and Stockholders' Equity	\$ 37,122	\$ 8,833	\$ 22,316	\$ (24,545	) \$ 43,726

Table of Contents

Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Condensed Consolidating Balance Sheets

December 31, 2016

(in millions of dollars)

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

Table of Contents

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

Condensed Consolidating Balance Sheets (Continued)

December 31, 2016

(in millions of dollars)

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

Table of Contents

Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Condensed Consolidating Statements of Earnings and Comprehensive Earnings

For the Six Months Ended June 30, 2017

(in millions of dollars)

	Altria Group, Inc.	PM USA	Non- Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Net revenues	\$ —	\$ 10,984	\$ 1,780	\$ (18)	\$ 12,746
Cost of sales	—	3,216	561	(18)	3,759
Excise taxes on products	—	2,982	107	—	3,089
Gross profit	—	4,786	1,112	—	5,898
Marketing, administration and research costs	80	791	225	—	1,096
Asset impairment and exit costs	—	—	16	—	16
Operating (expense) income	(80)	3,995	871	—	4,786
Interest and other debt expense, net	253	(6)	109	—	356
Earnings from equity investment in AB InBev	(163)	—	—	—	(163)
Gain on AB InBev/SABMiller business combination	(408)	—	—	—	(408)
Earnings before income taxes and equity earnings of subsidiaries	238	4,001	762	—	5,001
(Benefit) provision for income taxes	(40)	1,397	252	—	1,609
Equity earnings of subsidiaries	3,112	152	—	(3,264)	—
Net earnings	3,390	2,756	510	(3,264)	3,392
Net earnings attributable to noncontrolling interests	—	—	(2)	—	(2)