

ALTRIA GROUP, INC.

Form 10-Q

October 25, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from _____ to _____

Commission File Number 1-08940

Altria Group, Inc.

(Exact name of registrant as specified in its charter)

Virginia 13-3260245

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

6601 West Broad Street, Richmond, Virginia 23230

(Address of principal executive offices) (Zip Code)

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 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 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 October 15, 2018, there were 1,879,045,481 shares outstanding of the registrant's common stock, par value \$0.33 1/3 per share.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

Altria Group, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(in millions of dollars)

(Unaudited)

	September 30, 2018	December 31, 2017
Assets		
Cash and cash equivalents	\$ 2,393	\$ 1,253
Receivables	187	142
Inventories:		
Leaf tobacco	794	941
Other raw materials	188	170
Work in process	506	560
Finished product	589	554
	2,077	2,225
Income taxes	84	461
Other current assets	424	263
Total current assets	5,165	4,344
Property, plant and equipment, at cost	4,861	4,879
Less accumulated depreciation	2,970	2,965
	1,891	1,914
Goodwill	5,307	5,307
Other intangible assets, net	12,385	12,400
Investment in AB InBev	17,825	17,952
Finance assets, net	848	899
Other assets	532	386
Total Assets	\$ 43,953	\$ 43,202

See notes to condensed consolidated financial statements.

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

	September 30, December 31,	
	2018	2017
Liabilities		
Current portion of long-term debt	\$ 2,007	\$ 864
Accounts payable	289	374
Accrued liabilities:		
Marketing	690	695
Employment costs	147	188
Settlement charges	3,230	2,442
Other	775	971
Dividends payable	1,508	1,258
Total current liabilities	8,646	6,792
Long-term debt	11,896	13,030
Deferred income taxes	5,427	5,247
Accrued pension costs	260	445
Accrued postretirement health care costs	1,983	1,987
Other liabilities	207	283
Total liabilities	28,419	27,784
Contingencies (Note 10)		
Redeemable noncontrolling interest	38	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	5,959	5,952
Earnings reinvested in the business	43,805	42,251
Accumulated other comprehensive losses	(2,034) (1,897
Cost of repurchased stock (925,893,647 shares at September 30, 2018 and 904,702,125 shares at December 31, 2017)	(33,171) (31,864
Total stockholders' equity attributable to Altria	15,494	15,377
Noncontrolling interests	2	3
Total stockholders' equity	15,496	15,380
Total Liabilities and Stockholders' Equity	\$ 43,953	\$ 43,202

See notes to condensed consolidated financial statements.

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

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2018	2017	2018	2017
Net revenues	\$19,250	\$19,475	\$6,837	\$6,729
Cost of sales	5,509	5,719	2,037	1,952
Excise taxes on products	4,409	4,695	1,545	1,606
Gross profit	9,332	9,061	3,255	3,171
Marketing, administration and research costs	1,959	1,681	700	574
Asset impairment and exit costs	2	24	(2)	8
Operating income	7,371	7,356	2,557	2,589
Interest and other debt expense, net	503	525	159	169
Net periodic benefit income, excluding service cost	(37)	(37)	(21)	(18)
Earnings from equity investment in AB InBev	(759)	(332)	(189)	(169)
Loss (gain) on AB InBev/SABMiller business combination	33	(445)	—	(37)
Earnings before income taxes	7,631	7,645	2,608	2,644
Provision for income taxes	1,915	2,386	664	777
Net earnings	5,716	5,259	1,944	1,867
Net earnings attributable to noncontrolling interests	(3)	(3)	(1)	(1)
Net earnings attributable to Altria	\$5,713	\$5,256	\$1,943	\$1,866
Per share data:				
Basic and diluted earnings per share attributable to Altria	\$3.02	\$2.72	\$1.03	\$0.97
Dividends declared	\$2.20	\$1.88	\$0.80	\$0.66
See notes to condensed consolidated financial statements.				

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

	For the Nine Months Ended September 30, 2018		For the Three Months Ended September 30, 2017	
Net earnings	\$5,716	\$5,259	\$1,944	\$1,867
Other comprehensive earnings (losses), net of deferred income taxes:				
Benefit plans	126	96	39	31
AB InBev	(262)	9	(422)	(139)
Currency translation adjustments and other	(1)	1	1	—
Other comprehensive (losses) earnings, net of deferred income taxes	(137)	106	(382)	(108)
Comprehensive earnings	5,579	5,365	1,562	1,759
Comprehensive earnings attributable to noncontrolling interests	(3)	(3)	(1)	(1)
Comprehensive earnings attributable to Altria	\$5,576	\$5,362	\$1,561	\$1,758
See notes to condensed consolidated financial statements.				

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Altria Group, Inc. and Subsidiaries
Condensed Consolidated Statements of Stockholders' Equity
for the Year Ended December 31, 2017 and
the Nine Months Ended September 30, 2018
(in millions of dollars, except per share data)
(Unaudited)

	Attributable to Altria						Total Stockholders' Equity
	Common Stock	Additional Paid-in Capital	Earnings Reinvested in the Business	Accumulated Other Comprehensive Losses	Cost of Repurchased Stock	Non-controlling Interests	
Balances, December 31, 2016	\$935	\$ 5,893	\$ 36,906	\$ (2,052)	\$ (28,912)	\$ 3	\$ 12,773
Net earnings ⁽¹⁾	—	—	10,222	—	—	—	10,222
Other comprehensive earnings, net of deferred income taxes	—	—	—	155	—	—	155
Stock award activity	—	59	—	—	(35)	—	24
Cash dividends declared (\$2.54 per share)	—	—	(4,877)	—	—	—	(4,877)
Repurchases of common stock	—	—	—	—	(2,917)	—	(2,917)
Balances, December 31, 2017	935	5,952	42,251	(1,897)	(31,864)	3	15,380
Net earnings ⁽¹⁾	—	—	5,713	—	—	—	5,713
Other comprehensive losses, net of deferred income taxes	—	—	—	(137)	—	—	(137)
Stock award activity	—	7	—	—	10	—	17
Cash dividends declared (\$2.20 per share)	—	—	(4,159)	—	—	—	(4,159)
Repurchases of common stock	—	—	—	—	(1,317)	—	(1,317)
Other	—	—	—	—	—	(1)	(1)
Balances, September 30, 2018	\$935	\$ 5,959	\$ 43,805	\$ (2,034)	\$ (33,171)	\$ 2	\$ 15,496

Amounts attributable to noncontrolling interests for the nine months ended September 30, 2018 and for the year ended December 31, 2017 exclude net earnings of \$3 million and \$5 million, respectively, due to the redeemable noncontrolling interest related to Stag's Leap Wine Cellars, which is reported in the mezzanine equity section on the condensed consolidated balance sheets at September 30, 2018 and December 31, 2017.

See notes to condensed consolidated financial statements.

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

	For the Nine Months Ended September 30,	
	2018	2017
Cash Provided by (Used in) Operating Activities		
Net earnings	\$5,716	\$5,259
Adjustments to reconcile net earnings to operating cash flows:		
Depreciation and amortization	168	155
Deferred income tax provision (benefit)	215	(223)
Earnings from equity investment in AB InBev	(759)	(332)
Dividends from AB InBev	477	434
Loss (gain) on AB InBev/SABMiller business combination	33	(445)
Asset impairment and exit costs, net of cash paid	(24)	(30)
Cash effects of changes:		
Receivables	(45)	4
Inventories	147	67
Accounts payable	(79)	(154)
Income taxes	308	341
Accrued liabilities and other current assets	(319)	(525)
Accrued settlement charges	757	(318)
Pension plan contributions	(19)	(18)
Pension provisions and postretirement, net	(19)	(70)
Other	9	(1)
Net cash provided by operating activities	6,566	4,144
Cash Provided by (Used in) Investing Activities		
Capital expenditures	(132)	(151)
Proceeds from finance assets	—	133
Other	(5)	(184)
Net cash used in investing activities	\$(137)	\$(202)

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

	For the Nine Months Ended September 30,	
	2018	2017
Cash Used in Financing Activities		
Repurchases of common stock	\$(1,317)	\$(2,359)
Dividends paid on common stock	(3,909)	(3,544)
Other	(25)	(47)
Cash used in financing activities	(5,251)	(5,950)
Cash, cash equivalents and restricted cash:		
Increase (decrease)	1,178	(2,008)
Balance at beginning of period	1,314	4,651
Balance at end of period	\$2,492	\$2,643

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

	At September 30, 2018	At December 31, 2017
Cash and cash equivalents	\$2,393	\$1,253
Restricted cash included in other current assets ⁽¹⁾	59	25
Restricted cash included in other assets ⁽¹⁾	40	36
Cash, cash equivalents and restricted cash	\$2,492	\$1,314

⁽¹⁾ Restricted cash consisted of cash deposits collateralizing appeal bonds posted by PM USA to obtain stays of judgments pending appeals. See Note 10. Contingencies.

See notes to condensed consolidated financial statements.

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

Note 1. Background and Basis of Presentation:

Background

At September 30, 2018, Altria Group, Inc.'s ("Altria") 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'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 wholly-owned subsidiaries included Altria Group Distribution Company, which provides sales and distribution services to certain Altria operating subsidiaries, and Altria Client Services LLC, which provides various support services in areas such as legal, regulatory, consumer engagement, finance, human resources and external affairs to Altria and its subsidiaries. Altria's access to the operating cash flows of its wholly-owned subsidiaries consists of cash received from the payment of dividends and distributions, and the payment of interest on intercompany loans by its subsidiaries. At September 30, 2018, Altria'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, 2018, Altria had an approximate 10.1% ownership of Anheuser-Busch InBev SA/NV ("AB InBev"), which Altria accounts for under the equity method of accounting using a one-quarter lag. Altria receives cash dividends on its interest in AB InBev if and when AB InBev pays such dividends.

Dividends and Share Repurchases

During the first quarter of 2018, Altria's Board of Directors (the "Board of Directors") approved a 6.1% increase in the quarterly dividend rate to \$0.70 per share of Altria common stock versus the previous rate of \$0.66 per share. During the third quarter of 2018, the Board of Directors approved an additional 14.3% increase in the quarterly dividend rate to \$0.80 per share of Altria common stock, resulting in an overall quarterly dividend rate increase of 21.2% since the beginning of 2018. The current annualized dividend rate is \$3.20 per share. Future dividend payments remain subject to the discretion of the Board of Directors.

In July 2015, the Board of Directors authorized a \$1.0 billion share repurchase program that it expanded to \$3.0 billion in October 2016 and to \$4.0 billion in July 2017 (as expanded, the "July 2015 share repurchase program"). In January 2018, Altria completed the July 2015 share repurchase program. Under this program, Altria repurchased a total of 58.7 million shares of its common stock at an average price of \$68.15 per share (including 0.3 million shares at an average price of \$71.68 in January 2018).

Following the completion of the July 2015 share repurchase program, the Board of Directors authorized a new \$1.0 billion share repurchase program in January 2018 that it expanded to \$2.0 billion in May 2018 (as expanded, the "January 2018 share repurchase program"). During the nine and three months ended September 30, 2018, Altria

repurchased 21.5 million shares and 6.2 million shares, respectively, of its common stock (at an aggregate cost of approximately \$1,299 million and \$367 million, respectively, and at an average price of \$60.40 per share and \$59.18 per share, respectively) under the January 2018 share repurchase program. At September 30, 2018, Altria had approximately \$700 million remaining in the January 2018 share repurchase program. The timing of share repurchases under this program depends upon marketplace conditions and other factors, and the program remains subject to the discretion of the Board of Directors.

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Altria's share repurchase activity was as follows:

	For the Nine Months Ended September 30, 2018		For the Three Months Ended September 30, 2017	
	2018	2017	2018	2017
	(in millions, except per share data)			
Total number of shares repurchased	21.8	33.2	6.2	11.1
Aggregate cost of shares repurchased	\$1,317	\$2,359	\$367	\$759
Average price per share of shares repurchased	\$60.53	\$70.97	\$59.18	\$67.99

Basis of Presentation

The interim condensed consolidated financial statements of Altria are unaudited. It is the opinion of Altria'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's Annual Report on Form 10-K for the year ended December 31, 2017.

On January 1, 2018, Altria adopted the following Accounting Standards Updates ("ASU"):

ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) and all related ASU amendments (collectively "ASU No. 2014-09");

ASU No. 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities and the related ASU amendment (collectively "ASU No. 2016-01");

ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments ("ASU No. 2016-15");

ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash ("ASU No. 2016-18"); and

ASU No. 2017-07, Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost ("ASU No. 2017-07").

Altria has reclassified certain prior-period amounts to conform with the current period's presentation due to Altria's adoptions of ASU No. 2016-18 and ASU No. 2017-07.

ASU No. 2014-09 establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Altria has elected to apply the guidance using the modified retrospective transition method. For further discussion, see Note 2. Revenues from Contracts with Customers.

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

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

ASU No. 2016-18, which Altria adopted retrospectively, requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash and restricted cash equivalents. As a result of the adoption, restricted cash of \$99 million, \$61 million, \$61 million and \$82 million at September 30, 2018, September 30, 2017, December 31, 2017 and December 31, 2016, respectively, was included in cash, cash equivalents and restricted cash on the condensed consolidated statements of cash flows.

ASU No. 2017-07 requires an employer to report the service cost component of net periodic pension cost and net periodic postretirement benefit cost in the same line item or items as other compensation costs arising from services rendered by employees during the period. The other components of net periodic pension cost and net periodic postretirement benefit cost

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are required to be presented in the statement of earnings separately from the service cost component and outside the subtotal of operating income. Additionally, only the service cost component is eligible for capitalization. Altria retrospectively adopted the guidance for the presentation of the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost in the statement of earnings, and prospectively adopted the capitalization of service cost. Altria used the practical expedient provided in ASU No. 2017-07 that permits Altria to use the amounts disclosed in its benefit plans note for the prior comparative periods as the estimation basis for applying the retrospective presentation requirements. For the nine months ended September 30, 2017, the adoption of ASU No. 2017-07 resulted in a reclassification of net periodic benefit income of \$20 million and \$17 million from cost of sales and marketing, administration and research costs, respectively, to net periodic benefit income, excluding service cost in Altria's condensed consolidated statement of earnings. For the three months ended September 30, 2017, the adoption of ASU No. 2017-07 resulted in a reclassification of net periodic benefit income of \$12 million and \$6 million from cost of sales and marketing, administration and research costs, respectively, to net periodic benefit income, excluding service cost in Altria's condensed consolidated statement of earnings. In addition, certain prior-period segment data has been reclassified to conform with the current period's presentation. For further discussion, see Note 7. Segment Reporting.

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

Note 2. Revenues from Contracts with Customers:

On January 1, 2018, Altria adopted ASU No. 2014-09, which establishes principles for reporting information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Altria elected to apply the guidance using the modified retrospective transition method. The adoption of this guidance had no impact on the amount and timing of revenue recognized by Altria's businesses; therefore, no adjustments were recorded to Altria's condensed consolidated financial statements.

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

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

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

Payment terms vary depending on product type. Altria's businesses consider payments received in advance of product shipment as deferred revenue, which is included in other accrued liabilities on Altria's condensed consolidated balance sheets until revenue is recognized. PM USA receives payment in advance of a customer obtaining control of the product. USSTC receives substantially all payments within one business day of the customer obtaining control of the product. Ste. Michelle receives substantially all payments from customers within 45 days of the customer obtaining control of the product. Amounts due from customers are included in receivables on Altria's condensed consolidated balance sheets.

Altria's businesses promote their products with consumer incentives, trade promotions and consumer engagement programs. These consumer incentive and trade promotion activities, which include discounts, coupons, rebates, in-store display incentives and volume-based incentives, do not create a distinct deliverable and are, therefore, recorded as a reduction of revenues.

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Consumer engagement program payments are made to third parties. Altria's businesses expense these consumer engagement programs, which include event marketing, as incurred and such expenses are included in marketing, administration and research costs on Altria's condensed consolidated statements of earnings. For interim reporting purposes, Altria's businesses charge consumer engagement programs and certain consumer incentive expenses to operations as a percentage of sales, based on estimated sales and related expenses for the full year.

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

Altria's businesses offer cash discounts to customers for prompt payment and calculate cash discounts as a percentage of the list price based on historical experience and agreed-upon payment terms. Altria's businesses record an allowance for cash discounts, which is included as a contra-asset against receivables on Altria's condensed consolidated balance sheets. There was no allowance for cash discounts at September 30, 2018 and December 31, 2017, and there were no differences between amounts recorded as an allowance for cash discounts and cash discounts subsequently given to customers.

Altria's businesses that receive payments in advance of product shipment record such payments as deferred revenue. These payments are included in other accrued liabilities on Altria's condensed consolidated balance sheets until control of such products is obtained by the customer. Deferred revenue was \$116 million and \$267 million at September 30, 2018 and December 31, 2017, respectively. When cash is received in advance of product shipment, Altria's businesses satisfy their performance obligations within three days of receiving payment. At September 30, 2018 and December 31, 2017, there were no differences between amounts recorded as deferred revenue and amounts subsequently recognized as revenue.

Receivables, which primarily reflect sales of wine produced and/or distributed by Ste. Michelle, were \$187 million and \$142 million at September 30, 2018 and December 31, 2017, respectively. At September 30, 2018 and December 31, 2017, there were no expected differences between amounts recorded and subsequently received, and Altria's businesses did not record an allowance for doubtful accounts against these receivables.

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

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

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

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

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

Note 3. Investment in AB InBev:

At September 30, 2018, Altria had an approximate 10.1% ownership of AB InBev, consisting of approximately 185 million restricted shares of AB InBev (the "Restricted Shares") and approximately 12 million ordinary shares of AB InBev. Altria accounts for its investment in AB InBev under the equity method of accounting because Altria has the ability to exercise

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significant influence over the operating and financial policies of AB InBev, including having active representation on AB InBev's Board of Directors ("AB InBev Board") and certain AB InBev Board Committees. Through this representation, Altria participates in AB InBev policy making processes.

Altria reviews its investment in AB InBev for impairment by comparing the fair value of its investment to its carrying value. If the carrying value of its investment exceeds its fair value and the loss in value is other than temporary, the investment is considered impaired and impairment is recognized in the period identified. The factors used to make this determination include the duration and magnitude of the fair value decline, AB InBev's financial condition and near-term prospects, and Altria's intent and ability to hold its investment in AB InBev until recovery.

The fair value of Altria's equity investment in AB InBev is based on: (i) unadjusted quoted prices in active markets for AB InBev's ordinary shares and was classified in Level 1 of the fair value hierarchy and (ii) observable inputs other than Level 1 prices, such as quoted prices for similar assets for the Restricted Shares, and was classified in Level 2 of the fair value hierarchy. Altria may, in certain instances, pledge or otherwise grant a security interest in all or part of its Restricted Shares. In the event the pledgee or security interest holder forecloses on the Restricted Shares, the relevant Restricted Shares will be automatically converted, one-for-one, into ordinary shares. Therefore, the fair value of each Restricted Share is based on the value of an ordinary share.

The fair value of Altria's equity investment in AB InBev at September 30, 2018 and December 31, 2017 was \$17.2 billion and \$22.1 billion, respectively, compared with its carrying value of \$17.8 billion and \$18.0 billion, respectively. The fair value of Altria's equity investment has continued to decline after September 30, 2018. On October 25, 2018, AB InBev announced a 50% rebase in the dividends it pays to its shareholders, which will result in a reduction of cash dividends AB InBev shareholders receive. The fair value of Altria's equity investment at October 25, 2018 was approximately \$14.5 billion. Based on its evaluation of the factors identified above, Altria concluded that the decline in fair value of its investment in AB InBev below its carrying value is temporary and, therefore, no impairment was recorded.

Note 4. Benefit Plans:

Components of Net Periodic Benefit Cost (Income)

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

	For the Nine Months Ended September 30,				For the Three Months Ended September 30,			
	Pension		Postretirement		Pension		Postretirement	
	2018	2017	2018	2017	2018	2017	2018	2017
	(in millions)							
Service cost	\$61	\$57	\$ 13	\$ 12	\$20	\$19	\$ 4	\$ 3
Interest cost	207	216	52	57	69	72	15	17
Expected return on plan assets	(438)	(451)	(14)	—	(146)	(151)	(5)	—
Amortization:								
Net loss	168	147	16	19	56	49	(1)	3
Prior service cost (credit)	3	3	(31)	(28)	1	1	(10)	(9)
Net periodic benefit cost (income)	\$1	\$(28)	\$ 36	\$ 60	\$—	\$(10)	\$ 3	\$ 14

Employer Contributions

Altria makes contributions to the pension plans to the extent that the contributions are tax deductible and pays benefits that relate to plans for salaried employees that cannot be funded under Internal Revenue Service (“IRS”) regulations. Altria made employer contributions of \$19 million to its pension plans during the nine months ended September 30, 2018. Currently, Altria anticipates making additional employer contributions to its pension plans during the remainder of 2018 of up to approximately \$25 million, based on current tax law. Altria did not make any employer contributions to its postretirement plans during the nine months ended September 30, 2018. Currently, Altria anticipates making employer contributions to its postretirement plans of up to approximately \$70 million in 2018. However, estimates for current-year contributions to Altria’s pension and postretirement plans may be 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 assets, changes in interest rates or other considerations.

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Note 5. Earnings Per Share:

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

	For the Nine Months Ended September 30, 2018		For the Three Months Ended September 30, 2017	
	2018	2017	2018	2017
	(in millions)			
Net earnings attributable to Altria	\$5,713	\$5,256	\$1,943	\$1,866
Less: Distributed and undistributed earnings attributable to share-based awards	(7)	(7)	(2)	(2)
Earnings for basic and diluted EPS	\$5,706	\$5,249	\$1,941	\$1,864
Weighted-average shares for basic and diluted EPS	1,891	1,927	1,883	1,915

Note 6. Other Comprehensive Earnings/Losses:

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

	For the Nine Months Ended September 30, 2018			
	Benefit Plans	AB InBev	Currency Translation Adjustment and Other	Accumulated Other Comprehensive Losses
	(in millions)			
Balances, December 31, 2017	\$(1,839)	\$(54)	\$ (4)	\$(1,897)
Other comprehensive losses before reclassifications	—	(288)	(1)	(289)
Deferred income taxes	—	57	—	57
Other comprehensive losses before reclassifications, net of deferred income taxes	—	(231)	(1)	(232)
Amounts reclassified to net earnings	168	(41)	—	127
Deferred income taxes	(42)	10	—	(32)
Amounts reclassified to net earnings, net of deferred income taxes	126	(31)	—	95
Other comprehensive earnings (losses), net of deferred income taxes	126	(262) ⁽¹⁾	(1)	(137)
Balances, September 30, 2018	\$(1,713)	\$(316)	\$ (5)	\$(2,034)

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	For the Three Months Ended September 30, 2018			
	Benefit Plans	AB InBev	Currency Translation Adjustments and Other	Accumulated Other Comprehensive Losses
	(in millions)			
Balances, June 30, 2018	\$(1,752)	\$ 106	\$ (6)	\$ (1,652)
Other comprehensive (losses) earnings before reclassifications	—	(513)	1	(512)
Deferred income taxes	—	107	—	107
Other comprehensive (losses) earnings before reclassifications, net of deferred income taxes	—	(406)	1	(405)
Amounts reclassified to net earnings	50	(21)	—	29
Deferred income taxes	(11)	5	—	(6)
Amounts reclassified to net earnings, net of deferred income taxes	39	(16)	—	23
Other comprehensive earnings (losses), net of deferred income taxes	39	(422) ⁽¹⁾	1	(382)
Balances, September 30, 2018	\$(1,713)	\$(316)	\$ (5)	\$ (2,034)
	For the Nine Months Ended September 30, 2017			
	Benefit Plans	AB InBev	Currency Translation Adjustments and Other	Accumulated Other Comprehensive Losses
	(in millions)			
Balances, December 31, 2016	\$(2,048)	\$ —	\$ (4)	\$ (2,052)
Other comprehensive earnings before reclassifications	—	9	1	10
Deferred income taxes	—	(3)	—	(3)
Other comprehensive earnings before reclassifications, net of deferred income taxes	—	6	1	7
Amounts reclassified to net earnings	154	5	—	159
Deferred income taxes	(58)	(2)	—	(60)
Amounts reclassified to net earnings, net of deferred income taxes	96	3	—	99
Other comprehensive earnings, net of deferred income taxes	96	9	⁽¹⁾ 1	106
Balances, September 30, 2017	\$(1,952)	\$ 9	\$ (3)	\$ (1,946)

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

⁽¹⁾ Primarily reflects currency translation adjustments.

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

	For the Nine Months Ended September 30, 2018		For the Three Months Ended September 30, 2017	
	2018	2017	2018	2017
	(in millions)			
Benefit Plans: ⁽¹⁾				
Net loss	\$ 196	\$ 179	\$ 59	\$ 56
Prior service cost/credit	(28)	(25)	(9)	(8)
	168	154	50	48
AB InBev ⁽²⁾	(41)	5	(21)	3
Pre-tax amounts reclassified from accumulated other comprehensive losses to net earnings	\$ 127	\$ 159	\$ 29	\$ 51

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

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

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Note 7. Segment Reporting:

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

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

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

Segment data were as follows:

	For the Nine Months Ended September 30, 2018		For the Three Months Ended September 30, 2017	
	2018	2017	2018	2017
	(in millions)			
Net revenues:				
Smokeable products	\$16,995	\$17,355	\$6,035	\$5,975
Smokeless products	1,690	1,580	586	550
Wine	489	471	181	181
All other	76	69	35	23
Net revenues	\$19,250	\$19,475	\$6,837	\$6,729
Earnings before income taxes:				
Operating companies income (loss):				
Smokeable products	\$6,516	\$6,536	\$2,277	\$2,276
Smokeless products	1,085	941	370	348
Wine	73	82	29	36
All other	(121)	(31)	(38)	(10)
Amortization of intangibles	(30)	(15)	(20)	(5)
General corporate expenses	(152)	(157)	(61)	(56)
Operating income	7,371	7,356	2,557	2,589
Interest and other debt expense, net	(503)	(525)	(159)	(169)
Net periodic benefit income, excluding service cost	37	37	21	18
Earnings from equity investment in AB InBev	759	332	189	169
(Loss) gain on AB InBev/SABMiller business combination	(33)	445	—	37
Earnings before income taxes	\$7,631	\$7,645	\$2,608	\$2,644

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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’s condensed consolidated statements of earnings as follows:

	For the Nine Months Ended September 30, 2018	2017	For the Three Months Ended September 30, 2018	2017
	(in millions)			
Smokeable products segment	\$(145)	\$(5)	\$ —	\$ 3
Interest and other debt expense, net	—	9	—	2
Total	\$(145)	\$4	\$ —	\$ 5

NPM adjustment items result from the resolutions of certain disputes with states and territories related to the NPM adjustment provision under the 1998 Master Settlement Agreement (such dispute resolutions are referred to as “NPM Adjustment Items” and are more fully described in Health Care Cost Recovery Litigation - NPM Adjustment Disputes in Note 10. Contingencies). The amounts shown in the table above for the smokeable products segment were recorded by PM USA as (reductions) 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’s condensed consolidated statements of earnings as follows:

	For the Nine Months Ended September 30, 2018	2017	For the Three Months Ended September 30, 2018	2017
	(in millions)			
Smokeable products segment	\$94	\$ 16	\$ 10	\$ —
Smokeless products segment	10	—	10	—
Interest and other debt expense, net	15	2	1	—
Total	\$119	\$ 18	\$ 21	\$ —

The amounts shown in the table above for the smokeable and smokeless products segments were recorded in marketing, administration and research costs. For further discussion, see Note 10. Contingencies.

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

Asset Impairment, Exit and Implementation Costs - In October 2016, Altria announced the consolidation of certain of its operating companies’ manufacturing facilities to streamline operations and achieve greater efficiencies. In the first quarter of 2018, Middleton completed the transfer of its Limerick, Pennsylvania operations to the Manufacturing

Center site in Richmond, Virginia (“Richmond Manufacturing Center”), and USSTC completed the transfer of its Franklin Park, Illinois operations to its Nashville, Tennessee facility and the Richmond Manufacturing Center. The pre-tax charges related to the consolidation are complete.

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

	For the Nine Months Ended September 30, 2018			For the Nine Months Ended September 30, 2017		
	Asset Impairment and Exit Costs (in millions)	Implementation Costs ⁽¹⁾	Total	Asset Impairment and Exit Costs (in millions)	Implementation Costs ⁽¹⁾	Total
Smokeable products	\$(4)	\$ 1	\$(3)	\$2	\$ 17	\$ 19
Smokeless products	6	3	9	22	30	52
Total	\$2	\$ 4	\$6	\$24	\$ 47	\$ 71

	For the Three Months Ended September 30, 2018			For the Three Months Ended September 30, 2017		
	Asset Impairment and Exit Costs (in millions)	Implementation Costs ⁽¹⁾	Total	Asset Impairment and Exit Costs (in millions)	Implementation Costs ⁽¹⁾	Total
Smokeable products	\$(5)	\$ (1)	\$(6)	\$—	\$ 5	\$ 5
Smokeless products	3	—	3	8	2	10
Total	\$(2)	\$ (1)	\$(3)	\$8	\$ 7	\$ 15

⁽¹⁾ The pre-tax implementation costs were included in cost of sales in Altria's condensed consolidated statements of earnings.

Note 8. Debt:

Short-term Borrowings and Borrowing Arrangements

At September 30, 2018 and December 31, 2017, Altria had no short-term borrowings.

On August 1, 2018, Altria entered into a senior unsecured 5-year revolving credit agreement (the "Credit Agreement"). The Credit Agreement, which is used for general corporate purposes, provides for borrowings up to an aggregate principal amount of \$3.0 billion. The Credit Agreement expires on August 1, 2023 and includes an option, subject to certain conditions, for Altria to extend the Credit Agreement for two additional one-year periods. The Credit Agreement replaced Altria's prior \$3.0 billion senior unsecured 5-year revolving credit agreement, which was to expire on August 19, 2020 and was terminated effective August 1, 2018. Pricing for interest and fees under the Credit Agreement may be modified in the event of a change in the rating of Altria's long-term senior unsecured debt. Interest rates on borrowings under the Credit Agreement are expected to be based on the London Interbank Offered Rate ("LIBOR") plus a percentage based on the higher of the ratings of Altria's long-term senior unsecured debt from Moody's Investors Service, Inc. and Standard & Poor's Ratings Services. The applicable percentage based on Altria's long-term senior unsecured debt ratings at September 30, 2018 for borrowings under the Credit Agreement was 1.0%. The Credit Agreement does not include any other rating triggers, or any provisions that could require the posting of collateral. At September 30, 2018, credit available to Altria under the Credit Agreement was \$3.0 billion.

The Credit Agreement includes various covenants, one of which requires Altria to maintain a ratio of consolidated earnings before interest, taxes, depreciation and amortization (“EBITDA”) to Consolidated Interest Expense of not less than 4.0 to 1.0, calculated as of the end of the applicable quarter on a rolling four quarters basis. At September 30, 2018, the ratio of consolidated EBITDA to Consolidated Interest Expense, calculated in accordance with the Credit Agreement, was 14.8 to 1.0. At September 30, 2018, Altria was in compliance with, and expects to continue to meet, its covenants associated with the Credit Agreement. The terms “Consolidated EBITDA” and “Consolidated Interest Expense,” each as defined in the Credit Agreement, include certain adjustments.

Any commercial paper issued by Altria and borrowings under the Credit Agreement are guaranteed by PM USA as further discussed in Note 11. Condensed Consolidating Financial Information.

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Long-term Debt

Altria'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's total long-term debt at September 30, 2018 and December 31, 2017, was \$14.2 billion and \$15.3 billion, respectively, as compared with its carrying value of \$13.9 billion for each period.

At September 30, 2018 and December 31, 2017, accrued interest on long-term debt of \$155 million and \$219 million, respectively, was included in other accrued liabilities on Altria's condensed consolidated balance sheets.

Note 9. Income Taxes:

On December 22, 2017, the U.S. Government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Reform Act"). The main provisions of the Tax Reform Act that impact Altria include: (i) a reduction in the U.S. federal statutory corporate income tax rate from 35% to 21% effective January 1, 2018, and (ii) changes in the treatment of foreign-source income, commonly referred to as a modified territorial tax system. The transition to a modified territorial tax system required Altria to record a deemed repatriation tax and an associated tax basis benefit in 2017. Substantially all of the deemed repatriation tax was related to Altria's share of AB InBev's accumulated earnings. Dividends received from AB InBev beginning in 2017, to the extent that such dividends represent previously taxed income attributable to the deemed repatriation tax, result in an associated tax basis expense, which reverses the tax basis benefit recorded in 2017. The Tax Reform Act also includes a provision to tax global intangible low-taxed income ("GILTI") of foreign subsidiaries. Altria made an accounting policy election to treat taxes due under the GILTI provision as a current period expense.

The income tax rate of 25.1% for the nine months ended September 30, 2018 decreased 6.1 percentage points from the nine months ended September 30, 2017. This decrease was due primarily to the following:

a reduction in tax expense in 2018 from the decrease in the U.S. federal statutory corporate income tax rate as a result of the Tax Reform Act; and
tax expense of \$114 million in 2017 for tax reserves related to the calculation of certain foreign tax credits;

partially offset by:

tax benefits of \$232 million in 2017 for the release of a valuation allowance related to deferred income tax assets for foreign tax credit carryforwards;
tax benefits of \$152 million in 2017 related primarily to the effective settlement of the IRS audit of Altria and its consolidated subsidiaries' 2010-2013 tax years;
tax expense of \$122 million in 2018, resulting from a partial reversal of the tax basis benefit associated with the deemed repatriation tax;
tax expense of \$51 million in 2018 for a valuation allowance on foreign tax credit carryforwards that are not realizable as a result of updates to the provisional estimates recorded in 2017 for the Tax Reform Act; and
tax benefits of \$36 million in 2017 for the reversal of tax accruals no longer required.

The income tax rate of 25.5% for the three months ended September 30, 2018 decreased 3.9 percentage points from the three months ended September 30, 2017. This decrease was due primarily to the following:

a reduction in tax expense in 2018 from the decrease in the U.S. federal statutory corporate income tax rate as a result of the Tax Reform Act; and
tax expense of \$114 million in 2017 for tax reserves related to the calculation of certain foreign tax credits;

partially offset by:

tax benefits of \$232 million in 2017 for the release of a valuation allowance related to deferred income tax assets for foreign tax credit carryforwards;

tax expense of \$40 million in 2018, resulting from a partial reversal of the tax basis benefit associated with the deemed repatriation tax;

tax benefits of \$36 million in 2017 for the reversal of tax accruals no longer required; and

tax expense of \$17 million in 2018 for a valuation allowance on foreign tax credit carryforwards that are not realizable as a result of updates to the provisional estimates recorded in 2017 for the Tax Reform Act.

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During the nine and three months ended September 30, 2018, Altria recorded net tax expense of \$1 million and a tax benefit of \$1 million, respectively, as adjustments to the provisional estimates recorded in 2017 for the tax basis adjustment and the deemed repatriation tax attributable to the Tax Reform Act. Altria may be required to adjust these provisional estimates based on (i) additional guidance related to, or interpretation of, the Tax Reform Act and associated tax laws and (ii) additional information to be received from AB InBev, including information regarding AB InBev's accumulated earnings and associated taxes for the 2016 and 2017 tax years. This additional guidance and information could result in increases or decreases to the provisional estimates, which may be significant in relation to these estimates. Altria will record any such adjustments in 2018.

Altria 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. At September 30, 2018, Altria's total unrecognized tax benefits were \$(34) million. The amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate at September 30, 2018 was \$58 million, along with \$(92) million affecting deferred taxes. It is reasonably possible that within the next 12 months certain examinations will be resolved, which could result in a change to Altria's total unrecognized tax benefits to approximately \$(75) million. At December 31, 2017, Altria's total unrecognized tax benefits were \$66 million. The amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate at December 31, 2017 was \$43 million, along with \$23 million affecting deferred taxes.

Note 10. Contingencies:

Legal proceedings covering a wide range of matters are pending or threatened in various United States and foreign jurisdictions against Altria 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, shareholders 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 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 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 or its subsidiaries may also be required to pay interest and attorneys' fees.

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

legislation. Although Altria cannot predict the outcome of such challenges, it is possible that the consolidated results of operations, cash flows or financial position of Altria, 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 and its subsidiaries record provisions in the condensed consolidated financial statements for pending litigation when they determine that an unfavorable outcome is probable and the amount of the loss can be reasonably estimated. At the present time, while it is reasonably possible that an unfavorable outcome in a case may occur, except to the extent discussed elsewhere in this Note 10. Contingencies: (i) management has concluded that it is not probable that a loss has been incurred in any of the pending tobacco-related cases; (ii) management is unable to estimate the possible loss or range of loss that could result from an unfavorable outcome in any of the pending tobacco-related cases; and (iii) accordingly, management has not provided any

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amounts in the condensed consolidated financial statements for unfavorable outcomes, if any. Litigation defense costs are expensed as incurred.

Altria 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, 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 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 and its subsidiaries may enter into settlement discussions in particular cases if they believe it is in the best interests of Altria to do so.

Overview of Altria 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 as of October 22, 2018, October 23, 2017 and October 24, 2016:

	October 22, 2018	October 23, 2017	October 24, 2016
Individual Smoking and Health Cases ⁽¹⁾	101	87	66
Smoking and Health Class Actions and Aggregated Claims Litigation ⁽²⁾	2	4	5
Health Care Cost Recovery Actions ⁽³⁾	1	1	1
“Lights/Ultra Lights” Class Actions	2	4	9

⁽¹⁾ Includes 29 cases filed in Massachusetts and 38 non-Engle cases filed in Florida. Does not include individual smoking and health cases brought by or on behalf of plaintiffs in Florida state and federal courts following the decertification of the Engle case (these Engle progeny cases are discussed below in Smoking and Health Litigation - Engle Class Action). Also does not include 1,491 cases brought by flight attendants seeking compensatory damages for personal injuries allegedly caused by exposure to environmental tobacco smoke (“ETS”). The flight attendants allege that they are members of an ETS smoking and health class action in Florida, which was settled in 1997 (Broin). The terms of the court-approved settlement in that case allowed class members to file individual lawsuits seeking compensatory damages, but prohibited them from seeking punitive damages. In March 2018, 923 of these cases were voluntarily dismissed without prejudice.

⁽²⁾ The 2016 and 2017 pending cases include as one case the 30 civil actions that were to be tried in six consolidated trials in West Virginia (In re: Tobacco Litigation). PM USA was a defendant in nine of the 30 cases. The parties

resolved these cases for an immaterial amount and in the second quarter of 2018, the court dismissed all 30 cases.

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

International Tobacco-Related Cases

As of October 22, 2018, PM USA is a named defendant in 10 health care cost recovery actions in Canada, eight of which also name Altria as a defendant. PM USA and Altria 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 and Philip Morris International Inc. ("PMI") that provides for indemnities for certain liabilities concerning tobacco products.

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Tobacco-Related Cases Set for Trial

As of October 22, 2018, 5 Engle progeny cases are set for trial through December 31, 2018. In addition, there are two individual smoking and health case against PM USA set for trial during this period. Cases against other companies in the tobacco industry may also be scheduled for trial during this period. Trial dates are subject to change.

Trial Results

Since January 1999, excluding the Engle progeny cases (separately discussed below), verdicts have been returned in 64 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 43 of the 64 cases. These 43 cases were tried in Alaska (1), California (7), Connecticut (1), Florida (10), Louisiana (1), Massachusetts (3), 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 jury returned a verdict in favor of PM USA in April 2018 in the third trial of this case. In May 2018, plaintiff filed a motion for a new trial, which the court denied.

Of the 21 non-Engle progeny cases in which verdicts were returned in favor of plaintiffs, 19 have reached final resolution.

See Smoking and Health Litigation - Engle Progeny Trial Results below for a discussion of verdicts in state and federal Engle progeny cases involving PM USA as of October 22, 2018.

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 \$578 million and interest totaling approximately \$195 million as of September 30, 2018. These amounts include payments for Engle progeny judgments (and related costs and fees) totaling approximately \$186 million, interest totaling approximately \$33 million and payment of approximately \$43 million in connection with the Federal Engle Agreement, discussed below.

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

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	2018	2017	2018	2017
	(in millions)			
Accrued liability for tobacco and health litigation items at beginning of period ⁽¹⁾	\$ 106	\$ 47	\$ 107	\$ 47
Pre-tax charges for:				
Tobacco and health litigation	104	16	20	—

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Related interest costs	15	2	1	—
Payments ⁽¹⁾	(118)	(18)	(21)	—
Accrued liability for tobacco and health litigation items at end of period ⁽¹⁾	\$ 107	\$ 47	\$ 107	\$ 47

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

The accrued liability for tobacco and health litigation items, including related interest costs, was included in liabilities on Altria's condensed consolidated balance sheets. Pre-tax charges for tobacco and health litigation were included in marketing, administration and research costs on Altria's condensed consolidated statements of earnings. Pre-tax charges for related interest costs were included in interest and other debt expense, net on Altria's condensed consolidated statements of earnings.

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Security for Judgments

To obtain stays of judgments pending appeal, PM USA has posted various forms of security. As of September 30, 2018, PM USA has posted appeal bonds totaling approximately \$99 million, which have been collateralized with cash deposits that are included in assets on the condensed consolidated balance sheet.

Smoking and Health Litigation

Overview

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

Non-Engle Progeny Litigation

Summarized below are the non-Engle progeny smoking and health cases pending during 2018 in which a verdict was returned in favor of plaintiff and against PM USA. Charts listing certain verdicts for plaintiffs in the Engle progeny cases can be found in Smoking and Health Litigation - Engle Progeny Trial Results below.

Gentile: In October 2017, a jury in a Florida state court returned a verdict in favor of plaintiff, awarding approximately \$7.1 million in compensatory damages and allocating 75% of the fault to PM USA (an amount of approximately \$5.3 million). In April 2018, the trial court entered final judgment in favor of plaintiff and PM USA posted a bond in the amount of approximately \$8 million. In May 2018, PM USA filed a notice of appeal to the Florida Fourth District Court of Appeal.

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. On appeal, the U.S. Court of Appeals for the Ninth Circuit affirmed the judgment. In the fourth quarter of 2017, PM USA recorded a provision on its consolidated balance sheet of approximately \$1 million for the judgment, interest and associated costs. In the first quarter of 2018, PM USA paid this amount, concluding this litigation.

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

Engle Class Action

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

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detriment; (vii) that all defendants sold or supplied cigarettes that were defective; and (viii) that defendants were negligent. The court also reinstated compensatory damages awards totaling approximately \$6.9 million to two individual plaintiffs and found that a third plaintiff's claim was barred by the statute of limitations. In February 2008, PM USA paid approximately \$3 million, representing its share of compensatory damages and interest, to the two individual plaintiffs identified in the Florida Supreme Court's order.

In August 2006, PM USA and plaintiffs sought rehearing from the Florida Supreme Court on parts of its July 2006 opinion. In December 2006, the Florida Supreme Court refused to revise its July 2006 ruling, except that it revised the set of Phase I findings entitled to res judicata effect by excluding finding (v) listed above (relating to agreement to misrepresent information), and added the finding that defendants sold or supplied cigarettes that, at the time of sale or supply, did not conform to the representations of fact made by defendants. In January 2007, the Florida Supreme Court issued the mandate from its revised opinion. In May 2007, defendants filed a petition for writ of certiorari with the United States Supreme Court, which was denied. In February 2008, the trial court decertified the class.

Engle Progeny Cases

The deadline for filing Engle progeny cases expired in January 2008. As of October 22, 2018, approximately 2,200 state court cases were pending against PM USA or Altria asserting individual claims by or on behalf of approximately 3,000 state court plaintiffs. Because of a number of factors, including, but not limited to, docketing delays, duplicated filings and overlapping dismissal orders, these numbers are estimates. While the Federal Engle Agreement (discussed below) resolved nearly all Engle progeny cases pending in federal court, as of October 22, 2018, approximately 7 cases were pending against PM USA in federal court representing the cases excluded from that agreement.

Agreement to Resolve Federal Engle Progeny Cases

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

Engle Progeny Trial Results

As of October 22, 2018, 124 federal and state Engle progeny cases involving PM USA have resulted in verdicts since the Florida Supreme Court Engle decision. Sixty-eight verdicts were returned in favor of plaintiffs and eight verdicts (Skolnick, Calloway, Pollari, McCoy, Duignan, Caprio, Oshinsky-Blacker and McCall) that were initially returned in favor of plaintiffs were reversed post-trial or on appeal and remain pending. Skolnick was remanded for a new trial on plaintiff's concealment and conspiracy claims; Calloway was reversed and remanded for a new trial on an appellate finding that improper arguments by plaintiff's counsel deprived defendants of a fair trial; Pollari and McCoy were reversed and remanded for a new trial on an appellate finding that the trial court erred in admitting certain materials into evidence that deprived defendants of a fair trial; Duignan was reversed and remanded for a new trial on an appellate finding that the trial judge erred in responding to a question from the jury during deliberations; Caprio was reversed post-trial after defendants agreed to voluntarily dismiss their appeal in exchange for a full retrial; Oshinsky-Blacker was reversed post-trial based on plaintiff's counsel's improper arguments at trial; and McCall was reversed based on an appellate finding that the trial judge erred in instructing the jury on the warning labels on cigarette packs.

Forty-four verdicts were returned in favor of PM USA, of which 37 were state cases. In addition, there have been a number of mistrials, only some of which have resulted in new trials as of October 22, 2018. Four verdicts (D. Cohen, Collar, Chacon and Starbuck) that were returned in favor of PM USA were subsequently reversed for new trials. Juries

in two cases (Reider and Banks) returned zero damages verdicts in favor of PM USA. Juries in two other cases (Weingart and Hancock) returned verdicts against PM USA awarding no damages, but the trial court in each case granted an additur.

The charts below list the verdicts and post-trial developments in certain Engle progeny cases in which verdicts were returned in favor of plaintiffs. The first chart lists such cases that are pending as of October 22, 2018; the second chart lists such cases that were pending within the previous 12 months, but that are now concluded. Unless otherwise noted for a particular case, the jury's award for compensatory damages will not be reduced by any finding of plaintiff's comparative fault (see Engle Progeny Appellate Issues below for a discussion of the Florida Supreme Court's decision in Schoeff).

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Currently-Pending Engle Cases

Plaintiff: Chadwell

Date: September 2018

Verdict:

A Miami-Dade County jury returned a verdict in favor of plaintiff and against PM USA awarding compensatory damages of \$2.4 million. The jury did not award any punitive damages.

Post-Trial Developments:

In September 2018, the trial court entered final judgment in favor of plaintiff and, in October 2018, PM USA filed various post-trial motions, including motions for a new trial and to set aside the verdict.

Plaintiff: Kaplan

Date: July 2018

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 \$2.1 million. The jury also awarded \$2.3 million in punitive damages against PM USA.

Post-Trial Developments:

In July 2018, the trial court entered final judgment in favor of plaintiff and defendants filed various post-trial motions, including motions for a new trial and to set aside the verdict. In August 2018, the trial court denied all post-trial motions. In September 2018, 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 \$3 million. In October 2018, plaintiff cross-appealed.

Plaintiff: Landi

Date: June 2018

Verdict:

A Broward County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds awarding compensatory damages of \$8 million. The jury also awarded \$5 million in punitive damages against PM USA.

Post-Trial Developments:

In June 2018, the trial court entered final judgment in favor of plaintiff and defendants filed various post-trial motions, including motions for a new trial and to set aside the verdict. In July 2018, the trial court denied all post-trial motions. In August 2018, 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 \$2 million. In September 2018, plaintiff cross-appealed.

Plaintiff: Theis

Date: May 2018

Verdict:

A Sarasota County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds awarding compensatory damages of \$7 million. The jury also awarded \$10 million in punitive damages against PM USA.

Post-Trial Developments:

In June 2018, the trial court entered final judgment in favor of plaintiff and defendants filed various post-trial motions, including motions to set aside various portions of the verdict and for a new trial or, in the alternative, for remittitur of the damages awards. In July 2018, the trial court denied all post-trial motions. In August 2018, defendants filed a notice of appeal to the Florida Second District Court of Appeal and PM USA posted a bond in the amount of approximately \$3 million.

Plaintiff: Freeman

Date: March 2018

Verdict:

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

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Post-Trial Developments:

In March 2018, the trial court entered final judgment in favor of plaintiff and PM USA filed various post-trial motions, including motions to enter judgment in defendant's favor and for a new trial. In April 2018, the trial court denied all post-trial motions. In May 2018, PM USA filed a notice of appeal to the Florida First District Court of Appeal and posted a bond in the amount of \$4 million.

Plaintiff: Gloger

Date: February 2018

Verdict:

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

Post-Trial Developments:

In February 2018, the trial court entered final judgment in favor of plaintiff and defendants filed various post-trial motions, including motions to enter judgment in defendants' favor and for a new trial, which the trial court denied in May 2018. Also in February 2018, defendants filed a notice of appeal to the Florida Third District Court of Appeal and posted a bond in the amount of approximately \$3 million.

Plaintiff: Bryant

Date: December 2017

Verdict:

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

Post-Trial Developments:

In December 2017, PM USA filed various post-trial motions, including motions to enter judgment in its favor and for a new trial. Plaintiff also filed a motion for a new trial on the amount of punitive damages. In February 2018, the trial court denied all post-trial motions and entered final judgment in favor of plaintiff. In March 2018, PM USA filed a notice of appeal to the Florida First District Court of Appeal and posted a bond in the amount of approximately \$1 million.

Plaintiff: R. Douglas

Date: November 2017

Verdict:

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

Post-Trial Developments:

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

Plaintiff: Wallace

Date: October 2017

Verdict:

A Brevard County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds awarding compensatory damages of \$12 million. The jury also awarded plaintiff \$16 million in punitive damages against PM USA.

Post-Trial Developments:

In November 2017, defendants filed post-trial motions, including for a new trial or remittitur of the damages awards. In December 2017, the court denied certain post-trial motions. In January 2018, the court denied the remaining post-trial motions and entered final judgment against PM USA and R.J. Reynolds. In February 2018, defendants filed

a notice of appeal to the Florida Fifth District Court of Appeal and posted a bond in the amount of approximately \$3 million, and plaintiff cross-appealed.

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Plaintiff: L. Martin

Date: May 2017

Verdict:

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

Post-Trial Developments:

In May 2017, PM USA filed various post-trial motions, including motions to set aside the verdict and for a new trial. In June 2017, the trial court entered final judgment in favor of plaintiff with a deduction for plaintiff's comparative fault. In August 2017, the court denied PM USA's post-trial motions and PM USA filed a notice of appeal to the Florida Third District Court of Appeal and posted a bond in the amount of approximately \$2 million. In September 2017, plaintiff cross-appealed.

Plaintiff: Sommers

Date: April 2017

Verdict:

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

Post-Trial Developments:

In April 2017, PM USA filed motions for a new trial and for a directed verdict, and plaintiff filed a motion for a new trial on punitive damages. In January 2018, the trial court granted plaintiff's motion for a new trial on punitive damages, denied PM USA's post-trial motions, and PM USA filed a notice of appeal to the Florida Third District Court of Appeal. In February 2018, plaintiff cross-appealed. In April 2018, the trial court entered an amended final judgment in favor of plaintiff. In May 2018, PM USA filed a notice of appeal to the Florida Third District Court of Appeal to review the amended final judgment and posted a bond in the amount of \$1 million.

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. The jury also awarded plaintiff \$100,000 in punitive damages against PM USA.

Post-Trial Developments:

In April 2017, the trial court entered final judgment in favor of plaintiff with a deduction for plaintiff's comparative fault and defendants filed various post-trial motions, including motions to set aside the verdict and for a new trial. In December 2017, the trial court granted defendants' motion to set aside the verdict as to all claims except plaintiff's conspiracy claim. In January 2018, plaintiff filed a motion to amend the final judgment to award the full compensatory damages without reduction for plaintiff's comparative fault. In May 2018, the trial court denied defendants' remaining post-trial motions, but set aside the punitive damages award. The trial court also granted plaintiff's motion to amend the final judgment to award full compensatory damages. In June 2018, defendants filed a notice of appeal to the Florida Fourth District Court of Appeal and plaintiff filed a notice of cross-appeal. PM USA subsequently posted a bond in the amount of approximately \$1 million.

Plaintiff: J. Brown

Date: February 2017

Verdict:

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

Post-Trial Developments:

In March 2017, defendants filed various post-trial motions, including motions to set aside the verdict and for a new trial. In August 2017, the trial court denied defendants' post-trial motions and entered final judgment in favor of plaintiff. In September 2017, defendants filed a notice of appeal to the Florida Second District Court of Appeal and posted a bond in the amount of \$3 million.

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Plaintiff: Pardue

Date: December 2016

Verdict:

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

Post-Trial Developments:

In December 2016, the trial court entered final judgment in favor of plaintiff. In January 2017, PM USA and R.J. Reynolds filed various post-trial motions, including motions to set aside the verdict and for a new trial or, in the alternative, for remittitur of the jury's damages awards. In February 2017, the court granted defendants' alternative motion for remittitur, reducing the compensatory damages award against PM USA and R.J. Reynolds to approximately \$5.2 million. Also in February 2017, defendants filed a renewed motion to alter or amend the judgment, which the court denied in April 2017. In March 2017, defendants filed a notice of appeal to the Florida First District Court of Appeal and plaintiff cross-appealed. In April 2017, PM USA posted a bond in the amount of approximately \$3 million. In June 2018, the Florida First District Court of Appeal issued a per curiam decision affirming the trial court's judgment against defendants. In the second quarter of 2018, PM USA recorded a provision on its condensed consolidated balance sheet of approximately \$9 million for the judgment and interest and increased its bond by \$5 million.

Plaintiff: S. Martin

Date: November 2016

Verdict:

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

Post-Trial Developments:

In December 2016, the trial court entered final judgment in favor of plaintiff with a deduction for plaintiff's comparative fault and PM USA and R.J. Reynolds filed various post-trial motions, including motions to set aside the verdict and for a new trial. In January 2017, the trial court denied all post-trial motions. In February 2017, defendants filed a notice of appeal to the Florida Fourth District Court of Appeal and plaintiff cross-appealed. Also in February 2017, PM USA posted a bond in the amount of approximately \$3 million.

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 to the Florida Fourth District Court of Appeal and defendants cross-appealed. In July 2018, the Florida Fourth District Court of Appeal affirmed the trial court's grant of a new trial.

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

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under Engle Progeny Appellate Issues, which the court granted in May 2016. In June 2016, PM USA filed a notice of appeal to the Florida Fourth District Court of Appeal and plaintiff cross-appealed. In December 2017, the Florida Fourth District Court of Appeal reversed the judgment and remanded the case for a new trial on an appellate finding that the trial judge erred in instructing the jury on the warning labels on cigarette packs.

Plaintiff: Danielson

Date: November 2015

Verdict:

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

Post-Trial Developments:

In November 2015, plaintiff filed a motion to enforce the parties' pretrial stipulation of \$2.3 million in economic damages, which the trial court granted. The plaintiff also filed a motion for an additur or, in the alternative, for a new trial and PM USA filed post-trial motions, including a motion concerning the proper form of judgment and for a new trial. In December 2015, the trial court granted plaintiff's motion for a new trial on damages and denied PM USA's post-trial motions. In January 2016, PM USA filed a notice of appeal to the Florida First District Court of Appeal. In July 2017, the Florida First District Court of Appeal affirmed the trial court's order granting a new trial on non-economic compensatory damages, but reinstated the jury's punitive damages award. In September 2018, in the retrial, an Escambia County jury returned a verdict against PM USA awarding \$250,000 in non-economic compensatory damages. The trial court subsequently entered final judgment awarding a total of approximately \$2.6 million in compensatory damages and \$325,000 in punitive damages, which includes both the 2015 and 2018 damages awards. Also in September 2018, PM USA filed various post-trial motions, including motions to set aside the verdict, which the court denied in October 2018. Also in October 2018, PM USA posted a bond in the amount of approximately \$3 million.

Plaintiff: Duignan

Date: September 2015

Verdict:

A Pinellas County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds awarding \$6 million in compensatory damages. The jury also awarded plaintiff \$3.5 million in punitive damages against PM USA.

Post-Trial Developments:

In September 2015, the trial court entered final judgment and PM USA filed various post-trial motions, including motions to set aside the verdict and for a new trial, which the court denied in October 2015. In November 2015, PM USA and R.J. Reynolds filed a notice of appeal to the Florida Second District Court of Appeal and PM USA posted a bond in the amount of approximately \$3 million. In November 2017, the Florida Second District Court of Appeal reversed the judgment against PM USA and R.J. Reynolds and ordered a new trial on an appellate finding that the trial judge erred in responding to a question from the jury during deliberations. Also in November 2017, plaintiff filed a motion for rehearing with the Florida Second District Court of Appeal, which the court denied in January 2018.

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 to the Florida Fourth

District Court of Appeal and plaintiff cross-appealed. Also in March 2016, PM USA posted a bond in the amount of approximately \$300,000. In January 2018, the Florida Fourth District Court of Appeal affirmed the judgment in favor of plaintiff and granted plaintiff a new trial on punitive damages.

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Plaintiff: Jordan

Date: August 2015

Verdict:

A Duval County jury returned a verdict in favor of plaintiff and against PM USA awarding approximately \$7.8 million in compensatory damages. The jury also awarded approximately \$3.2 million in punitive damages.

Post-Trial Developments:

In August 2015, the trial court entered final judgment against PM USA and reduced the compensatory damages to approximately \$6.4 million. PM USA filed various post-trial motions, including motions to set aside the verdict and for a new trial, which the court denied in December 2015. PM USA subsequently filed a notice of appeal to the Florida First District Court of Appeal and plaintiff cross-appealed. In April 2018, the Florida First District Court of Appeal issued a per curiam decision affirming the trial court's judgment in favor of plaintiff and PM USA filed a motion for rehearing, which the court denied in May 2018. In the second quarter of 2018, PM USA posted a bond in the amount of approximately \$10 million and recorded a provision on its condensed consolidated balance sheet of approximately \$11 million for the judgment and interest.

Plaintiff: McCoy

Date: July 2015

Verdict:

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

Post-Trial Developments:

In July 2015, defendants filed various post-trial motions, including motions to set aside the verdict and for a new trial. In August 2015, the trial court entered final judgment without any deduction for plaintiff's comparative fault. In January 2016, the trial court denied defendants' post-trial motions and amended the final judgment to apply the comparative fault deduction. Subsequently, defendants filed a notice of appeal to the Florida Fourth District Court of Appeal, PM USA posted a bond in the amount of approximately \$2 million and plaintiff filed a notice of cross-appeal. In November 2017, the Florida Fourth District Court of Appeal reversed the judgment against PM USA and R.J. Reynolds and ordered a new trial on an appellate finding that the trial court erred in admitting certain materials into evidence that deprived defendants of a fair trial. In December 2017, plaintiff filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court and the case was stayed pending the Florida Supreme Court's decision in Pollari, discussed below.

Plaintiff: M. Brown

Date: May 2015

Verdict:

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

Post-Trial Developments:

In May 2015, the trial court entered final judgment and PM USA posted a bond in the amount of \$5 million. Additionally, PM USA filed post-trial motions, including motions to set aside the verdict and for a new trial, as well as filed a notice of appeal to the Florida First District Court of Appeal. In August 2015, the trial court denied the last of PM USA's post-trial motions and plaintiff cross-appealed. In April 2018, the Florida First District Court of Appeal issued a per curiam decision affirming the trial court's judgment against PM USA. In May 2018, PM USA filed a motion for rehearing, rehearing en banc or for certification of a question to the Florida Supreme Court, which the court denied. In the second quarter of 2018, PM USA increased its bond by approximately \$1 million and recorded a

provision on its condensed consolidated balance sheet of approximately \$7 million for the judgment and interest.

Plaintiff: Pollari

Date: March 2015

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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 approximately \$3 million. In February 2016, plaintiff cross-appealed. In August 2017, the Florida Fourth District Court of Appeal reversed the original judgment against PM USA and ordered a new trial on an appellate finding that the trial court erred in admitting certain materials into evidence that deprived defendants of a fair trial. In September 2017, plaintiff moved for rehearing, rehearing en banc, or certification of a question to the Florida Supreme Court, which the Florida Fourth District Court of Appeal denied in November 2017. In December 2017, plaintiff filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court.

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. 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; plaintiff also filed a notice to invoke the jurisdiction of the Florida Supreme Court challenging the comparative fault reduction. In March 2017, the Florida Supreme Court stayed the appeal pending its decisions in Marotta and Schoeff, discussed below under Engle Progeny Appellate Issues. In April 2017, the Florida Supreme Court rejected R.J. Reynolds's federal preemption defense in Marotta. In December 2017, the Florida Supreme Court held in Schoeff that comparative fault does not reduce compensatory damages awards for intentional torts. As a result, in the fourth quarter of 2017, PM

USA recorded a provision on its consolidated balance sheet of approximately \$20 million for the judgment and interest. In February 2018, PM USA increased its bond by \$10 million. In June 2018, the Florida Supreme Court denied PM USA's and plaintiff's request for review, thereby reinstating the comparative fault reduction and PM USA decreased the provision recorded on its consolidated balance sheet to approximately \$17 million. In June 2018, plaintiff filed a motion for rehearing in the Florida Supreme Court seeking to remove the comparative fault reduction. In October 2018, the Florida Supreme Court remanded the case to the Fourth District Court of Appeal to remove the comparative fault reduction.

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Plaintiff: D. Brown

Date: January 2015

Verdict:

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

Post-Trial Developments:

In February 2015, the trial court entered final judgment. In March 2015, PM USA filed various post-trial motions, including motions to alter or amend the judgment and for a new trial or, in the alternative, remittitur of the damages awards, all of which the court denied. In July 2015, PM USA filed a notice of appeal to the U.S. Court of Appeals for the Eleventh Circuit. In August 2015, the Court of Appeals granted PM USA's motion to stay the appeal pending final disposition in the Graham and Searcy cases, discussed below under Engle Progeny Appellate Issues.

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 approximately \$4 million. In April 2017, the Florida Second District Court of Appeal rejected PM USA's grounds for appeal and affirmed the judgment, but ruled that the trial court should not have applied the comparative fault deduction. The court remanded the case to the trial court to amend the judgment to award plaintiff the full amount of the jury's compensatory damages award and also separately ruled that plaintiff is entitled to attorneys' fees. In May 2017, defendants filed notices to invoke the discretionary jurisdiction of the Florida Supreme Court on the merits and on the attorneys' fees issue. The Florida Supreme Court stayed consideration of its jurisdiction on the merits appeal pending its ruling in Schoeff, discussed below under Engle Progeny Appellate Issues. In December 2017, the Florida Supreme Court held in Schoeff that comparative fault does not reduce compensatory damages awards for intentional torts. In February 2018, PM USA requested that the Florida Supreme Court remand the case to the Second District Court of Appeal for further consideration and PM USA increased its bond by approximately \$11 million. In June 2018, the Florida Supreme Court denied PM USA's request to remand the case for further consideration. In the second quarter of 2018, PM USA recorded a provision on its condensed consolidated balance sheet of approximately \$41 million for the judgment and interest.

Plaintiff: Kerrivan

Date: October 2014

Verdict:

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

Post-Trial Developments:

The trial court entered final judgment. In December 2014, defendants filed various post-trial motions, including a renewed motion for judgment or for a new trial. Plaintiff agreed to waive the bond for the appeal. In May 2015, the trial court deferred further briefing on the post-trial motions pending the Eleventh Circuit's final disposition in the

Graham and Searcy cases, discussed below under Engle Progeny Appellate Issues. In June 2017, the trial court lifted the stay on the post-trial motions and, in June 2018, denied defendants' post-trial motions. In July 2018, defendants filed a notice of appeal to the U.S. Court of Appeals for the Eleventh Circuit and plaintiff cross-appealed.

Plaintiff: Berger

Date: September 2014

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Verdict:

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

Post-Trial Developments:

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

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.

Post-Trial Developments:

Defendants filed motions for a defense verdict because the jury's findings indicated that plaintiff was not a member of the Engle class. In December 2014, the trial court entered final judgment and, in January 2015, defendants filed a renewed motion for judgment as a matter of law or, in the alternative, a motion for a new trial. Defendants also filed a motion to alter or amend the final judgment. In April 2015, the trial court stayed the post-trial proceedings pending the Eleventh Circuit's final disposition in the Graham case, discussed below under Engle Progeny Appellate Issues. In February 2018, the trial court lifted the stay on the post-trial proceedings.

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 approximately \$1 million. In July 2015, the District Court of Appeal reversed the compensatory damages award and ordered judgment in favor of defendants on the strict liability and negligence claims, but remanded plaintiff's conspiracy and concealment claims for a new trial. In August 2015, defendants filed a motion for rehearing, and plaintiff filed a motion for clarification, which the District Court of Appeal denied in September 2015.

Plaintiff: Searcy

Date: April 2013

Verdict:

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

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Post-Trial Developments:

In June 2013, the trial court entered final judgment. In July 2013, defendants filed various post-trial motions, including motions requesting reductions in damages. In September 2013, the district court reduced the compensatory damages award to \$1 million and the punitive damages award to \$1.67 million against each defendant. The district court denied all other post-trial motions. Plaintiff filed a motion to reconsider the district court's remittitur and, in the alternative, to certify the issue to the U.S. Court of Appeals for the Eleventh Circuit, both of which the court denied in October 2013. In November 2013, defendants filed a notice of appeal to the U.S. Court of Appeals for the Eleventh Circuit arguing that application of the Engle findings to the Engle progeny plaintiffs' concealment and conspiracy claims violated defendants' due process rights. In December 2013, defendants filed an amended notice of appeal after the district court corrected a clerical error in the final judgment, and PM USA posted a bond in the amount of approximately \$2 million. In January 2018, the U.S. Court of Appeals for the Eleventh Circuit ordered supplemental briefing on the due process issue. In September 2018, the U.S. Court of Appeals for the Eleventh Circuit affirmed the judgment. In the third quarter of 2018, PM USA recorded a provision on its condensed consolidated balance sheet of approximately \$2 million for the judgment and interest.

Plaintiff: Calloway

Date: May 2012

Verdict:

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

Post-Trial Developments:

In May and June 2012, defendants filed motions to set aside the verdict and for a new trial. In August 2012, the trial court denied the post-trial motions, reduced the compensatory damages to \$16.1 million and entered final judgment. In September 2012, PM USA posted a bond in an amount of approximately \$2 million and defendants filed a notice of appeal to the Florida Fourth District Court of Appeal. In August 2013, plaintiff filed a motion to determine the sufficiency of the bond in the trial court on the ground that the bond cap statute is unconstitutional, which the court denied. In January 2016, a panel of the Florida Fourth District Court of Appeal vacated the punitive damages award and remanded the case for retrial on plaintiff's claims of concealment and conspiracy, and punitive damages. The court also found that the trial court should have applied the comparative fault deduction, reducing the compensatory damages against PM USA to \$4.025 million. In February 2016, defendants and plaintiff filed respective motions for rehearing and rehearing en banc. In March 2016, plaintiff filed a notice of supplemental authority citing the Soffer decision, discussed below under Engle Progeny Appellate Issues. In September 2016, the Florida Fourth District Court of Appeal, ruling en banc, reversed the judgment against PM USA and R.J. Reynolds in its entirety on the grounds that improper arguments by plaintiff's counsel deprived defendants of a fair trial, and ordered a new trial. In October 2016, plaintiff filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court, which the court denied in March 2017. In June 2017, plaintiff filed a petition for writ of certiorari with the United States Supreme Court seeking review of the 2016 en banc ruling by the Florida Fourth District Court of Appeal, which the court denied in October 2017.

Engle Cases Concluded Within Past 12 Months

Plaintiff: Simon

Date: September 2018

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 \$1 million and allocating 20% of the fault to PM USA (an amount of \$200,000). The jury did not award any punitive damages.

Post-Trial Developments:

In October 2018, the trial court entered final judgment in favor of plaintiff and PM USA paid approximately \$200,000 for the judgment and associated costs.

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Plaintiff: Perrotto

Date: November 2014

Verdict:

A Palm Beach County jury returned a verdict against PM USA, R.J. Reynolds and Lorillard awarding plaintiff approximately \$4.1 million in compensatory damages and allocating 25% of the fault to PM USA (an amount of approximately \$1 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. In June 2018, a jury returned a verdict on punitive damages in favor of PM USA. In July 2018, the court entered final judgment awarding plaintiff approximately \$1 million in compensatory damages against PM USA. In the third quarter of 2018, PM USA recorded a provision on its condensed consolidated balance sheet of approximately \$1 million for the judgment and interest and paid this amount in September 2018.

Plaintiff: Gore

Date: March 2015

Verdict:

An Indian River County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds awarding \$2 million in compensatory damages.

Post-Trial Developments:

In October 2015, defendants filed a notice of appeal to the Florida Fourth District Court of Appeal and plaintiff cross-appealed. In February 2018, the Florida Fourth District Court of Appeal affirmed the judgment in favor of plaintiff and granted plaintiff leave to seek a new trial on punitive damages. In the first quarter of 2018, PM USA recorded a provision on its condensed consolidated balance sheet of approximately \$1 million for the judgment and interest. In July 2018, the trial court entered final judgment on the compensatory damages award and reserved jurisdiction for plaintiff to seek punitive damages. In August 2018, defendants filed a notice of appeal and petition for writ of certiorari with the Florida Fourth District Court of Appeal seeking review of the amended partial final judgment. In September 2018, plaintiff waived the claim for punitive damages and defendants voluntarily dismissed their appeal. In September 2018, PM USA paid approximately \$1 million for the judgment and interest.

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 and defendants appealed. 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 September 2013, both parties filed notices to invoke the discretionary jurisdiction of the Florida Supreme Court. 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. In September 2018, the parties agreed to settle plaintiff's claim for compensatory damages. In the third quarter of 2018, PM USA recorded a provision on its condensed consolidated balance sheet of

approximately \$5 million, which included punitive damages previously determined at trial, compensatory damages, and attorney's fees, and paid this amount in September 2018.

Plaintiff: Sermons

Date: July 2016

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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 August of 2018, PM USA paid approximately \$118,000 for the judgment and interest.

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 January 2016, the trial court entered final judgment against PM USA with a deduction for plaintiff's comparative fault and plaintiff filed a notice of appeal to the Florida Fourth District Court of Appeal and PM USA cross-appealed. In June 2017, the Florida Fourth District Court of Appeal issued a per curiam affirmance of the final judgment against PM USA. In July 2017, plaintiff filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court. In the fourth quarter of 2017, PM USA recorded a provision on its consolidated balance sheet of approximately \$1 million for the judgment and interest. In March 2018, the Florida Supreme Court accepted jurisdiction of plaintiff's petition for review and remanded the case for reconsideration. In April 2018, the Fourth District Court of Appeal reversed and remanded the case to the trial court to amend the final judgment to award plaintiff the full amount of the jury's compensatory damages. PM USA paid the judgment and interest in the amount of approximately \$1 million in May 2018.

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 December 2016, defendants filed a notice of appeal to the Florida Fourth District Court of Appeal. In March 2018, the Florida Fourth District Court of Appeal affirmed the judgment in favor of plaintiff. In the first quarter of 2018, PM USA recorded a provision on its condensed consolidated balance sheet of approximately \$6 million for the judgment, interest and associated costs and paid this amount in May 2018.

Plaintiff: Purdo

Date: April 2016

Verdict:

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

Post-Trial Developments:

In May 2016, the court 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. In August 2017, the Florida Fourth District Court of Appeal affirmed the final judgment in favor of plaintiff. In November 2017, defendants filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court, which was denied in March 2018. In the first quarter of 2018, PM USA recorded a provision on its condensed consolidated balance sheet of approximately \$10 million for the judgment, interest and associated costs. PM USA paid the judgment, interest and

associated costs in the amount of approximately \$10 million in May 2018.

Plaintiff: Griffin

Date: June 2014

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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 October 2014, PM USA filed a notice of appeal to the U.S. Court of Appeals for the Eleventh Circuit. In the second quarter of 2017, PM USA recorded a provision on its condensed consolidated balance sheet of approximately \$1 million for the judgment, interest and associated costs. In April 2018, the Eleventh Circuit affirmed the judgment. PM USA paid the judgment, interest and associated costs in the amount of approximately \$1 million in May 2018.

Plaintiff: Ledoux

Date: December 2015

Verdict:

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

Post-Trial Developments:

In 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 approximately \$3 million. In October 2017, the Florida Third District Court of Appeal affirmed the final judgment in favor of plaintiff. In November 2017, defendants filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court. In the fourth quarter of 2017, PM USA recorded a provision on its consolidated balance sheet of approximately \$20 million for the judgment, interest and associated costs. In March 2018, the Florida Supreme Court denied defendants' petition for review. PM USA paid the judgment, interest and associated costs in the amount of approximately \$20 million in May 2018.

Plaintiff: Burkhart

Date: May 2014

Verdict:

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

Post-Trial Developments:

In October 2014, defendants filed a notice of appeal to the U.S. Court of Appeals for the Eleventh Circuit. In March 2018, the Eleventh Circuit affirmed the judgment in favor of plaintiff. In the second quarter of 2018, PM USA recorded a provision on its condensed consolidated balance sheet of approximately \$2 million for the judgment, interest and associated costs and paid this amount in May 2018.

Plaintiff: Barbose

Date: November 2015

Verdict:

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

Post-Trial Developments:

In February 2016, PM USA filed a notice of appeal to the Florida Second District Court of Appeal. In 2017, the Florida Second District Court of Appeal affirmed the final judgment against defendants. In November 2017, defendants filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court. In the fourth quarter of 2017, PM USA recorded a provision on its consolidated balance sheet of approximately \$12 million for the judgment,

interest and associated costs. In March 2018, the Florida Supreme Court denied defendants' petition for review. PM USA paid the judgment, interest and associated costs in the amount of approximately \$12 million in May 2018.

Plaintiff: Allen

Date: November 2014

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Verdict:

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

Post-Trial Developments:

Defendants filed a notice of appeal to the Florida First District Court of Appeal in September 2015. In February 2017, the Florida First District Court of Appeal affirmed the trial court's judgment. In November 2017, defendants filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court, which was denied in February 2018. In the first quarter of 2018, PM USA recorded a provision on its condensed consolidated balance sheet of approximately \$10 million for the judgment and interest. PM USA paid the judgment and interest of approximately \$10 million in May 2018.

Plaintiff: Ahrens

Date: February 2016

Verdict:

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

Post-Trial Developments:

In April 2016, defendants filed a notice of appeal to the Florida Second District Court of Appeal. In May 2017, the Florida Second District Court of Appeal affirmed the final judgment against defendants. In August 2017, defendants filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court. In the fourth quarter of 2017, PM USA recorded a provision on its consolidated balance sheet of approximately \$7 million for the judgment, interest and associated costs. In March 2018, the Florida Supreme Court denied defendants' petition for review. PM USA paid the judgment, interest and associated costs in the amount of approximately \$7 million in May 2018.

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 December 2013, plaintiff filed a notice of appeal to the Florida First District Court of 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 the first quarter of 2016, PM USA recorded a provision on its condensed consolidated balance sheet of approximately \$55,000 for the judgment, 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 September 2016, the Florida First District Court of Appeal further remanded the case. In March 2018, in a new trial on punitive damages, the jury found in favor of defendants and did not award any punitive damages. In the first quarter of 2018, PM USA recorded an additional provision on its condensed consolidated balance sheet of approximately \$40,000 and in the same quarter paid the judgment, interest and associated costs of approximately \$100,000.

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 the first quarter of 2018, PM USA recorded a provision on its condensed consolidated balance sheet of approximately \$34,000 for the judgment and interest and paid this amount in March 2018.

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Plaintiff: Graham

Date: May 2013

Verdict:

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

Post-Trial Developments:

In October 2013, defendants filed a notice of appeal to the U.S. Court of Appeals for the Eleventh Circuit. 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. In May 2017, the U.S. Court of Appeals for the Eleventh Circuit affirmed the final judgment entered in plaintiff's favor. In the second quarter of 2017, PM USA recorded a provision on its condensed consolidated balance sheet of approximately \$500,000 for the judgment, interest and associated costs. In September 2017, defendants filed a petition for writ of certiorari with the United States Supreme Court, which the court denied in January 2018. PM USA paid the judgment, interest and associated costs in the amount of approximately \$1 million in January 2018.

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 April 2010, PM USA filed a notice of appeal to the Fourth District Court of Appeal. 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. In May 2014, PM USA filed a notice of appeal to the Fourth District Court of Appeal and plaintiff cross-appealed. 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 May 2016, PM USA filed a notice of appeal to the Fourth District Court of Appeal. In April 2017, the Fourth District Court of Appeal issued a per curiam decision affirming the trial court's judgment against PM USA. In the second quarter of 2017, PM USA recorded a provision on its condensed consolidated balance sheet of approximately \$13.2 million for the judgment, interest and associated costs. In September 2017, PM USA filed a petition for writ of certiorari with the United States Supreme Court, which PM USA dismissed after the court denied PM USA's petition in Graham. PM USA paid the judgment, interest and associated costs in the amount of approximately \$14 million in January 2018.

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 November 2014, defendants filed a notice of appeal to the Florida Second District Court of Appeal. 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. 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 million for the judgment, interest and associated costs. In September 2017, defendants filed a petition for writ of certiorari with the United States Supreme Court on due process and federal preemption grounds, which PM USA dismissed after the court denied PM USA's petition in Graham. PM USA paid the judgment, interest and associated costs in the amount of approximately \$3 million in January 2018.

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Plaintiff: Marchese

Date: October 2015

Verdict:

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

Post-Trial Developments:

In June 2016, defendants filed a notice of appeal to the Florida Fourth District Court of Appeal and plaintiff cross-appealed. In November 2017, the Florida Fourth District Court of Appeal rejected defendants' appeal, granted plaintiff's cross-appeal finding that the trial court erred in applying the comparative fault deduction and remanded the case to the trial court with directions to enter an amended final judgment. In the fourth quarter of 2017, PM USA recorded a provision of approximately \$1 million on its consolidated balance sheet for the judgment and interest and paid this amount in January 2018.

Engle Progeny Appellate Issues

In Douglas, an Engle progeny case against PM USA and R.J. Reynolds, in March 2012, the Florida Second District Court of Appeal issued a decision affirming the judgment of the trial court in favor of the plaintiff and upholding the use of the Engle jury findings with respect to strict liability claims but certified to the Florida Supreme Court the question of whether granting res judicata effect to the Engle jury findings violates defendants' federal due process rights. In March 2013, the Florida Supreme Court affirmed the final judgment entered in favor of plaintiff upholding the use of the Engle jury findings with respect to strict liability and negligence claims. PM USA's subsequent petition for writ of certiorari with the United States Supreme Court was unsuccessful.

In Graham, an Engle progeny case against PM USA and R.J. Reynolds, in April 2015, the U.S. Court of Appeals for the Eleventh Circuit found in favor of defendants on the basis of federal preemption, reversing the trial court's denial of judgment as a matter of law. Thereafter, plaintiff filed a petition for rehearing en banc, which the Eleventh Circuit granted in January 2016. In May 2017, the U.S. Court of Appeals for the Eleventh Circuit rejected defendants' preemption and due process arguments and affirmed the final judgment entered in plaintiff's favor. In September 2017, defendants filed a petition for writ of certiorari with the United States Supreme Court on due process and federal preemption grounds, which the court denied in January 2018. In January 2016, in Marotta, a case against R.J. Reynolds on appeal to the Florida Fourth District Court of Appeal, the court rejected R.J. Reynolds's federal preemption defense, but noted the conflict with Graham and certified the preemption question to the Florida Supreme Court. In March 2016, the Florida Supreme Court accepted review of Marotta and in April 2017, affirmed the Fourth District Court of Appeal's ruling on preemption.

In Burkhardt and Searcy, Engle progeny cases against PM USA and R.J. Reynolds, defendants argued that application of the Engle findings to the Engle progeny plaintiffs' concealment and conspiracy claims violated defendants' due process rights. In March 2018, in Burkhardt, the Eleventh Circuit rejected defendants' due process arguments and affirmed the final judgment entered in plaintiff's favor. Defendants filed a motion for rehearing challenging that decision, which the Eleventh Circuit denied. In September 2018, in Searcy, the Eleventh Circuit also affirmed the judgment in plaintiff's favor.

In Soffer, an Engle progeny case against R.J. Reynolds, the Florida Supreme Court ruled in 2016 that Engle progeny plaintiffs can recover punitive damages in connection with all of their claims. Plaintiffs now generally seek punitive damages in connection with all of their claims in Engle progeny cases. In Schoeff, another Engle progeny case against R.J. Reynolds, the Florida Supreme Court ruled in 2016 that comparative fault does not reduce compensatory damages awards for intentional torts.

Florida Bond Statute

In June 2009, Florida amended its existing bond cap statute by adding a \$200 million bond cap that applies to all state Engle progeny lawsuits in the aggregate and establishes individual bond caps for individual Engle progeny cases in amounts that vary 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 Clay, Alexander and Hall, the District Court of Appeal for

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

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

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

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

Other Smoking and Health Class Actions

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

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

As of October 22, 2018, PM USA and Altria 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 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

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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 in Israel (dismissed), the Marshall Islands (dismissed) and Canada (10 cases), and other entities have stated that they are considering filing such actions.

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

Since the beginning of 2008, the Canadian Provinces of British Columbia, New Brunswick, Ontario, Newfoundland and Labrador, Quebec, Alberta, Manitoba, Saskatchewan, Prince Edward Island and Nova Scotia have brought health care reimbursement claims against cigarette manufacturers. PM USA is named as a defendant in the British Columbia and Quebec cases, while both Altria 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 and PMI that provides for indemnities for certain liabilities concerning tobacco products.

Settlements of Health Care Cost Recovery Litigation

In November 1998, PM USA and certain other tobacco product manufacturers entered into the 1998 Master Settlement Agreement (the "MSA") with 46 states, the District of Columbia and certain U.S. territories to settle asserted and unasserted health care cost recovery and other claims. PM USA and certain other tobacco product manufacturers had previously entered into agreements to settle similar claims brought by Mississippi, Florida, Texas and Minnesota (together with the MSA, the "State Settlement Agreements"). The State Settlement Agreements require that the original participating manufacturers or "OPMs" (now PM USA and R.J. Reynolds and, with respect to certain brands, ITG Brands, LLC ("ITG")) make annual payments of approximately \$9.4 billion, subject to adjustments for several factors, including inflation, market share and industry volume. In addition, the OPMs are required to pay settling plaintiffs' attorneys' fees, subject to an annual cap of \$500 million. For the three months ended September 30, 2018 and 2017, the aggregate amount recorded in cost of sales with respect to the State Settlement Agreements was approximately \$1.2 billion and \$1.1 billion, respectively. For the nine months ended September 30, 2018 and 2017, the aggregate amount recorded in cost of sales with respect to the State Settlement Agreements was approximately \$3.2 billion and \$3.4 billion, respectively. These amounts include PM USA's estimate of amounts related to NPM Adjustments discussed below.

NPM Adjustment Disputes

PM USA is participating in proceedings regarding the NPM Adjustment for 2003-2017. The "NPM Adjustment" is a reduction in MSA payments made by the OPMs and those manufacturers that are subsequent signatories to the MSA (collectively, the "participating manufacturers" or "PMs") that applies if the PMs collectively lose at least a specified level of market share to non-participating manufacturers since 1997, subject to certain conditions and defenses. The independent auditor (the "IA") appointed under the MSA calculates the maximum amount of the NPM Adjustment, if any, for each year.

NPM Adjustment Disputes - Settlement with 36 States and Territories and Settlement with New York.

PM USA has entered into two settlements of NPM Adjustment disputes with a total of 37 states and territories, one with 36 states and territories (the “multi-state settlement”) and the other with the State of New York. The multi-state settlement was originally entered into in 2012 with 19 states and territories and to date has been expanded to include a total of 36 of the 52 MSA states and territories (the “signatory states”). In the multi-state settlement, PM USA by the end of October 2017 had settled the NPM Adjustment disputes for 2003-2015 with 26 states in exchange for a total of \$740 million. In 2018, there have been three principal developments with respect to this settlement. First, in the first quarter of 2018, PM USA settled the NPM Adjustment disputes for 2004-2017 with the states of Alaska, Colorado, Delaware, Hawaii, Maine, North Dakota, South Dakota, Utah and Vermont. As a result of these additional nine states joining the multi-state settlement, PM USA will receive approximately \$81 million for 2004-2017 (\$13 million of which relates to the 2015-2017 “transition years”), \$68 million of which it received in April 2018. In connection with this settlement, PM USA recorded a reduction to cost of sales in the amount of \$81 million in the first quarter of 2018. Second, in the second quarter of 2018, Pennsylvania joined the multi-state

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settlement for 2004-2017. As a result, PM USA will receive approximately \$90 million for 2004-2017 (\$13 million of which relates to the 2015-2017 “transition years”). In connection with this settlement, PM USA recorded a reduction to cost of sales in the amount of \$90 million in the second quarter of 2018. Third, in the second quarter of 2018, PM USA agreed to settle the NPM Adjustment disputes for 2016 and 2017 with the 26 signatory states mentioned above. As a result, PM USA will receive approximately \$77 million for 2016 and 2017. In connection with this settlement, PM USA recorded a reduction to cost of sales in the amount of \$38 million for the 2017 NPM Adjustment in the second quarter of 2018, having previously recorded a reduction to cost of sales in the amount of \$39 million for the 2016 NPM Adjustment in the third quarter of 2017 based on PM USA’s then best estimate regarding 2016.

In the NPM Adjustment settlement with New York, which was entered into in 2015, PM USA has received a total of approximately \$217 million for 2004-2016. Both the New York settlement and the multi-state settlement also contain provisions resolving certain disputes regarding the application of the NPM Adjustment going forward, although the applicability of those provisions with respect to the signatory states that joined the multi-state settlement after 2017 is contingent on satisfaction, in the PMs’ sole discretion, of certain conditions.

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

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

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

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

No assurance can be given as to when proceedings for 2005 and subsequent years will be scheduled or the precise form those proceedings will take.

The IA has calculated that PM USA’s share of the maximum potential NPM Adjustments for 2004-2016 is (exclusive of interest or earnings): \$388 million for 2004; \$181 million for 2005; \$154 million for 2006; \$185 million for 2007; \$250 million for 2008; \$211 million for 2009; \$218 million for 2010; \$166 million for 2011; \$214 million for 2012; \$224 million for 2013; \$253 million for 2014; \$300 million for 2015; \$295 million for 2016 and \$288 million for 2017. These maximum amounts will be reduced, likely substantially, to reflect the settlements with the signatory states and New York, and potentially for current and future calculation disputes and other developments. Finally, PM USA’s recovery of these amounts, even as reduced, is dependent upon subsequent determinations regarding state-specific defenses and disputes with other PMs.

Other Disputes Under the State Settlement Agreements

The payment obligations of the tobacco product manufacturers that are parties to the State Settlement Agreements, as well as the allocations of any NPM Adjustments and related settlements, have been and may continue to be affected by R.J. Reynolds' acquisition of Lorillard and its related sale of certain cigarette brands to ITG (the "ITG brands"). In particular, R.J. Reynolds and ITG have asserted that they do not have to make payments on the ITG brands under the Florida, Minnesota and Texas State Settlement Agreements or include the ITG brands for purposes of certain calculations under the State Settlement Agreements. PM USA believes that R.J. Reynolds' and ITG's position violates the State Settlement Agreements and applicable law. PM USA further believes that these actions: (i) improperly increased PM USA's payments for 2015-2017; (ii) may improperly increase PM USA's payments for subsequent years; (iii) may improperly decrease PM USA's share of the 2015-2017 NPM Adjustments and the settlements of related disputes; and (iv) may improperly decrease PM USA's share of NPM Adjustments and related settlements for subsequent years.

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PM USA and the State of Florida each filed a motion in Florida state court against R.J. Reynolds and ITG seeking to enforce the Florida State Settlement Agreement. In December 2017, the Florida trial court ruled that R.J. Reynolds (and not ITG) must make settlement payments under the Florida State Settlement Agreement on the ITG brands. In May 2018, the Florida trial court issued an order stating that, for purposes of the Florida State Settlement Agreement, R.J. Reynolds' settlement payment on the ITG brands should be calculated as if R.J. Reynolds is continuing to sell those brands. In August 2018, the Florida trial court entered final judgment ordering R.J. Reynolds to pay PM USA approximately \$9.8 million for the 2015-2017 period. R.J. Reynolds and PM USA have each filed notices of appeal of the trial court's decision, which proceedings may result in further modifications to PM USA's settlement payments under the Florida State Settlement Agreement.

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

Federal Government's Lawsuit

In 1999, the United States government filed a lawsuit in the U.S. District Court for the District of Columbia against various cigarette manufacturers, including PM USA, and others, including Altria, asserting claims under three federal statutes, namely the Medical Care Recovery Act ("MCRA"), the MSP provisions of the Social Security Act and the civil provisions of RICO. The case ultimately proceeded only under the civil provisions of RICO, and the trial ended in June 2005. In August 2006, the district court entered judgment in favor of the government. The court held that certain defendants, including Altria 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 (“D.C. Court of Appeals”) largely affirmed the trial court’s remedial order, but vacated the following aspects of the order:

its application to defendants’ subsidiaries;
the prohibition on the use of express or implied health messages or health descriptors, but only to the extent of extraterritorial application;

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its point-of-sale display provisions; and
its application to Brown & Williamson Holdings.

The appellate panel remanded the case for the trial court to reconsider these four aspects of the injunction and to reformulate its remedial order accordingly.

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

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

In the second quarter of 2014, Altria and PM USA recorded provisions on each of their respective balance sheets totaling \$31 million for the estimated costs of implementing the corrective communications remedy.

The consent order approved by the district court in June 2014 did not address the requirements related to point-of-sale signage. In May 2014, the district court ordered further briefing by the parties on the issue of corrective statements on point-of-sale signage, which was completed in June 2014. In May 2018, the parties submitted a joint status report on point-of-sale signage to the district court and the court approved the parties' proposed briefing schedule. The briefing is complete and the matter is pending before the district court.

"Lights/Ultra Lights" Cases

Overview

Plaintiffs have sought certification of their cases as class actions, alleging among other things, that the uses of the terms "Lights" and/or "Ultra Lights" constitute deceptive and unfair trade practices, common law or statutory fraud, unjust enrichment or breach of warranty, and have sought injunctive and equitable relief, including restitution and, in certain cases, punitive damages. These class actions have been brought against PM USA and, in certain instances, Altria or its other subsidiaries, on behalf of individuals who purchased and consumed various brands of cigarettes, including Marlboro Lights, Marlboro Ultra Lights, Virginia Slims Lights and Superslims, Merit Lights and Cambridge Lights. Defenses raised in these cases include lack of misrepresentation, lack of causation, injury and damages, the statute of

limitations, non-liability under state statutory provisions exempting conduct that complies with federal regulatory directives, and the First Amendment. As of October 22, 2018, a total of two such cases are pending in various U.S. state courts, none of which is active.

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

As of October 22, 2018, 21 state courts in 23 “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.

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State Trial Court Class Certifications

State trial courts have certified classes against PM USA in several jurisdictions. Over time, all such cases have been dismissed by the courts at the summary judgment stage, were settled by the parties or were resolved in favor of PM USA.

Certain Other Tobacco-Related Litigation

Ignition Propensity Case

PM USA and Altria are currently facing litigation alleging that a fire caused by cigarettes led to individuals' deaths. In a Kentucky case (Walker) brought against various parties including PM USA and Altria, 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, PM USA and Altria filed renewed motions to dismiss the case, which the court granted in March 2017. In October 2018, plaintiffs dismissed their claims against the other defendants.

UST Litigation

UST and/or its tobacco subsidiaries have been named in a number of 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 were named as defendants, along with other named defendants, in one such case in California (Gwynn). In August 2018, the parties agreed to settle the Gwynn case and in September 2018, plaintiffs dismissed their claims with prejudice.

Environmental Regulation

Altria 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 are involved in several matters subjecting them to potential costs of remediation and natural resource damages under Superfund or other laws and regulations. Altria's subsidiaries expect to continue to make capital and other expenditures in connection with environmental laws and regulations.

Altria 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 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'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 have agreed to indemnify a limited number of third parties in the event of future litigation. At September 30, 2018, Altria and certain of its subsidiaries (i) had \$56 million of unused letters of credit obtained in the ordinary course of business; (ii) were contingently liable for \$30 million of guarantees, consisting primarily of surety bonds, related to their own performance; and (iii) had a redeemable noncontrolling interest of \$38 million

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recorded on its condensed consolidated balance sheet. In addition, from time to time, subsidiaries of Altria issue lines of credit to affiliated entities. These items have not had, and are not expected to have, a significant impact on Altria's liquidity.

Under the terms of a distribution agreement between Altria and PMI (the "Distribution Agreement"), entered into as a result of Altria'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 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 does not have a related liability recorded on its condensed consolidated balance sheet at September 30, 2018 as the fair value of this indemnification is insignificant.

As more fully discussed in Note 11. Condensed Consolidating Financial Information, PM USA has issued guarantees relating to Altria's obligations under its outstanding debt securities, borrowings under its Credit Agreement and amounts outstanding under its commercial paper program.

Note 11. Condensed Consolidating Financial Information:

PM USA, which is a 100% owned subsidiary of Altria, has guaranteed Altria'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'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 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 or any successor;
the date, if any, on which Altria 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's long-term senior unsecured debt by Standard & Poor's Ratings Services of A or higher.

At September 30, 2018, the respective principal 100% owned subsidiaries of Altria and PM USA were not limited by long-term debt or other agreements in their ability to pay cash dividends or make other distributions with respect to

their equity interests.

The following sets forth the condensed consolidating balance sheets as of September 30, 2018 and December 31, 2017, condensed consolidating statements of earnings and comprehensive earnings for the nine and three months ended September 30, 2018 and 2017, and condensed consolidating statements of cash flows for the nine months ended September 30, 2018 and 2017 for Altria, PM USA and, collectively, Altria's other subsidiaries that are not guarantors of Altria's debt instruments (the "Non-Guarantor Subsidiaries").

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 and PM USA account for investments in their subsidiaries under the equity method of accounting.

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Condensed Consolidating Balance Sheets

September 30, 2018

(in millions of dollars)

	Altria	PM USA	Non- Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Assets					
Cash and cash equivalents	\$2,346	\$ —	\$ 47	\$ —	\$ 2,393
Receivables	—	14	173	—	187
Inventories:					
Leaf tobacco	—	465	329	—	794
Other raw materials	—	114	74	—	188
Work in process	—	4	502	—	506
Finished product	—	117	472	—	589
	—	700	1,377	—	2,077
Due from Altria and subsidiaries	7	4,085	1,233	(5,325)) —
Income taxes	—	223	—	(139)) 84
Other current assets	56	334	34	—	424
Total current assets	2,409	5,356	2,864	(5,464)) 5,165
Property, plant and equipment, at cost	—	2,910	1,951	—	4,861
Less accumulated depreciation	—	2,100	870	—	2,970
	—	810	1,081	—	1,891
Goodwill	—	—	5,307	—	5,307
Other intangible assets, net	—	2	12,383	—	12,385
Investment in AB InBev	17,825	—	—	—	17,825
Investment in consolidated subsidiaries	14,081	2,861	—	(16,942)) —
Finance assets, net	—	—	848	—	848
Due from Altria and subsidiaries	4,790	—	—	(4,790)) —
Other assets	159	717	144	(488)) 532
Total Assets	\$39,264	\$ 9,746	\$ 22,627	\$ (27,684)) \$ 43,953

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Condensed Consolidating Balance Sheets (Continued)

September 30, 2018

(in millions of dollars)

	Altria	PM USA	Non- Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Liabilities					
Current portion of long-term debt	\$2,007	\$	—\$	—\$	\$ 2,007
Accounts payable	—	78	211	—	289
Accrued liabilities:					
Marketing	—	578	112	—	690
Employment costs	14	11	122	—	147
Settlement charges	—	3,222	8	—	3,230
Other	277	335	302	(139)	775
Dividends payable	1,508	—	—	—	1,508
Due to Altria and subsidiaries	4,814	426	85	(5,325)	—
Total current liabilities	8,620	4,650	840	(5,464	