ADVENTRX PHARMACEUTICALS INC
Form 8-K
November 05, 2012

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported): November 5, 2012

ADVENTRX Pharmaceuticals, Inc.

(Exact name of registrant as specified in its charter)

Delaware	001-32157	84-1318182
(State or other jurisdiction of incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)
12390 El Camino Real, Suite 150, San Diego, California		92130
(Address of principal executive offices)		(Zip Code)

Registrant s telephone number, including area code: 858-552-0866

Not Applicable

Former name or former address, if changed since last report

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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Item 2.02 Results of Operations and Financial Condition.

On November 5, 2012, ADVENTRX Pharmaceuticals, Inc. issued a press release announcing its financial results for the three and nine months ended September 30, 2012. A copy of this press release is furnished as Exhibit 99.1 hereto.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.

The list of exhibits called for by this Item is incorporated by reference to the Exhibit Index filed with this report.

The information set forth under Item 2.02 and in Exhibit 99.1 is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934 and is not to be incorporated by reference into any filing of the registrant, whether made before or after the date hereof, regardless of any general incorporation language in any such filing.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

ADVENTRX Pharmaceuticals, Inc.

November 5, 2012

By: /s/ Patrick L. Keran

Name: Patrick L. Keran
Title: President and Chief Operating Officer

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Exhibit Index

Exhibit No.	Description
99.1	Press release, dated November 5, 2012

/td>

$
357

$
(2,067
)

$
1,944

Other comprehensive (losses) earnings, net of deferred income taxes

(382
)

2

36

(38
)

(382
)
Comprehensive earnings

1,561

1,713

393

(2,105
)

1,562

Comprehensive earnings attributable to noncontrolling interests

—

—

(1
)

—

(1
)
Comprehensive earnings attributable
to Altria

$
1,561

$
1,713

$
392

$
(2,105
)

$
1,561

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

	Altria	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Net revenues	$—	$5,764	$ 974	$ (9)	$ 6,729
Cost of sales	—	1,668	293	(9)	1,952
Excise taxes on products	—	1,551	55	—	1,606
Gross profit	—	2,545	626	—	3,171
Marketing, administration and research costs	46	422	106	—	574
Asset impairment and exit costs	—	—	8	—	8
Operating (expense) income	(46)	2,123	512	—	2,589
Interest and other debt expense (income), net	122	(6)	53	—	169
Net periodic benefit cost (income), excluding service cost	—	(14)	(4)	—	(18)
Earnings from equity investment in AB InBev	(169)	—	—	—	(169)
Gain on AB InBev/SABMiller business combination	(37)	—	—	—	(37)
Earnings before income taxes and equity earnings of subsidiaries	38	2,143	463	—	2,644
(Benefit) provision for income taxes	(167)	776	168	—	777
Equity earnings of subsidiaries	1,661	82	—	(1,743)	—
Net earnings	1,866	1,449	295	(1,743)	1,867
Net earnings attributable to noncontrolling interests	—	—	(1)	—	(1)
Net earnings attributable to Altria	$1,866	$1,449	$ 294	$ (1,743)	$ 1,866
Net earnings	$1,866	$1,449	$ 295	$ (1,743)	$ 1,867
Other comprehensive (losses) earnings, net of deferred income taxes	(108)	3	27	(30)	(108)
Comprehensive earnings	1,758	1,452	322	(1,773)	1,759
Comprehensive earnings attributable to noncontrolling interests	—	—	(1)	—	(1)
Comprehensive earnings attributable to Altria	$1,758	$1,452	$ 321	$ (1,773)	$ 1,758

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Condensed Consolidating Statements of Cash Flows
For the Nine Months Ended September 30, 2018
(in millions of dollars)

	Altria	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Cash Provided by Operating Activities					
Net cash provided by operating activities	$4,806	$5,801	$ 1,123	$ (5,164)	$ 6,566
Cash Provided by (Used in) Investing Activities					
Capital expenditures	—	(33)	(99)	—	(132)
Other	8	—	(13)	—	(5)
Net cash provided by (used in) investing activities	8	(33)	(112)	—	(137)
Cash Provided by (Used in) Financing Activities					
Repurchases of common stock	(1,317)	—	—	—	(1,317)
Dividends paid on common stock	(3,909)	—	—	—	(3,909)
Changes in amounts due to/from Altria and subsidiaries	1,576	(1,565)	(11)	—	—
Cash dividends paid to parent	—	(4,166)	(998)	5,164	—
Other	(21)	—	(4)	—	(25)
Net cash used in financing activities	(3,671)	(5,731)	(1,013)	5,164	(5,251)
Cash, cash equivalents and restricted cash [1]:					
Increase (decrease)	1,143	37	(2)	—	1,178
Balance at beginning of period	1,203	62	49	—	1,314
Balance at end of period	$2,346	$99	$ 47	$ —	$ 2,492

[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.

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

	Altria	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Cash Provided by Operating Activities					
Net cash provided by operating activities	$4,777	$3,664	$ 639	$ (4,936)	$ 4,144
Cash Provided by (Used in) Investing Activities					
Capital expenditures	—	(21)	(130)	—	(151)
Proceeds from finance assets	—	—	133	—	133
Other	(4)	2	(182)	—	(184)
Net cash used in investing activities	(4)	(19)	(179)	—	(202)
Cash Provided by (Used in) Financing Activities					
Repurchases of common stock	(2,359)	—	—	—	(2,359)
Dividends paid on common stock	(3,544)	—	—	—	(3,544)
Changes in amounts due to/from Altria and subsidiaries	(813)	182	631	—	—
Cash dividends paid to parent	—	(3,849)	(1,087)	4,936	—
Other	(40)	—	(7)	—	(47)
Net cash used in financing activities	(6,756)	(3,667)	(463)	4,936	(5,950)
Cash, cash equivalents and restricted cash [1]:					
Decrease	(1,983)	(22)	(3)	—	(2,008)
Balance at beginning of period	4,521	83	47	—	4,651
Balance at end of period	$2,538	$61	$ 44	$ —	$ 2,643

[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.

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Note 12. Recent Accounting Guidance Not Yet Adopted:

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

Standards	Description	Effective Date for Public Entity	Effect on Financial Statements
ASU Nos. 2016-02; 2018-01; 2018-10; 2018-11 Leases (Topic 842)	The guidance requires entities to recognize lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements.	The guidance is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period. Early adoption is permitted.	Altria is in the process of evaluating the impact of this guidance on its consolidated financial statements and related disclosures, including identifying and analyzing all contracts that contain a lease. As a lessor, PMCC maintains a portfolio of finance assets, substantially all of which are leveraged leases, the accounting of which will be unchanged under the new guidance and is not expected to change unless there is a contract modification to an existing lease. As lessees, Altria and its subsidiaries' various leases under existing guidance are classified as operating leases that are not recorded on Altria's consolidated balance sheets but are recorded in Altria's consolidated statements of earnings as expense is incurred. Altria plans to apply the new guidance retrospectively at the beginning of the period of adoption and will record substantially all leases on its consolidated balance sheets as a right-of-use asset and a lease liability. Altria does not expect its adoption of this guidance to have a material impact on Altria's consolidated financial statements. The guidance will result in expanded footnote disclosures.
ASU No. 2016-13 Measurement of Credit Losses on Financial Instruments (Topic 326)	The guidance replaces the current incurred loss impairment methodology for recognizing credit losses for financial assets with a methodology that reflects the entity's current estimate of all expected credit losses and requires consideration of a broader range of reasonable and supportable information for estimating credit losses.	The guidance is effective for annual reporting periods beginning after December 15, 2019, including interim periods within that reporting period. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period.	Altria is in the process of evaluating the impact of this guidance on its consolidated financial statements and related disclosures. Altria and its subsidiaries' financial assets that are within the scope of the new guidance were approximately 2% of Altria's consolidated assets at September 30, 2018.
ASU No. 2018-02	The guidance allows an entity to elect to reclassify	The guidance is effective for fiscal	Altria is in the process of evaluating the impact of this guidance on its consolidated financial

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income (Topic 220)	the income tax effects of the Tax Reform Act on items within accumulated other comprehensive income to retained earnings.	years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted in any interim period for which financial statements have not yet been issued.	statements and related disclosures.
ASU No. 2018-15 Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract (Subtopic 350-40)	The guidance aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license).	The guidance is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period.	Altria is in the process of evaluating the impact of this guidance on its consolidated financial statements and related disclosures.

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

Description of the Company

For a description of Altria Group, Inc. ("Altria"), see Background in Note 1. Background and Basis of Presentation to the condensed consolidated financial statements in Part I, Item 1. Financial Statements of this Quarterly Report on Form 10-Q ("Item 1").

As discussed in Note 1. Background and Basis of Presentation to the condensed consolidated financial statements in Item 1 ("Note 1"), on January 1, 2018, Altria adopted several accounting standard updates ("ASU"). In connection with the adoption of two of these ASUs (ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash and ASU No. 2017-07, Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost), Altria reclassified certain prior-period amounts to conform with the current period's presentation.

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

Executive Summary

Consolidated Results of Operations for the Nine Months Ended September 30, 2018: The changes in Altria's net earnings and diluted earnings per share ("EPS") attributable to Altria for the nine months ended September 30, 2018, from the nine months ended September 30, 2017, were due primarily to the following:

	Net Earnings (in millions, except per share data)	Diluted EPS
For the nine months ended September 30, 2017	$5,256	$2.72
2017 NPM Adjustment Items	2	—
2017 Asset impairment, exit, implementation and acquisition-related costs	47	0.02
2017 Tobacco and health litigation items	12	0.01
2017 AB InBev special items	71	0.04
2017 Gain on AB InBev/SABMiller business combination	(289)	(0.15)
2017 Tax items	(321)	(0.16)
Subtotal 2017 special items	(478)	(0.24)
2018 NPM Adjustment Items	109	0.06
2018 Asset impairment, exit and implementation costs	(5)	—
2018 Tobacco and health litigation items	(89)	(0.05)
2018 AB InBev special items	122	0.06
2018 Loss on AB InBev/SABMiller business combination	(26)	(0.01)
2018 Tax items	(152)	(0.08)
Subtotal 2018 special items	(41)	(0.02)
Fewer shares outstanding	—	0.06
Change in tax rate	923	0.47
Operations	53	0.03
For the nine months ended September 30, 2018	$5,713	$3.02

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

Fewer Shares Outstanding: Fewer shares outstanding during the nine months ended September 30, 2018 compared with the prior-year period were due primarily to shares repurchased by Altria under its share repurchase programs.

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Change in Tax Rate: The change in tax rate was driven primarily by the Tax Reform Act (as defined below), which reduced the U.S. federal statutory corporate income tax rate from 35% to 21% effective January 1, 2018.

Operations: The increase of $53 million in operations shown in the table above was due primarily to the following:
higher earnings from Altria's equity investment in Anheuser-Busch InBev SA/NV ("AB InBev"); and
higher income from the smokeless products segment;

partially offset by:
lower income from the smokeable products segment; and
higher investment spending in the innovative tobacco products businesses.

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

Consolidated Results of Operations for the Three Months Ended September 30, 2018: The changes in Altria's net earnings and diluted EPS attributable to Altria for the three months ended September 30, 2018, from the three months ended September 30, 2017, were due primarily to the following:

	Net Earnings (in millions, except per share data)	Diluted EPS
For the three months ended September 30, 2017	$1,866	$0.97
2017 NPM Adjustment Items	3	—
2017 Asset impairment, exit, implementation and acquisition-related costs	11	0.01
2017 AB InBev special items	22	0.01
2017 Gain on AB InBev/SABMiller business combination	(24)	(0.01)
2017 Tax items	(155)	(0.08)
Subtotal 2017 special items	(143)	(0.07)
2018 Asset impairment, exit and implementation costs	2	—
2018 Tobacco and health litigation items	(16)	(0.01)
2018 AB InBev special items	(27)	(0.01)
2018 Tax items	(57)	(0.03)
Subtotal 2018 special items	(98)	(0.05)
Fewer shares outstanding	—	0.02
Change in tax rate	319	0.16
Operations	(1)	—
For the three months ended September 30, 2018	$1,943	$1.03

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

Fewer Shares Outstanding: Fewer shares outstanding during the three months ended September 30, 2018 compared with the prior-year period were due primarily to shares repurchased by Altria under its share repurchase programs.

Change in Tax Rate: The change in tax rate was driven primarily by the Tax Reform Act (as defined below), which reduced the U.S. federal statutory corporate income tax rate from 35% to 21% effective January 1, 2018.

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

2018 Forecasted Results: In October 2018, Altria raised the lower end of its guidance and now expects its 2018 full-year adjusted diluted EPS growth rate to be in the range of 16.5% to 19% over its 2017 full-year adjusted diluted EPS base of

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$3.39. This forecasted growth rate excludes the 2018 forecasted income and expense items in the second table below. Altria's 2018 guidance reflects investments in focus areas for long-term growth, including innovative product development and launches, regulatory science, brand equity, retail fixtures and future retail concepts. Altria expects its 2018 full-year adjusted effective tax rate will be in a range of approximately 23% to 24%.

Reconciliation of 2017 Reported Diluted EPS to 2017 Adjusted Diluted EPS

	2017
2017 Reported diluted EPS	$5.31
Asset impairment, exit, implementation and acquisition-related costs	0.03
Tobacco and health litigation items	0.03
AB InBev special items	0.05
Gain on AB InBev/SABMiller business combination	(0.15)
Settlement charge for lump sum pension payments	0.03
Tax items	(1.91)
2017 Adjusted diluted EPS	$3.39

Altria's full-year adjusted diluted EPS guidance and full-year forecast for its adjusted effective tax rate exclude the impact of certain income and expense items that management believes are not part of underlying operations. These items may include, for example, loss on early extinguishment of debt, restructuring charges, gain/loss on AB InBev/SABMiller plc ("SABMiller") business combination, AB InBev special items, certain tax items, charges associated with tobacco and health litigation items, and resolutions of certain non-participating manufacturer ("NPM") adjustment disputes 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 to the condensed consolidated financial statements in Item 1 ("Note 10")).

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

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

Expense (Income), Net Excluded from 2018 Forecasted Adjusted Diluted EPS

	2018
NPM Adjustment Items	$(0.06)
Tobacco and health litigation items	0.05
AB InBev special items	(0.06)
Loss on AB InBev/SABMiller business combination	0.01
Tax items	0.08
	$0.02

Altria reports its financial results in accordance with U.S. GAAP. Altria's management reviews certain financial results, including diluted EPS, on an adjusted basis, which excludes certain income and expense items, including those items noted above. Altria's management does not view any of these special items to be part of Altria's underlying results as they may be highly variable, may be infrequent, are difficult to predict and can distort underlying business trends and results. Altria's management also reviews income tax rates on an adjusted basis. Altria's adjusted effective

tax rate may exclude certain tax items from its reported effective tax rate. Altria's management believes that adjusted financial measures provide useful additional insight into underlying business trends and results and provide a more meaningful comparison of year-over-year results. Adjusted financial measures are used by management and regularly provided to Altria's chief operating decision

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maker (the "CODM") for planning, forecasting and evaluating business and financial performance, including allocating resources and evaluating results relative to employee compensation targets. These adjusted financial measures are not consistent with U.S. GAAP and may not be calculated the same as similarly titled measures used by other companies. These adjusted financial measures should thus be considered as supplemental in nature and not considered in isolation or as a substitute for the related financial information prepared in accordance with U.S. GAAP.

Discussion and Analysis

Critical Accounting Policies and Estimates

Altria's Critical Accounting Policies and Estimates are discussed in Altria's Annual Report on Form 10-K for the year ended December 31, 2017 (the "2017 Form 10-K"). Except as noted below, there have been no material changes to these accounting policies and estimates:

Investment in AB InBev: 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 Altria's 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 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. 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. This conclusion is based on: (i) the fair value of Altria's equity investment in AB InBev having historically exceeded its carrying value since October 2016, when Altria obtained its ownership interest in AB InBev, (ii) the period of time that AB InBev shares have traded below Altria's carrying value (began in September 2018) and the magnitude by which the carrying value of Altria's investment in AB InBev exceeds its fair value, (iii) AB InBev's global platform (world's largest brewer by volume and one of the world's top five consumer products companies by revenue) with strong market positions in key markets, geographic diversification, experienced management team, financial condition, expected earnings and history of performance, and (iv) Altria's ownership of restricted shares being subject to a five-year lock-up (subject to limited exceptions) ending October 10, 2021, which Altria believes provides sufficient time to allow for an anticipated recovery in the fair value of its investment in AB InBev.

If Altria were to conclude that the decline in fair value is other than temporary, Altria would determine and recognize, in the period identified, the impairment of its investment in AB InBev, which could result in a material adverse effect on Altria's consolidated financial position or earnings.

For further discussion, see Note 3. Investment in AB InBev to the condensed consolidated financial statements in Item 1.

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Consolidated Operating Results

	For the Nine Months Ended September 30,		For the Three Months Ended September 30,	
	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
Excise taxes on products:				
Smokeable products	$4,294	$4,581	$1,505	$1,565
Smokeless products	100	99	34	35
Wine	15	15	6	6
Excise taxes on products	$4,409	$4,695	$1,545	$1,606
Operating income:				
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

As discussed further in Note 7. Segment Reporting to the condensed consolidated financial statements in Item 1 (“Note 7”), the CODM reviews operating companies income to evaluate the performance of, and allocate resources to, the segments. Operating companies income for the segments is defined as operating income before general corporate expenses and amortization of intangibles. Management believes it is appropriate to disclose this measure to help investors analyze the business performance and trends of the various business segments.

The following events that occurred during the nine and three months ended September 30, 2018 and 2017 affected the comparability of statement of earnings amounts:

NPM Adjustment Items: For a discussion of NPM Adjustment Items and a breakdown of these items by segment, see Health Care Cost Recovery Litigation - NPM Adjustment Disputes in Note 10 and NPM Adjustment Items in Note 7, respectively.

Tobacco and Health Litigation Items: For a discussion of tobacco and health litigation items and a breakdown of these costs by segment, see Note 10 and Note 7, respectively.

Smokeless Products Recall: For a discussion of U.S. Smokeless Tobacco Company LLC’s (“USSTC”) 2017 voluntary product recall, see Note 7.

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. The consolidation was completed in the first quarter of 2018 and is expected to deliver approximately $50 million in annualized cost savings by the end of 2018. For a breakdown of asset impairment, exit and implementation costs by segment, see Note 7.

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Loss/Gain on AB InBev/SABMiller Business Combination: For the nine months ended September 30, 2018, Altria recorded a pre-tax loss of $33 million related to AB InBev's divestitures of certain SABMiller assets and businesses in connection with obtaining necessary regulatory clearances for the 2016 AB InBev/SABMiller business combination ("AB InBev divestitures"). For the nine and three months ended September 30, 2017, Altria recorded a pre-tax gain of $445 million and $37 million, respectively, related to the AB InBev divestitures.

AB InBev Special Items: Altria's earnings from its equity investment in AB InBev for the nine months ended September 30, 2018 included net pre-tax income of $154 million, consisting primarily of Altria's share of AB InBev's estimated effect of the Tax Reform Act (as defined below), and gains related to AB InBev's merger and acquisition activities, partially offset by Altria's share of AB InBev's mark-to-market losses on AB InBev's derivative financial instruments used to hedge certain share commitments. Altria's earnings from its equity investment in AB InBev for the three months ended September 30, 2018 included net pre-tax charges of $35 million, consisting primarily of Altria's share of fees incurred by AB InBev for the early termination of debt, and restructuring charges.

Altria's earnings from its equity investment in AB InBev for the nine and three months ended September 30, 2017 included net pre-tax charges of $109 million and $34 million, respectively, consisting primarily of Altria's share of AB InBev's mark-to-market losses on AB InBev's derivative financial instruments used to hedge certain share commitments.

Tax Items: 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"). For further discussion, see Note 9. Income Taxes to the condensed consolidated financial statements in Item 1 ("Note 9").

Tax items for the nine months ended September 30, 2018 of $152 million were due primarily to tax expense of $122 million resulting from a partial reversal of the tax basis benefit associated with the deemed repatriation tax and tax expense of $51 million for a valuation allowance on foreign tax credit carryforwards that are not realizable, partially offset by tax benefits of $22 million related to prior audit years. Tax items for the three months ended September 30, 2018 of $57 million were due to tax expense of $40 million resulting from a partial reversal of the tax basis benefit associated with the deemed repatriation tax and tax expense of $17 million for a valuation allowance on foreign tax credit carryforwards that are not realizable.

Tax items for the nine and three months ended September 30, 2017 of $321 million and $155 million, respectively, included tax benefits of $232 million for the release of a valuation allowance related to deferred income tax assets for foreign tax credit carryforwards and for the reversal of tax accruals no longer required of $36 million, partially offset by tax expense of $114 million for tax reserves related to the calculation of certain foreign tax credits. In addition, tax items for the nine months ended September 30, 2017 included tax benefits of $152 million related primarily to the effective settlement in June 2017 of the Internal Revenue Service audit of Altria and its consolidated subsidiaries' 2010-2013 tax years ("IRS 2010-2013 Audit").

Consolidated Results of Operations for the Nine Months Ended September 30, 2018 versus the Nine Months Ended September 30, 2017

Net revenues, which include excise taxes billed to customers, decreased $225 million (1.2%), due primarily to lower net revenues in the smokeable products segment, partially offset by higher net revenues in the smokeless products segment.

Cost of sales decreased $210 million (3.7%), due primarily to lower shipment volume in the smokeable products segment and higher NPM Adjustment Items, partially offset by higher costs in the smokeable products segment.

Excise taxes on products decreased $286 million (6.1%), due to lower smokeable products shipment volume.

Marketing, administration and research costs increased $278 million (16.5%), due primarily to higher costs in the smokeable products segment (which included higher tobacco and health litigation items) and higher investment spending in the innovative tobacco products businesses.

Operating income increased $15 million (0.2%), due primarily to higher operating results from the smokeless products segment, partially offset by higher investment spending in the innovative tobacco products businesses and lower operating results from the smokeable products segment.

Earnings from Altria's equity investment in AB InBev, which increased $427 million, were positively impacted by AB InBev special items.

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Altria's income tax rate decreased 6.1 percentage points to 25.1%, due primarily to a reduction in tax expense from the decrease in the U.S. federal statutory corporate income tax rate as a result of the Tax Reform Act, and the tax items discussed above. For further discussion, see Note 9.

Net earnings attributable to Altria of $5,713 million increased $457 million (8.7%), due primarily to a lower income tax rate and higher earnings from Altria's equity investment in AB InBev, partially offset by a 2017 gain on AB InBev/SABMiller business combination. Diluted and basic EPS attributable to Altria of $3.02, each increased by 11.0%, due to higher net earnings attributable to Altria and fewer shares outstanding.

Consolidated Results of Operations for the Three Months Ended September 30, 2018 versus the Three Months Ended September 30, 2017

Net revenues, which include excise taxes billed to customers, increased $108 million (1.6%), due primarily to higher net revenues in the smokeable and smokeless products segments.

Cost of sales increased $85 million (4.4%), due primarily to higher costs in the smokeable products segment, partially offset by lower shipment volume in the smokeable products segment.

Excise taxes on products decreased $61 million (3.8%), due to lower smokeable products shipment volume.

Marketing, administration and research costs increased $126 million (22.0%), due primarily to higher costs in the smokeable products segment and higher investment spending in the innovative tobacco products businesses.

Operating income decreased $32 million (1.2%), due primarily to higher investment spending in the innovative tobacco products businesses.

Altria's income tax rate decreased 3.9 percentage points to 25.5%, due primarily to a reduction in tax expense from the decrease in the U.S. federal statutory corporate income tax rate as a result of the Tax Reform Act, and the tax items discussed above. For further discussion, see Note 9.

Net earnings attributable to Altria of $1,943 million increased $77 million (4.1%), due primarily to a lower income tax rate, partially offset by a 2017 gain on AB InBev/SABMiller business combination. Diluted and basic EPS attributable to Altria of $1.03, each increased by 6.2%, due to higher net earnings attributable to Altria and fewer shares outstanding.

Operating Results by Business Segment

Tobacco Space

Business Environment

Summary

The United States tobacco industry faces a number of business and legal challenges that have adversely affected and may adversely affect the business and sales volume of our tobacco subsidiaries and our consolidated results of operations, cash flows or financial position. These challenges, some of which are discussed in more detail below, in Note 10 and in Cautionary Factors That May Affect Future Results below, include:

pending and threatened litigation and bonding requirements;

restrictions and requirements imposed by the Family Smoking Prevention and Tobacco Control Act (“FSPTCA”), and restrictions and requirements (and related enforcement actions) that have been, and in the future will be, imposed by the U.S. Food and Drug Administration (“FDA”);

actual and proposed excise tax increases, as well as changes in tax structures and tax stamping requirements;

bans and restrictions on tobacco use imposed by governmental entities and private establishments and employers;

other federal, state and local government actions, including:

increases in the minimum age to purchase tobacco products above the current federal minimum age of 18;

restrictions on the sale of tobacco products by certain retail establishments, the sale of certain tobacco products with certain characterizing flavors (such as menthol) and the sale of tobacco products in certain package sizes;

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additional restrictions on the advertising and promotion of tobacco products;
other actual and proposed tobacco product legislation and regulation; and
governmental investigations;
the diminishing prevalence of cigarette smoking and increased efforts by tobacco control advocates and others (including retail establishments) to further restrict tobacco use;
changes in adult tobacco consumer purchase behavior, which is influenced by various factors such as economic conditions, excise taxes and price gap relationships, may result in adult tobacco consumers switching to discount products or other lower priced tobacco products;
the highly competitive nature of the tobacco categories in which our tobacco subsidiaries operate, including competitive disadvantages related to cigarette price increases attributable to the settlement of certain litigation;
illicit trade in tobacco products; and
potential adverse changes in prices, availability and quality of tobacco, other raw materials and component parts.

In addition to and in connection with the foregoing, evolving adult tobacco consumer preferences pose challenges for Altria's tobacco subsidiaries. Our tobacco subsidiaries believe that a significant number of adult tobacco consumers switch between tobacco categories, use multiple forms of tobacco products and try innovative tobacco products, such as e-vapor products and oral tobacco-derived nicotine products. The e-vapor category grew rapidly from 2012 through early 2015 off a small base, but then slowed. The growth trend resumed in 2017. Growth of the e-vapor category and other innovative tobacco products has negatively impacted consumption levels and sales volume of other tobacco product categories. Altria and its tobacco subsidiaries believe the innovative tobacco product categories will continue to be dynamic as adult tobacco consumers explore a variety of tobacco product options and as the regulatory environment for these innovative tobacco products evolves.

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

We have provided additional detail on the following topics below:

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

FSPTCA and FDA Regulation

The Regulatory Framework

The FSPTCA expressly establishes certain restrictions and prohibitions on our tobacco businesses and authorizes or requires further FDA action. Under the FSPTCA, the FDA has broad authority to (1) regulate the design, manufacture, packaging, advertising, promotion, sale and distribution of tobacco products; (2) require disclosures of related information; and (3) enforce the FSPTCA and related regulations. The FSPTCA went into effect in 2009 for

cigarettes, cigarette tobacco and smokeless tobacco products and in August 2016 for all other tobacco products, including cigars, e-vapor products, pipe tobacco and oral tobacco-derived nicotine products (“Other Tobacco Products”). See FDA Regulatory Actions - Deeming Regulations below.

Among other measures, the FSPTCA or its implementing regulations:

imposes restrictions on the advertising, promotion, sale and distribution of tobacco products, including at retail;
bans descriptors such as “light,” “mild” or “low” or similar descriptors when used as descriptors of modified risk unless expressly authorized by the FDA;

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

Pre-Market Review Pathways Including Substantial Equivalence

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

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

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

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

FDA's Comprehensive Regulatory Plan for Tobacco and Nicotine Regulation

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

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

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extension of the timelines to submit applications for Other Tobacco Products that were on the market as of August 8, 2016, which the FDA extended in August 2017 (see FDA Regulatory Actions - Substantial Equivalence and Other New Product Processes/Pathways below);
the FDA's reconsideration of its approach to reviewing substantial equivalence reports for "provisional" products (see FDA Regulatory Actions - Substantial Equivalence and Other New Product Processes/Pathways below). As previously noted, a "provisional" product refers to cigarettes, cigarette tobacco and smokeless tobacco products modified or first commercially available after February 15, 2007 and before March 22, 2011; and
the FDA's planned issuance of foundational regulations identifying the information the FDA expects to be included in substantial equivalence reports and applications for "new tobacco products" and "modified risk tobacco products." The FDA also plans to finalize guidance on how it intends to review new product applications for e-vapor products.

In September 2018, the FDA announced that, while it continues to be committed to the approach outlined in the July 2017 Comprehensive Plan, it is taking a number of steps to address underage use of e-vapor products, including (i) re-examining the FDA's compliance policy that extended the dates for manufacturers of certain e-vapor products to submit applications for pre-market authorization and (ii) issuing letters to the manufacturers of certain e-vapor products, including Nu Mark LLC ("Nu Mark"), requiring them to submit to the FDA plans for addressing youth access and use of e-vapor products. See FDA Regulatory Actions - Underage Access and Use of E-vapor Products below for steps Altria and Nu Mark are taking in response to this request from the FDA.

Implementation Timing, Rulemaking and Guidance

The implementation of the FSPTCA began in 2009 for cigarettes, cigarette tobacco and smokeless tobacco products and in August 2016 for Other Tobacco Products and will continue over time. The provisions of the FSPTCA that require the FDA to take action through rulemaking generally involve consideration of public comment and, for some issues, scientific review. As required by the FSPTCA, the FDA has established a tobacco product scientific advisory committee (the "TPSAC"), which consists of voting and non-voting members, to provide advice, reports, information and recommendations to the FDA on scientific and health issues relating to tobacco products. TPSAC votes are considered by the FDA, but are not binding. From time to time, the FDA issues guidance that also generally involves public comment, which may be issued in draft or final form.

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

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

Impact on Our Business; Compliance Costs and User Fees

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

impact the consumer acceptability of tobacco products;
delay, discontinue or prevent the sale or distribution of existing, new or modified tobacco products;
limit adult tobacco consumer choices;

impose restrictions on communications with adult tobacco consumers;
create a competitive advantage or disadvantage for certain tobacco companies;
impose additional manufacturing, labeling or packaging requirements;
impose additional restrictions at retail;
result in increased illicit trade in tobacco products; or
otherwise significantly increase the cost of doing business.

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

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

Investigation and Enforcement

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

Final Tobacco Marketing Rule

As required by the FSPTCA, the FDA re-promulgated in March 2010 a wide range of advertising and promotion restrictions in substantially the same form as regulations that were previously adopted in 1996 (but never imposed on tobacco manufacturers due to a United States Supreme Court ruling) (the "Final Tobacco Marketing Rule"). The May 2016 amendments to the Final Tobacco Marketing Rule (instituted as part of the FDA's deeming regulations) apply certain provisions to certain "covered tobacco products," which include cigars, e-vapor products containing nicotine or other tobacco derivatives, pipe tobacco and oral tobacco-derived nicotine products, but do not include any component or part that is not made or derived from tobacco. The Final Tobacco Marketing Rule as so amended:

bans the use of color and graphics in cigarette and smokeless tobacco product labeling and advertising;
prohibits the sale of cigarettes, smokeless tobacco and covered tobacco products to persons under the age of 18;
restricts the use of non-tobacco trade and brand names on cigarettes and smokeless tobacco products;
requires the sale of cigarettes and smokeless tobacco in direct, face-to-face transactions;
prohibits sampling of cigarettes and covered tobacco products and prohibits sampling of smokeless tobacco products except in qualified adult-only facilities;
prohibits the sale or distribution of items such as hats and tee shirts with cigarette or smokeless tobacco brands or logos; and
prohibits cigarettes and smokeless tobacco brand name sponsorship of any athletic, musical, artistic or other social or cultural event, or any entry or team in any event.

Subject to certain limitations arising from legal challenges, the Final Tobacco Marketing Rule took effect in June 2010 for cigarettes and smokeless tobacco products and in August 2016 for covered tobacco products. At the time of the re-promulgation of the Final Tobacco Marketing Rule, the FDA also issued an ANPRM regarding the so-called

“1000 foot rule,” which would establish restrictions on the placement of outdoor tobacco advertising in relation to schools and playgrounds. Philip Morris USA Inc. (“PM USA”) and USSTC submitted comments on this ANPRM.

FDA Regulatory Actions

Graphic Warnings

In June 2011, as required by the FSPTCA, the FDA issued its final rule to modify the required warnings that appear on cigarette packages and in cigarette advertisements. The FSPTCA requires the warnings to consist of nine new textual warning statements accompanied by color graphics depicting the negative health consequences of smoking. The graphic health

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warnings will (i) be located beneath the cellophane, and comprise the top 50% of the front and rear panels of cigarette packages and (ii) occupy 20% of a cigarette advertisement and be located at the top of the advertisement. After a legal challenge to the rule, the FDA announced its plans to propose a new graphic warnings rule in the future.

Substantial Equivalence and Other New Product Processes/Pathways

In general, in order to continue marketing provisional products, manufacturers of such products were required to send to the FDA a report demonstrating substantial equivalence by March 22, 2011 for the FDA to determine if such tobacco products are "substantially equivalent" to products commercially available as of February 15, 2007. Nearly all cigarette and smokeless tobacco products currently marketed by PM USA and USSTC are provisional products, as are some of the products currently marketed by Sherman Group Holdings, LLC and its subsidiaries ("Nat Sherman"). Our subsidiaries submitted timely substantial equivalence reports for these provisional products and can continue marketing these products unless the FDA makes a determination that a specific provisional product is not substantially equivalent. If the FDA ultimately makes such a determination, it could require the removal of such products from the marketplace. In April 2018, the FDA announced that it will not review a certain subset of provisional product substantial equivalence reports and that those products can generally continue to be legally marketed without further FDA review. PM USA and USSTC have provisional products included in this subset of products, but also have provisional products that will continue to be subject to the substantial equivalence review process as discussed below. In addition, PM USA and USSTC submitted substantial equivalence reports on products proposed to be marketed after March 22, 2011 ("non-provisional" products). While our cigarette and smokeless tobacco subsidiaries believe all of their current products meet the statutory requirements of the FSPTCA, they cannot predict whether, when or how the FDA ultimately will apply its guidance to their various respective substantial equivalence reports or seek to enforce the law and regulations consistent with its guidance.

PM USA and USSTC have received decisions on certain provisional and non-provisional products. The provisional products that were found to be not substantially equivalent (all smokeless tobacco products) had been discontinued for business reasons prior to the FDA's determination; therefore, the determinations did not impact business results. In February 2018, USSTC filed a lawsuit challenging the FDA's determination that certain of its non-provisional products are not substantially equivalent. In June 2018, the FDA reversed its determination and found that such products were substantially equivalent. As a result, USSTC dismissed its lawsuit.

There remain a significant number of substantial equivalence reports for products for which the FDA has not announced decisions and that do not fall within the scope of the FDA's April 2018 announcement discussed above. At the request of the FDA, our cigarette and smokeless tobacco subsidiaries have provided additional information with respect to certain of these substantial equivalence reports. We cannot predict whether this additional information will be satisfactory to the FDA to result in substantial equivalence determinations for the products covered by those reports. It is also not possible to predict how long reviews by the FDA of substantial equivalence reports or new tobacco product applications for any tobacco product will take. A "not substantially equivalent" determination or denial of a new tobacco product application on one or more products could have a material adverse impact on the business, consolidated results of operations, cash flows or financial position of Altria and its tobacco subsidiaries.

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

September 2018, the FDA announced that it is re-examining these timelines for certain e-vapor products.

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

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

The FDA issued guidance on the substantial equivalence process in 2015 entitled "Guidance for Industry: Demonstrating the Substantial Equivalence of a New Tobacco Product: Responses to Frequently Asked Questions" ("Substantial Equivalence Guidance"). The guidance provides that (i) certain label changes and (ii) changes to the quantity of tobacco product(s) in a package would each require submission of newly required substantial equivalence reports and authorization from the FDA prior to marketing tobacco products with such changes, even when the tobacco product itself is not changed. In a 2016 industry legal challenge, the court concluded that a modification to an existing product's label does not result in a "new tobacco product" subject to the substantial equivalence review process and upheld the Substantial Equivalence Guidance in all other respects. Our cigarette and smokeless tobacco subsidiaries market various products that fall within the scope of the Substantial Equivalence Guidance.

Deeming Regulations

As discussed above under FSPTCA and FDA Regulation - The Regulatory Framework, in May 2016, the FDA issued final regulations for all Other Tobacco Products, imposing the FSPTCA regulatory framework on the tobacco products manufactured, marketed and sold by John Middleton Co. ("Middleton"), Nu Mark and Nat Sherman. At the same time the FDA issued its final deeming regulations, it also amended the Final Tobacco Marketing Rule as described above in FSPTCA and FDA Regulation - Final Tobacco Marketing Rule. Under the new regulations, for Other Tobacco Products modified or introduced into the market for the first time between February 15, 2007 and August 8, 2016, manufacturers must demonstrate substantial equivalence to a product on the market as of February 15, 2007 or obtain a "new tobacco marketing order" by certain specified dates to continue marketing those products. For further details, see FSPTCA and FDA Regulation - FDA Regulatory Actions - Substantial Equivalence and Other New Product Processes/Pathways above.

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

Underage Access and Use of E-vapor Products

The FDA announced in September 2018 that it is using its regulatory authority to address underage access and use of e-vapor products. As part of this effort, the FDA issued letters to manufacturers of certain e-vapor products, including Nu Mark, requiring them to (1) discuss with the FDA the steps each manufacturer intends to take to address youth access and use of its e-vapor products and (2) within 60 days provide a detailed written plan to address underage access and use. Upon review of the information provided by manufacturers, if the FDA determines that it should enforce the pre-market authorization requirements against certain e-vapor products, manufacturers of such products would be required to remove the products from the market until they receive pre-market authorization. In addition, the FDA has taken enforcement action against more than 1,300 retailers who sold e-vapor products to minors and has launched an education campaign to inform youth about the health risks of e-vapor products.

Nu Mark's e-vapor products include two primary product types - "cig-a-like" products and "pod-based products." In October 2018, Altria responded to the FDA's request for a written plan setting forth the actions it will take to address underage access. The plan includes:

removing from the market Nu Mark's "pod-based" e-vapor products until such products receive pre-market authorization from the FDA or the youth issue is otherwise addressed;

discontinuing the sale of Nu Mark's "cig-a-like" e-vapor products with flavor variants other than tobacco, menthol and mint until such other flavor variants receive pre-market authorization from the FDA or the youth issue is otherwise addressed; and

supporting federal legislation to establish 21 as the minimum age to purchase any tobacco product.

Altria does not expect these actions to have a material adverse effect on its consolidated results of operations, cash flows or financial position.

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Potential Product Standards

Nicotine and Flavors: Pursuant to the July 2017 Comprehensive Plan, in March 2018 the FDA issued an ANPRM on the following matters:

Nicotine in cigarettes and potentially other combustible tobacco products: The potential public health benefits and any possible adverse effects of lowering nicotine in combustible cigarettes to non-addictive or minimally addictive levels through achievable product standards. Specifically, the FDA is seeking comments on the consequences of such product standard, including (i) smokers compensating by smoking more cigarettes to obtain the same level of nicotine as with their current product and (ii) the illicit trade of cigarettes containing nicotine at levels higher than a non-addictive threshold that may be established by the FDA. The FDA is also seeking comments on whether a nicotine product standard should apply to other combustible tobacco products, including cigars.

PM USA, Middleton and Nat Sherman submitted public comments in response to the ANPRM regarding nicotine in cigarettes and potentially other combustible tobacco products in July 2018. This ANPRM process may ultimately lead to the FDA's development of product standards for nicotine in combustible tobacco products such as cigarettes and cigars. If such regulations were to become final and upheld in the courts, it could have a material adverse effect on the business, consolidated results of operations, cash flows or financial position of Altria, PM USA, Middleton and Nat Sherman.

Flavors in all tobacco products: The role that flavors (including menthol) in tobacco products play in attracting youth and may play in helping some smokers switch to potentially less harmful forms of nicotine delivery. The FDA previously released its preliminary scientific evaluation on menthol, which states "that menthol cigarettes pose a public health risk above that seen with non-menthol cigarettes." FDA's evaluation followed an earlier report to the FDA from TPSAC on the impact of the use of menthol in cigarettes on the public health and included a recommendation that the "[r]emoval of menthol cigarettes from the marketplace would benefit public health in the United States" and an observation that any ban on menthol cigarettes could lead to an increase in contraband cigarettes and other potential unintended consequences. No future action can be taken by the FDA to regulate the manufacture, marketing or sale of menthol cigarettes (including a possible ban) until the completion of a full rulemaking process.

Altria's tobacco subsidiaries submitted public comments in response to the ANPRM regarding flavors in tobacco products in July 2018. This ANPRM process may ultimately lead to the FDA's development of product standards for characterizing flavors in all tobacco products, including menthol in cigarettes. If such regulations were to become final and upheld in the courts, it could have a material adverse effect on the business, consolidated results of operations, cash flows or financial position of Altria and its tobacco subsidiaries. As discussed above under Underage Access and Use of E-vapor Products, the FDA announced in September 2018 that it is considering removal of certain flavored e-vapor products from the market because of concerns with use of those products by underage youth. Pursuant to the plan that Nu Mark submitted to the FDA in October 2018, Nu Mark is discontinuing the sale of its e-vapor products with flavor variants other than tobacco, menthol and mint until such other flavor variants receive pre-market authorization from the FDA or the youth issue is otherwise addressed.

The July 2017 Comprehensive Plan also includes the FDA's intent to develop e-vapor product standards to protect against known public health risks such as battery issues and concerns about children's exposure to liquid nicotine.

NNN in Smokeless Tobacco: In January 2017, the FDA proposed a product standard for N-nitrosonornicotine ("NNN") levels in finished smokeless tobacco products. USSTC submitted comments to the FDA in July 2017. If the proposed rule as presently proposed were to become final and upheld in the courts, it could have a material adverse effect on the

business, consolidated results of operations, cash flows or financial position of Altria and USSTC.

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Good Manufacturing Practices

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

Excise Taxes

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

Federal, state and local excise taxes have increased substantially over the past decade, far outpacing the rate of inflation. By way of example, in 2009, the federal excise tax ("FET") on cigarettes increased from $0.39 per pack to approximately $1.01 per pack; in 2010, the New York state excise tax increased by $1.60 to $4.35 per pack; in October 2014, Philadelphia, Pennsylvania enacted a $2.00 per pack local cigarette excise tax; and in November 2016, California passed a ballot measure to increase its cigarette excise tax by $2.00 per pack and its smokeless tobacco ad valorem excise tax from 27.30% to 65.08%, which went into effect on April 1, 2017 and July 1, 2017, respectively. Between the end of 1998 and October 22, 2018, the weighted-average state and certain local cigarette excise taxes increased from $0.36 to $1.79 per pack. As of October 22, 2018, Kentucky, Oklahoma and Washington D.C. have enacted cigarette excise tax increases during 2018. There are also proposed ballot initiatives to increase excise taxes in Montana and South Dakota, which have qualified for the November 2018 ballots, and include a $2.00 per pack and $1.00 per pack cigarette excise tax increase, respectively.

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

A majority of states currently tax smokeless tobacco products using an ad valorem method, which is calculated as a percentage of the price of the product, typically the wholesale price. This ad valorem method results in more tax being paid on premium products than is paid on lower-priced products of equal weight. Altria's subsidiaries support legislation to convert ad valorem taxes on smokeless tobacco to a weight-based methodology because, unlike the ad valorem tax, a weight-based tax subjects cans of equal weight to the same tax. As of October 22, 2018, the federal government, 23 states, Puerto Rico, Philadelphia, Pennsylvania and Cook County, Illinois have adopted a weight-based tax methodology for smokeless tobacco.

International Treaty on Tobacco Control

The World Health Organization's Framework Convention on Tobacco Control (the "FCTC") entered into force in February 2005. As of October 22, 2018, 180 countries, as well as the European Community, have become parties to the FCTC. While the United States is a signatory of the FCTC, it is not currently a party to the agreement, as the agreement has not been submitted to, or ratified by, the United States Senate. The FCTC is the first international public health treaty and its objective is to establish a global agenda for tobacco regulation with the purpose of reducing initiation of tobacco use and encouraging cessation. The treaty recommends (and in certain instances, requires) signatory nations to enact legislation that would, among other things: establish specific actions to prevent youth tobacco product use; restrict or eliminate all tobacco product advertising, marketing, promotion and sponsorship; initiate public education campaigns to inform the public about the health consequences of tobacco

consumption and exposure to tobacco smoke and the benefits of quitting; implement regulations imposing product testing, disclosure and performance standards; impose health warning requirements on packaging; adopt measures intended to combat tobacco product smuggling and counterfeit tobacco products, including tracking and tracing of tobacco products through the distribution chain; and restrict smoking in public places.

There are a number of proposals currently under consideration by the governing body of the FCTC, some of which call for substantial restrictions on the manufacture, marketing, distribution and sale of tobacco products. In addition, the Protocol to Eliminate Illicit Trade in Tobacco Products (the “Protocol”) was approved by the Conference of Parties to the FCTC in November 2012. It includes provisions related to the tracking and tracing of tobacco products through the distribution chain and numerous other provisions regarding the regulation of the manufacture, distribution and sale of tobacco products. The Protocol has not yet entered into force, but in any event will not apply to the United States until the Senate ratifies the FCTC and until the President signs, and the Senate ratifies, the Protocol. It is not possible to predict the outcome of these proposals or

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the impact of any FCTC actions on legislation or regulation in the United States, either indirectly or as a result of the United States becoming a party to the FCTC, or whether or how these actions might indirectly influence FDA regulation and enforcement.

State Settlement Agreements

As discussed in Note 10, during 1997 and 1998, PM USA and other major domestic tobacco product manufacturers entered into the State Settlement Agreements. These settlements require participating manufacturers to make substantial annual payments, which are adjusted for several factors, including inflation, operating income, market share and industry volume. For a discussion of the impact of the State Settlement Agreements on Altria, see Financial Review - Debt and Liquidity - Payments Under State Settlement Agreements and FDA Regulation below and Note 10. The State Settlement Agreements also place numerous requirements and restrictions on participating manufacturers' business operations, including prohibitions and restrictions on the advertising and marketing of cigarettes and smokeless tobacco products. Among these are prohibitions of outdoor and transit brand advertising, payments for product placement and free sampling (except in adult-only facilities). Restrictions are also placed on the use of brand name sponsorships and brand name non-tobacco products. The State Settlement Agreements also place prohibitions on targeting youth and the use of cartoon characters. In addition, the State Settlement Agreements require companies to affirm corporate principles directed at reducing underage use of cigarettes; impose requirements regarding lobbying activities; mandate public disclosure of certain industry documents; limit the industry's ability to challenge certain tobacco control and underage use laws; and provide for the dissolution of certain tobacco-related organizations and place restrictions on the establishment of any replacement organizations.

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

Other Federal, State and Local Regulation and Activity

Federal, State and Local Regulation

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

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

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

An increasing number of states and localities have proposed legislation to increase the minimum age to purchase tobacco products above the current federal minimum age of 18. The following states have enacted such legislation:

California (21), Hawaii (21), Alabama (19), Alaska (19), New Jersey (21), Utah (19), Oregon (21), Maine (21) and Massachusetts (21). Many localities (including New York City (21) and Chicago (21)) have taken similar actions. As of October 22, 2018, minimum age legislation has been enacted in one state (Massachusetts) in 2018. As discussed above under Underage Access and Use of E-vapor Products, Altria announced its support for federal legislation to establish 21 as the minimum age to purchase any tobacco product.

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

Reports with respect to the health effects of smoking have been publicized for many years, including various reports by the U.S. Surgeon General. Altria and its tobacco subsidiaries believe that the public should be guided by the messages of the U.S. Surgeon General and public health authorities worldwide in making decisions concerning the use of tobacco products.

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

Other Legislation or Governmental Initiatives

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

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

Governmental Investigations

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

Illicit Trade in Tobacco Products

Illicit trade in tobacco products can have an adverse impact on the businesses of Altria and its tobacco subsidiaries. Illicit trade can take many forms, including the sale of counterfeit tobacco products; the sale of tobacco products in the United States that are intended for sale outside the country; the sale of untaxed tobacco products over the Internet and by other means designed to avoid the collection of applicable taxes; and diversion into one taxing jurisdiction of tobacco products intended for sale in another. Counterfeit tobacco products, for example, are manufactured by unknown third parties in unregulated environments. Counterfeit versions of our tobacco subsidiaries’ products can negatively affect adult tobacco consumer experiences with and opinions of those brands. Illicit trade in tobacco products also harms law-abiding wholesalers and retailers by depriving them of lawful sales and undermines the significant investment Altria’s tobacco subsidiaries have made in legitimate distribution channels. Moreover, illicit

trade in tobacco products results in federal, state and local governments losing tax revenues. Losses in tax revenues can cause such governments to take various actions, including increasing excise taxes; imposing legislative or regulatory requirements that may adversely impact Altria's consolidated results of operations and cash flows and the businesses of its tobacco subsidiaries; or asserting claims against manufacturers of tobacco products or members of the trade channels through which such tobacco products are distributed and sold.

Altria and its tobacco subsidiaries devote significant resources to help prevent illicit trade in tobacco products and to protect legitimate trade channels. For example, Altria's tobacco subsidiaries engage in a number of initiatives to help prevent illicit trade in tobacco products, including communication with wholesale and retail trade members regarding illicit trade in tobacco products and how they can help prevent such activities; enforcement of wholesale and retail trade programs and policies that address illicit trade in tobacco products; engagement with and support of law enforcement and regulatory agencies; litigation to protect their trademarks; and support for a variety of federal and state legislative initiatives. Legislative initiatives to address illicit trade in tobacco products are designed to protect the legitimate channels of distribution, impose more stringent penalties for the violation of illegal trade laws and provide additional tools for law enforcement. Regulatory measures and related

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governmental actions to prevent the illicit manufacture and trade of tobacco products continue to evolve as the nature of illicit tobacco products evolves.

Price, Availability and Quality of Tobacco, Other Raw Materials and Component Parts

Shifts in crops (such as those driven by economic conditions and adverse weather patterns), government mandated prices, economic trade sanctions, import duties and tariffs, geopolitical instability and production control programs may increase or decrease the cost or reduce the supply or quality of tobacco, other raw materials or component parts used to manufacture our companies' products. Any significant change in the price, quality or availability of tobacco, other raw materials or component parts used to manufacture our products, could restrict our subsidiaries' ability to continue marketing existing products or impact adult consumer product acceptability and adversely affect our subsidiaries' profitability and businesses.

With respect to tobacco, as with other agriculture commodities, the price of tobacco leaf can be influenced by economic conditions and imbalances in supply and demand, and crop quality and availability can be influenced by variations in weather patterns, including those caused by climate change. Tobacco production in certain countries is subject to a variety of controls, including government mandated prices and production control programs. Changes in the patterns of demand for agricultural products and the cost of tobacco production could impact tobacco leaf prices and tobacco supply. Certain types of tobacco are only available in limited geographies, including geographies experiencing political instability, and loss of their availability could impair our subsidiaries' ability to continue marketing existing products or impact adult tobacco consumer product acceptability.

Timing of Sales

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

Operating Results

The following discussion compares operating results for the smokeable and smokeless products segments for the nine and three months ended September 30, 2018, with the nine and three months ended September 30, 2017.

	For the Nine Months Ended September 30,			
	Net Revenues		Operating Companies Income	
	2018	2017	2018	2017
	(in millions)			
Smokeable products	$16,995	$17,355	$6,516	$6,536
Smokeless products	1,690	1,580	1,085	941
Total smokeable and smokeless products	$18,685	$18,935	$7,601	$7,477

	For the Three Months Ended September 30,			
	Net Revenues		Operating Companies Income	
	2018	2017	2018	2017

	(in millions)			
Smokeable products	$6,035	$5,975	$2,277	$2,276
Smokeless products	586	550	370	348
Total smokeable and smokeless products	$6,621	$6,525	$2,647	$2,624

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Smokeable products segment

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

	Shipment Volume					
	For the Nine Months Ended September 30,			For the Three Months Ended September 30,		
	2018	2017	Change	2018	2017	Change
	(sticks in millions)					
Cigarettes:						
Marlboro	72,793	77,307	(5.8)%	25,611	26,455	(3.2)%
Other premium	4,286	4,567	(6.2)%	1,473	1,567	(6.0)%
Discount	7,407	8,250	(10.2)%	2,614	2,806	(6.8)%
Total cigarettes	84,486	90,124	(6.3)%	29,698	30,828	(3.7)%
Cigars:						
Black & Mild	1,197	1,146	4.5 %	408	381	7.1 %
Other	9	12	(25.0)%	3	4	(25.0)%
Total cigars	1,206	1,158	4.1 %	411	385	6.8 %
Total smokeable products	85,692	91,282	(6.1)%	30,109	31,213	(3.5)%

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

The following table summarizes cigarettes retail share performance:

	Retail Share					
	For the Nine Months Ended September 30,			For the Three Months Ended September 30,		
	2018	2017	Percentage Point Change	2018	2017	Percentage Point Change
Cigarettes:						
Marlboro	43.2%	43.5%	(0.3)	43.1%	43.2%	(0.1)
Other premium	2.6	2.7	(0.1)	2.6	2.7	(0.1)
Discount	4.4	4.6	(0.2)	4.4	4.7	(0.3)
Total cigarettes	50.2%	50.8%	(0.6)	50.1%	50.6%	(0.5)

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

For a discussion of factors that impact volume and retail share performance, see Tobacco Space - Business Environment above.

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PM USA and Middleton executed the following pricing and promotional allowance actions during 2018 and 2017:

Effective September 23, 2018, PM USA increased the list price on Marlboro and L&M by $0.10 per pack and Parliament and Virginia Slims by $0.15 per pack. In addition, PM USA increased the list price on all of its other cigarette brands by $0.50 per pack.

Effective May 6, 2018, Middleton increased various list prices across substantially all of its cigar brands resulting in a weighted-average increase of approximately $0.11 per five-pack.

Effective March 25, 2018, PM USA increased the list price on all of its cigarette brands by $0.09 per pack.

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

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

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

Net revenues, which include excise taxes billed to customers, for the nine months ended September 30, 2018 decreased $360 million (2.1%), due primarily to lower shipment volume ($1,188 million), partially offset by higher pricing ($829 million), which includes lower promotional investments. Operating companies income for the nine months ended September 30, 2018 was essentially unchanged as lower shipment volume ($642 million), higher costs ($231 million, which includes investments in strategic initiatives and higher tobacco and health litigation items) and higher per unit settlement charges, were offset by higher pricing ($819 million), which includes lower promotional investments, and higher NPM Adjustment Items ($140 million).

Net revenues, which include excise taxes billed to customers, for the three months ended September 30, 2018 increased $60 million (1.0%), due primarily to higher pricing ($272 million), partially offset by lower shipment volume ($221 million). Operating companies income for the three months ended September 30, 2018 was essentially unchanged as higher per unit settlement charges, lower shipment volume ($105 million) and higher costs ($74 million, which includes investments in strategic initiatives), were offset by higher pricing ($268 million).

The smokeable products segment’s reported domestic cigarettes shipment volume for the nine months ended September 30, 2018 decreased 6.3%, driven primarily by the industry’s rate of decline, retail share losses and trade inventory movements. When adjusted for trade inventory movements, the smokeable products segment’s domestic cigarettes shipment volume for the nine months ended September 30, 2018 decreased an estimated 5.5%. Total domestic cigarette industry volumes for the nine months ended September 30, 2018 declined by an estimated 4.5%.

The smokeable products segment’s reported domestic cigarettes shipment volume for the three months ended September 30, 2018 decreased 3.7%, driven primarily by the industry’s rate of decline and retail share losses, partially offset by trade inventory movements. When adjusted for trade inventory movements, the smokeable products segment’s domestic cigarettes shipment volume for the three months ended September 30, 2018 decreased an estimated 5%. Total domestic cigarette industry volumes for the three months ended September 30, 2018 declined by an estimated 4.5%.

Shipments of premium cigarettes accounted for 91.2% of smokeable products’ reported domestic cigarettes shipment volume for both the nine and three months ended September 30, 2018, versus 90.8% and 90.9% for the nine and three months ended September 30, 2017, respectively.

For the nine months ended September 30, 2018, Marlboro’s retail share declined 0.3 share points to 43.2%, driven in part by continued effects from the April 2017 California state excise tax increase.

For the three months ended September 30, 2018, Marlboro’s retail share was unchanged from the fourth quarter of 2017.

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Smokeless products segment

The following table summarizes smokeless products segment shipment volume performance:

	Shipment Volume					
	For the Nine Months Ended September 30,			For the Three Months Ended September 30,		
	2018	2017	Change	2018	2017	Change
	(cans and packs in millions)					
Copenhagen	398.2	396.1	0.5 %	135.7	134.1	1.2 %
Skoal	174.5	183.0	(4.6)%	59.7	61.6	(3.1)%
Copenhagen and Skoal	572.7	579.1	(1.1)%	195.4	195.7	(0.2)%
Other	52.1	50.3	3.6 %	18.0	16.9	6.5 %
Total smokeless products	624.8	629.4	(0.7)%	213.4	212.6	0.4 %

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

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

	Retail Share					
	For the Nine Months Ended September 30,			For the Three Months Ended September 30,		
	2018	2017	Percentage Point Change	2018	2017	Percentage Point Change
Copenhagen	34.3%	33.9%	0.4	34.4%	34.1%	0.3
Skoal	16.3	16.9	(0.6)	16.3	16.6	(0.3)
Copenhagen and Skoal	50.6	50.8	(0.2)	50.7	50.7	—
Other	3.4	3.2	0.2	3.4	3.3	0.1
Total smokeless products	54.0%	54.0%	—	54.1%	54.0%	0.1

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

For a discussion of factors that impact volume and retail share performance, see Tobacco Space - Business Environment above.

USSTC executed the following pricing actions during 2018 and 2017:

Effective June 5, 2018, USSTC increased the list price on all its brands by $0.07 per can.

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

Effective April 25, 2017, USSTC increased the list price on all its brands by $0.07 per can.

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Net revenues, which include excise taxes billed to customers, for the nine months ended September 30, 2018 increased $110 million (7.0%), due primarily to higher pricing. Operating companies income for the nine months ended September 30, 2018 increased $144 million (15.3%), due primarily to higher pricing ($97 million) and lower costs in connection with the facilities consolidation ($43 million).

Net revenues, which include excise taxes billed to customers, for the three months ended September 30, 2018 increased $36 million (6.5%), due primarily to higher pricing. Operating companies income for the three months ended September 30, 2018 increased $22 million (6.3%), due primarily to higher pricing ($35 million), partially offset by higher costs.

USSTC's reported domestic shipment volume declined 0.7% for the nine months ended September 30, 2018, driven primarily by the industry's rate of decline.

The smokeless products category volume declined an estimated 1% over the six months ended September 30, 2018.

Wine segment

Business Environment

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

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

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

Operating Results

The following discussion compares wine segment results for the nine and three months ended September 30, 2018, with the nine and three months ended September 30, 2017.

	For the Nine Months Ended	For the Three Months Ended

	September 30, 2018	2017	September 30, 2018	2017
	(in millions)			
Net revenues	$489	$471	$181	$181
Operating companies income	$73	$82	$29	$36

Net revenues, which include excise taxes billed to customers, for the nine months ended September 30, 2018 increased $18 million (3.8%), due primarily to higher shipment volume and favorable premium mix. Operating companies income for the nine months ended September 30, 2018 decreased $9 million (11.0%), due primarily to higher selling, general and administrative expenses (including one-time employee bonuses), partially offset by favorable premium mix and higher shipment volume.

Net revenues, which include excise taxes billed to customers, for the three months ended September 30, 2018 were unchanged, as favorable premium mix and higher pricing were offset by lower shipment volume. Operating companies income for the

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three months ended September 30, 2018 decreased $7 million (19.4%), due primarily to higher selling, general and administrative expenses and lower shipment volume, partially offset by favorable premium mix.

For the nine and three months ended September 30, 2018, Ste. Michelle's reported wine shipment volume of 5,867 and 2,169 thousand cases, increased 2.4% and decreased 3.5%, respectively.

Financial Review

Net Cash Provided by Operating Activities

During the first nine months of 2018, net cash provided by operating activities was $6,566 million compared with $4,144 million during the first nine months of 2017. This increase was due primarily to lower payments of settlement charges and income taxes in 2018.
Altria had a working capital deficit at September 30, 2018 and December 31, 2017. Altria's management believes that Altria has the ability to fund these working capital deficits with cash provided by operating activities and/or short-term borrowings under its commercial paper program as discussed in the Debt and Liquidity section below.

Net Cash Used In Investing Activities

During the first nine months of 2018, net cash used in investing activities was $137 million compared with $202 million during the first nine months of 2017. This decrease was due primarily to the acquisition of a business in 2017 and proceeds from asset sales in the financial services business in 2017.

Cash Used in Financing Activities

During the first nine months of 2018, cash used in financing activities was $5,251 million compared with $5,950 million during the first nine months of 2017. This decrease was due primarily to lower repurchases of common stock during the first nine months of 2018, partially offset by higher dividends paid during the first nine months of 2018.

Debt and Liquidity

Credit Ratings - Altria's cost and terms of financing and its access to commercial paper markets may be impacted by applicable credit ratings. The impact of credit ratings on the cost of borrowings under Altria's credit agreement is discussed in Note 8. Debt to the condensed consolidated financial statements in Item 1 ("Note 8"). See the discussion below regarding the potential adverse impact of certain events on Altria's credit ratings in Cautionary Factors That May Affect Future Results.

At September 30, 2018, the credit ratings and outlook for Altria's indebtedness by major credit rating agencies were:

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

Credit Lines - From time to time, Altria has short-term borrowing needs to meet its working capital requirements and generally uses its commercial paper program to meet those needs. At September 30, 2018 and 2017, and at 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 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. At September 30, 2018, credit available to Altria under the Credit Agreement was $3.0 billion. For further discussion, including Credit Agreement pricing and covenants, see Note 8.

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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 to the condensed consolidated financial statements in Item 1 (“Note 11”).

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

Investment in AB InBev - 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 Altria receives from AB InBev. Altria does not expect the reduction to have a material impact on its consolidated financial position, liquidity or earnings. See Cautionary Factors That May Affect Future Results for a discussion of risks associated with the dividends paid by AB InBev on shares owned by Altria.

Tax Reform Act - As a result of the Tax Reform Act’s reduction in the U.S. federal statutory corporate income tax rate from 35% to 21% effective January 1, 2018, Altria expects increased liquidity. Altria plans to make strategic long-term investments with the increased liquidity, reinvesting approximately one-third of the total tax reform benefit in 2018, with a moderating level of investment in subsequent years.

Long-term Debt - At September 30, 2018 and December 31, 2017, Altria’s total debt was $13.9 billion.

Guarantees and Other Similar Matters - As discussed in Note 10, Altria and certain of its subsidiaries had unused letters of credit obtained in the ordinary course of business, guarantees (including third-party guarantees) and a redeemable noncontrolling interest outstanding at September 30, 2018. From time to time, subsidiaries of Altria also issue lines of credit to affiliated entities. In addition, as discussed in Note 11, PM USA has issued guarantees relating to Altria’s obligations under its outstanding debt securities, borrowings under the Credit Agreement and amounts outstanding under its commercial paper program. These items have not had, and are not expected to have, a significant impact on Altria’s liquidity.

Payments Under State Settlement Agreements and FDA Regulation - As discussed previously and in Note 10, PM USA and Nat Sherman have entered into State Settlement Agreements with the states and territories of the United States that call for certain payments. In addition, PM USA, Middleton, Nat Sherman and USSTC are subject to quarterly user fees imposed by the FDA as a result of the FSPTCA. Altria’s subsidiaries recorded approximately $3.4 billion and $3.6 billion of charges to cost of sales for the nine months ended September 30, 2018 and 2017, respectively, and approximately $1.3 billion and $1.2 billion of charges to cost of sales for the three months ended September 30, 2018 and 2017, respectively, in connection with the State Settlement Agreements and FDA user fees. For further discussion of the resolutions of certain disputes with states and territories related to the NPM Adjustment provision under the MSA, see Health Care Cost Recovery Litigation - NPM Adjustment Disputes in Note 10.

Based on current agreements, 2017 market share and historical annual industry volume decline rates, the estimated amounts that Altria’s subsidiaries may charge to cost of sales for payments related to State Settlement Agreements and FDA user fees approximate $4.6 billion in 2018 and $4.8 billion each year thereafter. These amounts exclude the potential impact of the NPM Adjustment provision applicable under the MSA and the revised NPM Adjustment provisions applicable under the resolutions of the NPM Adjustment disputes.

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

Litigation-Related Deposits and Payments - With respect to certain adverse verdicts currently on appeal, to obtain stays of judgments pending appeals, as of September 30, 2018, PM USA has posted appeal bonds totaling approximately $99 million, which have been collateralized with cash deposits. These cash deposits are included in assets on the condensed consolidated balance sheet.

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Although litigation is subject to uncertainty and an adverse outcome or settlement of litigation could have a material adverse effect on the financial position, cash flows or results of operations of PM USA, UST LLC ("UST") or Altria in a particular fiscal quarter or fiscal year, as more fully disclosed in Note 10 and in Cautionary Factors That May Affect Future Results, management expects cash flow from operations, together with Altria's access to capital markets, to provide sufficient liquidity to meet ongoing business needs.

Equity and Dividends

On January 30, 2018, Altria granted an aggregate of 0.6 million restricted stock units and 0.1 million performance stock units to eligible employees. The service restrictions for the restricted stock units and the performance stock units lapse in the first quarter of 2021. In addition, the payout of the performance stock units requires the achievement of certain performance measures, which were predetermined at the time of grant, over a three-year performance cycle. These performance measures consist of Altria's adjusted diluted EPS compounded annual growth rate and Altria's total shareholder return relative to a predetermined peer group. The weighted-average market value per share of the restricted stock units and the performance stock units granted on January 30, 2018 was $69.26 on the date of grant.

During the nine months ended September 30, 2018, 0.8 million shares of restricted stock units and performance stock units vested. The total fair value of restricted stock units and performance stock units that vested during the nine months ended September 30, 2018 was $57 million. The weighted-average grant date fair value per share of these awards was $55.38.

Dividends paid during the first nine months of 2018 and 2017 were $3,909 million and $3,544 million, respectively, an increase of 10.3%, reflecting a higher dividend rate, partially offset by fewer shares outstanding as a result of shares repurchased by Altria under its share repurchase programs.

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. Altria expects to continue to maintain a dividend payout ratio target of approximately 80% of its adjusted diluted EPS. The current annualized dividend rate is $3.20 per share. Future dividend payments remain subject to the discretion of the Board of Directors.

For a discussion of Altria's share repurchase programs, see Note 1 and Part II, Item 2. Unregistered Sales of Equity Securities and Use of Proceeds of this Form 10-Q.

Recent Accounting Guidance Not Yet Adopted

See Note 12. Recent Accounting Guidance Not Yet Adopted to the condensed consolidated financial statements in Item 1 for a discussion of recently issued accounting guidance applicable to, but not yet adopted by, Altria.

Contingencies

See Note 10 for a discussion of contingencies.

Cautionary Factors That May Affect Future Results

Forward-Looking and Cautionary Statements

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

We cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our

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

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

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

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

Litigation is subject to uncertainty and it is possible that there could be adverse developments in pending or future cases. An unfavorable outcome or settlement of pending tobacco-related or other litigation could encourage the commencement of additional litigation. Damages claimed in some tobacco-related or other litigation are significant and, in certain cases, have ranged in the billions of dollars. The variability in pleadings in multiple jurisdictions, together with the actual experience of management in litigating claims, demonstrate that the monetary relief that may be specified in a lawsuit bears little relevance to the ultimate outcome.

In certain cases, plaintiffs claim that defendants' liability is joint and several. In such cases, Altria 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 now limit the dollar amount of bonds or require no bond at all. As discussed in Note 10, tobacco litigation plaintiffs have challenged the constitutionality of Florida's bond cap statute in several cases and plaintiffs may challenge state bond cap statutes in other jurisdictions as well. Such challenges may include the applicability of state bond caps in federal court. Although we cannot predict the outcome of such challenges, it is possible that the consolidated results of operations, cash flows or financial position of Altria, or the businesses of one or more of its subsidiaries, could be materially adversely affected in a particular fiscal quarter or fiscal year by an unfavorable outcome of one or more such challenges.

In certain litigation, Altria and its subsidiaries may face potentially significant non-monetary remedies, which may cause reputational harm. For example, in the lawsuit brought by the United States Department of Justice, discussed in detail in Note 10, the district court did not impose monetary penalties but ordered significant non-monetary remedies, including the issuance of "corrective statements" that Altria and PM USA began making in various media in the fourth quarter of 2017.

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 the businesses of one or more of its subsidiaries, could be materially adversely affected in a particular fiscal quarter or fiscal year by an unfavorable outcome or settlement of certain pending litigation. Altria 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

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they believe it is in the best interests of Altria to do so. See Note 10 and Exhibits 99.1 and 99.2 to this Form 10-Q for a discussion of pending tobacco-related litigation.

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

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

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

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

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

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

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

Tobacco Space - Business Environment - Summary above for additional discussion concerning evolving adult tobacco consumer preferences, including e-vapor products. Growth of the e-vapor product category and other innovative tobacco products has further contributed to reductions in cigarette consumption levels and cigarette industry sales volume and has adversely affected the growth rates of other tobacco products. Continued growth in these categories may have a material adverse impact on the business, results of operations, cash flows or financial position of PM USA and USSTC.

PM USA also faces competition from lowest priced brands sold by certain United States and foreign manufacturers that have cost advantages because they are not parties to settlements of certain tobacco litigation in the United States. These settlements, among other factors, resulted in substantial cigarette price increases. These manufacturers may fail to comply with related state escrow legislation or may avoid escrow deposit obligations on the majority of their sales by concentrating on certain states where escrow deposits are not required or are required on fewer than all such manufacturers' cigarettes sold in such states. Additional competition has resulted from diversion into the United States market of cigarettes intended for sale outside the United States, the sale of counterfeit cigarettes by third parties, the sale of cigarettes by third parties over the Internet and by

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other means designed to avoid collection of applicable taxes, and imports of foreign lowest priced brands. USSTC faces significant competition in the smokeless tobacco category and has experienced consumer down-trading to lower-priced brands. In the cigar category, additional competition has resulted from increased imports of machine-made large cigars manufactured offshore.

Altria and its subsidiaries may be unsuccessful in anticipating changes in adult consumer preferences, responding to changes in consumer purchase behavior or managing through difficult competitive and economic conditions, which could have an adverse effect on the consolidated results of operations and cash flows of Altria or the business of Altria's tobacco subsidiaries.

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

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

See Tobacco Space - Business Environment - Summary above and the immediately preceding risk factor for additional discussion concerning evolving adult tobacco consumer preferences, specifically the growth of e-vapor and other innovative tobacco products and the effects on our tobacco operating companies.

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

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

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

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

introduce such new products, which would have an adverse effect on the ability to grow new revenue streams.

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

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

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competitors do succeed, our tobacco subsidiaries may be at a competitive disadvantage, which could have an adverse effect on their financial performance.

Significant changes in price, availability or quality of tobacco, other raw materials or component parts could have an adverse effect on the profitability and business of Altria's tobacco subsidiaries.

Any significant change in prices, quality or availability of tobacco, other raw materials or component parts could adversely affect our tobacco subsidiaries' profitability and business. For further discussion, see Tobacco Space - Business Environment - Price, Availability and Quality of Tobacco, Other Raw Materials and Component Parts above.

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

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

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

In addition to a recall required by the FDA, as referenced above, our subsidiaries could decide, or other laws or regulations could require them, to recall products due to the failure to meet quality standards or specifications, suspected or confirmed and deliberate or unintentional product contamination, or other adulteration, product misbranding or product tampering. Product recalls could have a material adverse effect on the business, reputation, consolidated results of operations, cash flows or financial position of Altria and its subsidiaries.

The failure of Altria's information systems or service providers' information systems to function as intended, or cyber-attacks or security breaches, could have a material adverse effect on the business, reputation, consolidated results of operations, cash flows or financial position of Altria and its subsidiaries.

Altria and its subsidiaries rely extensively on information systems, many of which are managed by third-party service providers (such as cloud providers), to support a variety of business processes and activities, including: complying with regulatory, legal, financial reporting and tax requirements; engaging in marketing and e-commerce activities; managing and improving the effectiveness of our operations; manufacturing and distributing our products; collecting and storing sensitive data and confidential information; and communicating internally and externally with employees, investors, suppliers, trade customers, adult consumers and others. We continue to make investments in administrative, technical and physical safeguards to protect our information systems and data from cyber-threats, including human error and malicious acts. Our safeguards include employee training, testing and auditing protocols, backup systems and business continuity plans, maintenance of security policies and procedures, monitoring of networks and systems, and third-party risk management.

To date, interruptions of our information systems have been infrequent and have not had a material impact on our operations. However, because technology is increasingly complex and cyber-attacks are increasingly sophisticated and

more frequent, there can be no assurance that such incidents will not have a material adverse effect on us in the future. Failure of our systems or service providers' systems to function as intended, or cyber-attacks or security breaches, could result in loss of revenue, assets, personal data, intellectual property, trade secrets or other sensitive and confidential data, violation of applicable privacy and data security laws, damage to the reputation of our companies and their brands, operational disruptions, legal challenges and significant remediation and other costs to Altria and its subsidiaries.

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

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

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A challenge to our tax positions could adversely affect our tax rate, earnings or cash flow.

Tax laws and regulations, such as the Tax Reform Act, are complex and subject to varying interpretations. A successful challenge to one or more of Altria's tax positions could give rise to additional liabilities, including interest and potential penalties, as well as adversely affect our tax rate, earnings or cash flows.

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

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

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

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

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

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

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

Disruption and uncertainty in the credit and debt capital markets could adversely affect Altria's access to these markets, earnings and dividend rate.

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

Altria may be required to write down intangible assets, including goodwill, due to impairment, which could have a material adverse effect on our results of operations or financial position.

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

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

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

Altria's reported earnings from and carrying value of its equity investment in AB InBev and the dividends paid by AB InBev on shares owned by Altria may be adversely affected by various factors, including foreign currency exchange rates and AB InBev's business results and stock price.

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

Dividends and earnings from and carrying value of our equity investment in AB InBev are also subject to the risks encountered by AB InBev in its business. For example, in October 2018, AB InBev announced a 50% rebase in the dividends it pays to its shareholders, which will result in a reduction of cash dividends Altria receives from AB InBev. As discussed in the Discussion and Analysis - Critical Accounting Policies and Estimates above, if the carrying value of our investment in AB InBev exceeds its fair value and the loss in value is other than temporary, the investment is considered impaired, which would result in impairment losses and could have a material adverse effect on Altria's consolidated financial position or earnings. We cannot provide any assurance that AB InBev will successfully execute its business plans and strategies. Earnings from and carrying value of our equity investment in AB InBev are also subject to fluctuations in AB InBev's stock price, for example through mark-to-market losses on AB InBev's derivative financial instruments used to hedge certain share commitments.

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

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

The tax treatment of the consideration Altria received in the Transaction may be challenged and the tax treatment of the AB InBev investment may not be as favorable as Altria anticipates.

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

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in Altria's market risk during the nine months ended September 30, 2018. For additional information regarding quantitative and qualitative disclosures about market risk, see Part II, Item 7A. Quantitative and Qualitative Disclosures About Market Risk of the 2017 Form 10-K.

Item 4. Controls and Procedures.

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

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

Part II – OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

Information regarding Risk Factors appears under Cautionary Factors That May Affect Future Results in Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-Q ("Item 2") and in Part I, Item 1A. Risk Factors of the 2017 Form 10-K. Other than as set forth in Item 2, there have been no material changes from the risk factors previously disclosed in the 2017 Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

In January 2018, the Board of Directors authorized a $1.0 billion share repurchase program that it expanded to $2.0 billion in May 2018 (as expanded, the "January 2018 share repurchase program"), which Altria expects to complete by the end of the second quarter of 2019. The timing of share repurchases under this program depends upon marketplace conditions and other factors, and the program remains subject to the discretion of the Board of Directors.

Altria's share repurchase activity for each of the three months in the period ended September 30, 2018, was as follows:

Period	Total Number of Shares Purchased [1]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs

July 1 - 31, 2018	2,186,222	$ 57.52	2,184,742	$942,393,026
August 1 - 31, 2018	2,223,984	$ 59.37	2,222,989	$810,426,495
September 1 - 30, 2018	1,789,074	$ 60.98	1,787,792	$701,410,643
For the Quarter Ended September 30, 2018	6,199,280	$ 59.18	6,195,523	

(1) The total number of shares purchased includes (a) shares purchased under the January 2018 share repurchase program (which totaled 2,184,742 shares in July, 2,222,989 shares in August and 1,787,792 shares in September) and (b) shares withheld by Altria in an amount equal to the statutory withholding taxes for holders who vested in stock-based awards (which totaled 1,480 shares in July, 995 shares in August and 1,282 shares in September).

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Item 6. Exhibits.

4.1	5-Year Revolving Credit Agreement, dated as of August 1, 2018, among Altria, the lenders named therein and JPMorgan Chase Bank, N.A. and Citibank, N.A., as administrative agents. Incorporated by reference to Altria's Current Report on Form 8-K filed on August 1, 2018 (File No. 1-08940).
10.1	Guarantee made by PM USA in favor of the lenders party to the 5-Year Revolving Credit Agreement, dated as of August 1, 2018, among Altria, the lenders named therein and JPMorgan Chase Bank, N.A. and Citibank, N.A., as administrative agents, dated as of August 1, 2018. Incorporated by reference to Altria's Current Report on Form 8-K filed on August 1, 2018 (File No. 1-08940).
12	Statements regarding computation of ratios of earnings to fixed charges.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Certain Litigation Matters.
99.2	Trial Schedule for Certain Cases.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.

Signature

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

ALTRIA GROUP, INC.

/s/ WILLIAM F. GIFFORD, JR.
William F. Gifford, Jr.
Vice Chairman and
Chief Financial Officer
October 25, 2018

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