ALTRIA GROUP, INC.
Form 10-K
February 26, 2019
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 1-08940
ALTRIA GROUP, INC.
(Exact name of registrant as specified in its charter)

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

804-274-2200
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.33 1/3 par value	New York Stock Exchange
1.000% Notes due 2023	New York Stock Exchange
1.700% Notes due 2025	New York Stock Exchange
2.200% Notes due 2027	New York Stock Exchange
3.125% Notes due 2031	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. þ Yes ¨ No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ¨ Yes þ No
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days þ Yes ¨ No
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files) þ Yes ¨ No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K þ
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if smaller reporting company)	Smaller operating company ¨

Emerging growth company ¨

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

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

As of June 30, 2018, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately $107 billion based on the closing sale price of the common stock as reported on the New York Stock Exchange.

Class	Outstanding at February 12, 2019
Common Stock, $0.33 $^{1}/3$ par value	1,874,430,847 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for use in connection with its annual meeting of shareholders to be held on May 16, 2019, to be filed with the Securities and Exchange Commission on or about April 4, 2019, are incorporated by reference into Part III hereof.

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Part I

Item 1. Business.

General Development of Business

General: Altria Group, Inc. (“Altria”) is a holding company incorporated in the Commonwealth of Virginia in 1985. At December 31, 2018, Altria’s wholly-owned subsidiaries included Philip Morris USA Inc. (“PM USA”), which is engaged in the manufacture and sale of cigarettes in the United States; John Middleton Co. (“Middleton”), which is engaged in the manufacture and sale of machine-made large cigars and pipe tobacco and is a wholly-owned subsidiary of PM USA; Sherman Group Holdings, LLC and its subsidiaries (“Nat Sherman”), which are engaged in the manufacture and sale of super premium cigarettes and the sale of premium cigars; and UST LLC (“UST”), which through its wholly-owned subsidiaries, including U.S. Smokeless Tobacco Company LLC (“USSTC”) and Ste. Michelle Wine Estates Ltd. (“Ste. Michelle”), is engaged in the manufacture and sale of smokeless tobacco products and wine. Altria’s other operating companies included Philip Morris Capital Corporation (“PMCC”), which maintains a portfolio of finance assets, substantially all of which are leveraged leases, and Nu Mark LLC (“Nu Mark”), both of which are wholly-owned subsidiaries. In December 2018, Altria announced the decision to refocus its innovative product efforts, which included Nu Mark’s discontinuation of production and distribution of all e-vapor products. Prior to that time, Nu Mark was engaged in the manufacture and sale of innovative tobacco products. Other Altria wholly-owned subsidiaries included Altria Group Distribution Company, which provides sales and distribution services to certain Altria operating subsidiaries, and Altria Client Services LLC (“ALCS”), which provides various support services in areas such as legal, regulatory, consumer engagement, finance, human resources and external affairs to Altria and its subsidiaries.

Altria’s 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 due to the continued reduction of the lease portfolio of PMCC and the relative financial contribution of Altria’s innovative tobacco products businesses to Altria’s consolidated results. For further information, see Note 16. Segment Reporting to the consolidated financial statements in Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K (“Item 8”).

At September 30, 2016, Altria had an approximate 27% ownership of SABMiller plc (“SABMiller”), which Altria accounted for under the equity method of accounting. In October 2016, Anheuser-Busch InBev SA/NV (“Legacy AB InBev”) completed its business combination with SABMiller, and Altria received cash and shares representing a 9.6% ownership in the combined company (the “AB InBev Transaction”). The newly formed Belgian company, which retained the name Anheuser-Busch InBev SA/NV (“AB InBev”), became the holding company for the combined businesses. Subsequently, Altria purchased approximately 12 million ordinary shares of AB InBev, increasing Altria’s ownership to approximately 10.2% at

December 31, 2016. At December 31, 2018, Altria had an approximate 10.1% ownership of AB InBev, which Altria accounts for under the equity method of accounting using a one-quarter lag. As a result of the one-quarter lag and the timing of the completion of the AB InBev Transaction, no earnings from Altria’s equity investment in AB InBev were recorded for the year ended December 31, 2016. For further discussion, see Note 7. Investment in AB InBev/SABMiller to the consolidated financial statements in Item 8 (“Note 7”).

In January 2017, Altria acquired Nat Sherman, which joined PM USA and Middleton as part of Altria’s smokeable products segment.

On December 20, 2018, Altria purchased, through a wholly-owned subsidiary, shares of non-voting convertible common stock of JUUL Labs, Inc. (“JUUL”), representing a 35% economic interest for $12.8 billion. JUUL is engaged in the manufacture and sale of e-vapor products globally. If and when antitrust clearance is obtained, Altria’s non-voting shares will automatically convert to voting shares (“Share Conversion”). At December 31, 2018, Altria accounted for its investment in JUUL as an investment in an equity security. Upon Share Conversion, Altria expects to account for its investment in JUUL under the equity method of accounting. For further discussion, see Note 8. Investment in JUUL to the consolidated financial statements in Item 8 (“Note 8”).

On December 7, 2018, Altria announced that it entered into an agreement to purchase, through a subsidiary, approximately 146.2 million newly issued common shares of Cronos Group Inc. (“Cronos”), a global cannabinoid company headquartered in Toronto, Canada. Cronos shareholders approved the transaction on February 21, 2019. The closing of this transaction remains subject to certain customary closing conditions, including receipt of required regulatory approval. Altria expects the transaction to close in the first half of 2019. Upon completion of this transaction, Altria will own an approximate 45% equity interest in Cronos. Additionally, the agreement includes a warrant to purchase up to an additional approximately 72.2 million common shares of Cronos at a per share exercise price of Canadian dollar ("CAD") $19.00. The purchase price for the approximate 45% equity interest and warrant is approximately CAD $2.4 billion (approximately U.S. dollar ("USD") $1.8 billion, based on the CAD to USD exchange rate on February 22, 2019), to be paid on the date of the closing of the transaction. Upon full exercise of the warrant, which expires four years after issuance, Altria would own approximately 55% of the outstanding common shares of Cronos. The exercise price for the warrant is approximately CAD $1.4 billion (approximately USD $1.0 billion, based on the CAD to USD exchange rate on February 22, 2019). As part of the agreement, upon completion of this transaction, Altria will have the right to nominate four directors, including one independent director, to serve on Cronos' Board of Directors, which will be expanded from five to seven directors. Altria expects to account for its investment in Cronos under the equity method of accounting.

In January and February 2019, Altria entered into derivative financial instruments in the form of forward contracts, which mature on April 15, 2019, to hedge Altria's exposure to foreign

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currency exchange rate movements in the CAD to USD, in relation to the CAD $2.4 billion purchase price for the Cronos transaction. The aggregate notional amounts of the forward contracts were approximately USD $1.8 billion (CAD $2.4 billion). The forward contracts do not qualify for hedge accounting; therefore, changes in the fair values of the forward contracts will be recorded as gains or losses in Altria's consolidated statements of earnings in the periods in which the changes occur.

Source of Funds: Because Altria is a holding company, its access to the operating cash flows of its wholly-owned subsidiaries consists of cash received from the payment of dividends and distributions, and the payment of interest on intercompany loans by its subsidiaries. In addition, Altria receives cash dividends on its interest in AB InBev and will continue to do so as long as AB InBev pays dividends. Altria expects to receive cash dividends from JUUL, if and when JUUL pays such dividends.

Narrative Description of Business

Portions of the information called for by this Item are included in Operating Results by Business Segment in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of this Annual Report on Form 10-K ("Item 7").

Tobacco Space

Altria's tobacco operating companies include PM USA, USSTC and other subsidiaries of UST, Middleton and Nat Sherman. Altria Group Distribution Company provides sales and distribution services to Altria's tobacco operating companies.

The products of Altria's tobacco subsidiaries include smokeable tobacco products, consisting of combustible cigarettes manufactured and sold by PM USA and Nat Sherman, machine-made large cigars and pipe tobacco manufactured and sold by Middleton and premium cigars sold by Nat Sherman; smokeless tobacco products, consisting of moist smokeless tobacco ("MST") and snus products manufactured and sold by USSTC; and innovative tobacco products, including e-vapor products previously manufactured and sold by Nu Mark.

Cigarettes: PM USA is the largest cigarette company in the United States. Marlboro, the principal cigarette brand of PM USA, has been the largest-selling cigarette brand in the United States for over 40 years. Nat Sherman sells substantially all of its super premium cigarettes in the United States. Total smokeable products segment's cigarettes shipment volume in the United States was 109.8 billion units in 2018, a decrease of 5.8% from 2017.

Cigars: Middleton is engaged in the manufacture and sale of machine-made large cigars and pipe tobacco. Middleton contracts with a third-party importer to supply a majority of its cigars and sells substantially all of its cigars to customers in the United States. Black & Mild is the principal cigar brand of Middleton. Nat Sherman sources all of its cigars from third-party suppliers and sells substantially all of its cigars to customers in the United States. Total smokeable products segment's cigars shipment volume was approximately 1.6 billion units in 2018, an increase of 3.8% from 2017.

Smokeless tobacco products: USSTC is the leading producer and marketer of MST products. The smokeless products segment includes the premium brands, Copenhagen and Skoal, and value brands, Red Seal and Husky. Substantially all of the smokeless tobacco products are manufactured and sold to customers in the United States. Total smokeless products segment's shipment volume was 832.6 million units in 2018, a decrease of 1.0% from 2017.

Innovative tobacco products: In December 2018, Altria announced the decision to refocus its innovative product efforts, which includes Nu Mark's discontinuation of production and distribution of all e-vapor products. Prior to that time, Nu Mark participated in the e-vapor category and developed and commercialized other innovative tobacco products. In 2013, Nu Mark introduced MarkTen e-vapor products. In April 2014, Nu Mark acquired the e-vapor business of Green Smoke, Inc. and its affiliates, which began selling e-vapor products in 2009. In 2018 and 2017, Altria's subsidiaries purchased certain intellectual property related to innovative tobacco products.

In December 2013, Altria's subsidiaries entered into a series of agreements with Philip Morris International Inc. ("PMI"), including an agreement that grants Altria an exclusive right to commercialize certain of PMI's heated tobacco products in the United States, subject to the United States Food and Drug Administration's ("FDA") authorization. PMI submitted a pre-market tobacco product application and a modified risk tobacco product application for its electronically heated tobacco product, IQOS, with the FDA's Center for Tobacco Products in the first quarter of 2017 and the fourth quarter of 2016, respectively. Upon regulatory authorization by the FDA and subject to certain performance obligations, Altria's subsidiaries will have an exclusive license to commercialize IQOS in the United States.

Distribution, Competition and Raw Materials: Altria's tobacco subsidiaries sell their tobacco products principally to wholesalers (including distributors), large retail organizations, including chain stores, and the armed services.

The market for tobacco products is highly competitive, characterized by brand recognition and loyalty, with product quality, taste, price, product innovation, marketing, packaging and distribution constituting the significant methods of competition. Promotional activities include, in certain instances and where permitted by law, allowances, the distribution of incentive items, price promotions, product promotions, coupons and other discounts.

In June 2009, the President of the United States of America signed into law the Family Smoking Prevention and Tobacco Control Act ("FSPTCA"), which provides the FDA with broad authority to regulate the design, manufacture, packaging, advertising, promotion, sale and distribution of tobacco products; the authority to require disclosures of related information; and the authority to 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"). The FSPTCA imposes restrictions on the advertising,

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promotion, sale and distribution of tobacco products, including at retail. PM USA, Middleton, Nat Sherman and USSTC are subject to quarterly user fees as a result of the FSPTCA. Their respective FDA user fee amounts are determined by an allocation formula administered by the FDA that is based on the respective market shares of manufacturers and importers of each kind of tobacco product. PM USA, Nat Sherman, USSTC and other U.S. tobacco manufacturers have agreed to other marketing restrictions in the United States as part of the settlements of state health care cost recovery actions.

In the United States, under a contract growing program, PM USA purchases the majority of its burley and flue-cured leaf tobaccos directly from tobacco growers. Under the terms of this program, PM USA agrees to purchase the amount of tobacco specified in the grower contracts. PM USA also purchases a portion of its tobacco requirements through leaf merchants.

Nat Sherman purchases its tobacco requirements through leaf merchants.

USSTC purchases dark fire-cured, dark air-cured and burley leaf tobaccos from domestic tobacco growers under a contract growing program as well as from leaf merchants.

Middleton purchases burley, dark air-cured and flue-cured leaf tobaccos through leaf merchants. Middleton does not have a contract growing program.

Altria's tobacco subsidiaries believe there is an adequate supply of tobacco in the world markets to satisfy their current and anticipated production requirements. See Item 1A. Risk Factors of this Annual Report on Form 10-K ("Item 1A") and Tobacco Space - Business Environment - Price, Availability and Quality of Tobacco, Other Raw Materials and Component Parts in Item 7 for a discussion of risks associated with tobacco supply.

Wine

Ste. Michelle is a producer and supplier of premium varietal and blended table wines and of sparkling wines. 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's total 2018 wine shipment volume of approximately 8.2 million cases decreased 3.3% from 2017.

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.

Distribution, Competition and Raw Materials: 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.

Ste. Michelle uses grapes harvested from its own vineyards or purchased from independent growers, as well as bulk wine purchased from other sources. Grape production can be adversely affected by weather and other forces that may limit production. At the present time, Ste. Michelle believes that there is a sufficient supply of grapes and bulk wine available in the market to satisfy its current and expected production requirements. See Item 1A for a discussion of risks associated with competition, unfavorable changes in grape supply and governmental regulations.

Financial Services Business

In 2003, PMCC ceased making new investments and began focusing exclusively on managing its portfolio of finance assets in order to maximize its operating results and cash flows from its existing lease portfolio activities and asset sales.

Other Matters

Customers: The largest customer of PM USA, USSTC, Middleton and Nat Sherman, McLane Company, Inc., accounted for approximately 27%, 26% and 25% of Altria's consolidated net revenues for the years ended December 31, 2018, 2017 and 2016, respectively. In addition, Core-Mark Holding Company, Inc. accounted for approximately 14% of Altria's consolidated net revenues for each of the years ended December 31, 2018, 2017 and 2016. Substantially all of these net revenues were reported in the smokeable products and smokeless products segments. Sales to two distributors accounted for approximately 64% of net revenues for the wine segment for the year ended December 31, 2018. Sales to three distributors accounted for approximately 67% and 69% of net revenues for the wine segment for the years ended December 31, 2017 and 2016, respectively.

Employees: At December 31, 2018, Altria and its subsidiaries employed approximately 8,300 people. As a result of the cost reduction program announced in December 2018, there will be a reduction of approximately 900 employees, substantially all of which are expected to depart by February 28, 2019.

Executive Officers of Altria: The disclosure regarding executive officers is included in Item 10. Directors, Executive Officers and Corporate Governance - Executive Officers as of February 12, 2019 of this Annual Report on Form 10-K.

Intellectual Property: Trademarks are of material importance to Altria and its operating companies, and are protected by registration or otherwise. In addition, as of

December 31, 2018, the portfolio of approximately 950 United States patents owned by Altria's businesses, as a whole, was material to Altria and its tobacco businesses. However, no one patent or group of related patents was material to Altria's business or its tobacco businesses as of December 31, 2018. Altria's businesses also have proprietary trade secrets, technology, know-how, processes and other intellectual property rights that are protected by appropriate confidentiality measures. Certain trade secrets are material to Altria and its tobacco and wine businesses.

Environmental Regulation: Altria and its subsidiaries (and former subsidiaries) are subject to various federal, state and local laws and regulations concerning the discharge of materials into the environment, or otherwise related to environmental protection, including, in the United States: The Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act and the Comprehensive Environmental Response, Compensation and Liability Act (commonly known as "Superfund"), which can impose joint and several liability on each responsible party. Subsidiaries (and former subsidiaries) of Altria are involved in several matters subjecting them to potential costs of remediation and natural resource damages under Superfund or other laws and regulations. Altria's subsidiaries expect to continue to make capital and other expenditures in connection with environmental laws and regulations. As discussed in Note 2. Summary of Significant Accounting Policies to the consolidated financial statements in Item 8 ("Note 2"), Altria provides for expenses associated with environmental remediation obligations on an undiscounted basis when such amounts are probable and can be reasonably estimated. Such accruals are adjusted as new information develops or circumstances change. Other than those amounts, it is not possible to reasonably estimate the cost of any environmental remediation and compliance efforts that subsidiaries of Altria may undertake in the future. In the opinion of management, however, compliance with environmental laws and regulations, including the payment of any remediation costs or damages and the making of related expenditures, has not had, and is not expected to have, a material adverse effect on Altria's consolidated results of operations, capital expenditures, financial position or cash flows.

Available Information

Altria is required to file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission ("SEC").

Altria makes available free of charge on or through its website (www.altria.com) its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as soon as reasonably practicable after Altria electronically files such material with, or furnishes it to, the SEC. Investors can access Altria's filings with the SEC by visiting www.altria.com/secfilings.

The information on the respective websites of Altria and its subsidiaries is not, and shall not be deemed to be, a part of this report or incorporated into any other filings Altria makes with the SEC.

Item 1A. Risk Factors.

The following risk factors should be read carefully in connection with evaluating our business and the forward-looking statements contained in this Annual Report on Form 10-K. Any of the following risks could materially adversely affect our business, our results of operations, our cash flows, our financial position and the actual outcome of matters as to which forward-looking statements are made in this Annual Report on Form 10-K.

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 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," "objectives," "guidance," "targets" and other words 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 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 Annual Report on Form 10-K particularly in the "Business Environment" sections preceding our discussion of the operating results of our subsidiaries' businesses below in Item 7. 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

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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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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 19. Contingencies to the consolidated financial statements in Item 8 ("Note 19"), 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 19, the district court did not impose monetary penalties but ordered significant non-monetary remedies, including the issuance of "corrective statements."

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 they believe it is in the best interests of Altria to do so. See Item 3. Legal Proceedings of this Annual Report on Form 10-K ("Item 3"), Note 19 and Exhibits 99.1 and 99.2 to this Annual Report on Form 10-K 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 us and our tobacco subsidiaries' businesses and sales volumes.

As described in Tobacco Space - Business Environment in Item 7, 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.

More broadly, actions by the FDA and other federal, state or local governments or agencies, including those specific actions described in Tobacco Space - Business Environment in Item 7, 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, rulemaking that bans menthol, a determination by the FDA that one or more tobacco products do not satisfy the statutory requirements for substantial equivalence, because the FDA requires that a currently-marketed tobacco product proceed through the pre-market review process or because the FDA otherwise determines that removal is necessary for the protection of public health), 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

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impact on the business, consolidated results of operations, cash flows or financial position of Altria and its tobacco subsidiaries. See Tobacco Space - Business Environment in Item 7 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 in Item 7.

Our tobacco businesses face significant competition (including across categories) 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 in Item 7 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 could 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 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.

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 in Item 7 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 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 and investees 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 include arrangements with, or investments in, third parties such as our minority investment in JUUL. This minority investment subjects us to non-competition obligations restricting us from investing or engaging in the e-vapor business other than through JUUL, subject to limited exceptions. Our tobacco subsidiaries and investees 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 or investees do not succeed in their efforts to develop and commercialize innovative tobacco products or to obtain regulatory approval for the marketing or sale of products with claims of reduced risk, but one or more of their competitors do succeed, our tobacco subsidiaries or investees 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 in Item 7.

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

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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.

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

Tax laws and regulations, such as the 2017 Tax Cuts and Jobs Act (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, investees 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 or investments and may engage in confidential 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 investment or the occurrence of other events could negatively impact our credit ratings or the outlook for those ratings as occurred following our investment in JUUL (although we continue to maintain investment grade 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 or an investment.

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

Access to the credit and 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. In the fourth quarter of 2018, Altria incurred $209 million in goodwill and other intangible asset impairment charges related to Altria's decision to refocus its innovative product efforts and the impairment of the Columbia Crest trademark (See Note 4. Goodwill and Other Intangible Assets, net to the consolidated financial statements in Item 8 for a more detailed discussion).

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 in Item 7.

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 in Item 7, 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 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 AB InBev 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 AB InBev 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 AB InBev 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 AB InBev 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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Antitrust clearance required for the conversion of our non-voting JUUL shares into voting shares may not be obtained in a timely manner or at all, and the expected benefits of the JUUL transaction may not materialize in the expected manner or timeframe or at all.

Antitrust clearance required for the conversion of the non-voting JUUL shares held by us into voting shares may not be obtained in a timely manner or at all, and such clearance may be subject to unanticipated conditions. Unless and until such antitrust clearance is obtained, including expiration or termination of any applicable waiting period (or extension thereof) under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and any rules and regulations promulgated thereunder, our JUUL shares will not have voting rights and we will not be entitled to certain other rights, including the right to appoint any directors to the JUUL Board of Directors. Accordingly, failure to obtain antitrust clearance would adversely affect us, including because it would substantially limit our rights with respect to our investment in JUUL and would prevent us from accounting for our investment in JUUL using the equity method. In addition, regardless of whether antitrust clearance is obtained, the expected benefits of the JUUL transaction, such as any equity earnings and receipt of cash dividends, may not materialize in the expected manner or timeframe or at all, including due to the risks encountered by JUUL in its business, such as operational risks and regulatory risks at the international, federal and state levels, including actions by the FDA; unanticipated impacts on JUUL's relationships with employees, customers, suppliers and other third parties; potential disruptions to JUUL's management or current or future plans and operations due to the JUUL transaction; or domestic or international litigation developments, investigations, or otherwise. See Item 7. Tobacco Space - Business Environment for a discussion of certain FDA-related regulatory risks applicable to the e-vapor category. Failure to realize the expected benefits of our JUUL investment could adversely affect the value of the investment. As discussed in the Discussion and Analysis - Critical Accounting Policies and Estimates in Item 7, if a qualitative assessment of impairment of our JUUL investment were to indicate that its fair value is less than its carrying value, the investment would be written down to its fair value, which could have a material adverse effect on Altria's consolidated financial position or earnings.

Our investment in JUUL includes non-competition, standstill and transfer restrictions that prevent us from gaining control of JUUL. Furthermore, if our percentage ownership in JUUL were to decrease below certain levels, we would lose certain of our governance, consent, preemptive and other rights with respect to our investment in JUUL and may be unable to account for the investment under the equity method.

The shares of JUUL we hold generally cannot be sold or otherwise transferred for a six-year period that expires on December 20, 2024, subject to limited exceptions. We have also generally agreed not to compete with JUUL in the e-vapor space

for at least six years, which may be extended at our election. In addition, following receipt of antitrust clearance, our designees will comprise no more than one third of the members of the JUUL Board of Directors. As a result, JUUL's strategy and its material decisions are not controlled by us, and the terms of our agreements with JUUL mean that we are required to bear the risks associated with our investment in JUUL for at least a six-year period. Further, in the event that our ownership percentage in JUUL were to decrease below certain levels due to transfers by us or otherwise, or if we elect not to extend our non-competition obligations beyond six years, we would lose some or all of our board designation rights, preemptive rights, consent rights and other rights with respect to our investment in JUUL. Loss of these rights could adversely affect us by impairing our ability to influence JUUL and may prevent us from accounting for our investment under the equity method.

Our proposed investment in Cronos may not be completed within the anticipated timeframe or at all, and the expected benefits of the Cronos transaction may not materialize in the expected manner or timeframe or at all.

On December 7, 2018, we agreed to acquire common shares representing a 45% equity interest in Cronos and a warrant to acquire common shares representing an additional 10% equity interest in Cronos. The proposed transaction is subject to a number of closing conditions, including receipt of required regulatory approval, which may take longer than expected. We cannot provide any assurance that the proposed transaction will be completed or that there will not be a delay in the completion of the proposed transaction. There can also be no assurance that, if we complete the Cronos transaction, we will be able to realize its expected benefits, including due to the risks encountered by Cronos in its business, such as operational risks and legal and regulatory risks at the international, federal and state levels; unanticipated impacts on Cronos's relationships with third parties, its management, or its current or future plans and operations due to the Cronos transaction; or domestic or international litigation developments, investigations, or otherwise.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

At December 31, 2018, ALCS owned property in Richmond, Virginia that serves as the headquarters facility for Altria, PM USA, USSTC, Middleton, and certain other subsidiaries.

At December 31, 2018, PM USA owned and operated a manufacturing site located in Richmond, Virginia ("Richmond Manufacturing Center") that PM USA uses in the manufacturing of cigarettes. PM USA leases portions of this facility to Middleton and USSTC for use in the manufacturing of cigars and smokeless tobacco products, respectively.

At December 31, 2018, the smokeable products segment used four manufacturing and processing facilities, including the

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Richmond Manufacturing Center. In addition to the Richmond Manufacturing Center, PM USA owns and operates a cigarette tobacco processing facility located in the Richmond, Virginia area. Nat Sherman owns and operates a cigarette manufacturing facility in Greensboro, North Carolina. Middleton, in addition to leasing space at the Richmond Manufacturing Center, owns and operates a manufacturing and processing facility in King of Prussia, Pennsylvania that is used in the manufacturing and processing of cigars and pipe tobacco. In addition, PM USA owns a research and technology center in Richmond, Virginia that is leased to ALCS.

At December 31, 2018, in addition to the Richmond Manufacturing Center, the smokeless products segment used four smokeless tobacco manufacturing and processing facilities, one located in Clarksville, Tennessee; one in Nashville, Tennessee; and two facilities in Hopkinsville, Kentucky, all of which are owned and operated by USSTC.

At December 31, 2018, the wine segment used 12 wine-making facilities - seven in Washington, four in California and one in Oregon. All of these facilities are owned and operated by Ste. Michelle, with the exception of a facility that is leased by Ste. Michelle in Washington. In addition, in order to support the production of its wines, the wine segment used vineyards in Washington, California and Oregon that are leased or owned by Ste. Michelle.

The plants and properties owned or leased and operated by Altria and its subsidiaries are maintained in good condition and are believed to be suitable and adequate for present needs.

Item 3. Legal Proceedings.

The information required by this Item is included in Note 19 and Exhibits 99.1 and 99.2 to this Annual Report on Form 10-K. Altria’s consolidated financial statements and accompanying notes for the year ended December 31, 2018 were filed on Form 8-K on January 31, 2019 (such consolidated financial statements and accompanying notes are also included in Item 8). The following summarizes certain developments in Altria’s litigation since the filing of the Form 8-K.

Recent Developments

Engle Progeny Trial Results:

In Chadwell, in February 2019, PM USA and plaintiff appealed to the Florida Third District Court of Appeal.

In L. Martin, in February 2019, the Florida Third District Court of Appeal affirmed the judgment in favor of plaintiff.

In Berger, in February 2019, PM USA filed motions challenging the punitive damages award.

In Holliman, in February 2019, a Miami-Dade county jury returned a verdict in favor of plaintiff and against PM USA awarding approximately $3 million in compensatory damages and no punitive damages.

In February 2019, the United States Supreme Court denied PM USA’s petition for review in the McKeever, Pardue, Jordan, M. Brown, Boatright and Searcy cases.

Item 4. Mine Safety Disclosures.

Not applicable.

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Part II
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.
Performance Graph
The graph below compares the cumulative total shareholder return of Altria's common stock for the last five years with the cumulative total return for the same period of the S&P 500 Index and the Altria Peer Group [(1)]. The graph assumes the investment of $100 in common stock and each of the indices as of the market close on December 31, 2013 and the reinvestment of all dividends on a quarterly basis.

Date	Altria	Altria Peer Group	S&P 500
December 2013	$100.00	$100.00	$100.00
December 2014	$134.51	$112.06	$113.68
December 2015	$165.58	$128.34	$115.24
December 2016	$199.46	$136.93	$129.02
December 2017	$218.30	$147.96	$157.17
December 2018	$159.17	$141.06	$150.27

Source: Bloomberg - "Total Return Analysis" calculated on a daily basis and assumes reinvestment of dividends as of the ex-dividend date.
[(1)]In 2018, the Altria Peer Group consisted of U.S.-headquartered consumer product companies that are competitors to Altria's operating companies subsidiaries or that have been selected on the basis of revenue or market capitalization: Campbell Soup Company, The Coca-Cola Company, Colgate-Palmolive Company, Conagra Brands, Inc., General Mills, Inc., The Hershey Company, Kellogg Company, Keurig Dr Pepper Inc., Kimberly-Clark Corporation, The Kraft Heinz Company, Molson Coors Brewing Company, Mondelēz International, Inc. and PepsiCo, Inc.
Note - On July 2, 2015, Kraft Foods Group, Inc. merged with and into a wholly owned subsidiary of H.J. Heinz Holding Corporation, which was renamed The Kraft Heinz Company (KHC). On June 12, 2015, Reynolds American Inc. (RAI) acquired Lorillard, Inc. (LO). On November 9, 2016, ConAgra Foods, Inc. (CAG) spun off Lamb Weston Holdings, Inc. (LW) to its shareholders and then changed its name from ConAgra Foods, Inc. to Conagra Brands, Inc. (CAG). On July 24, 2017, British American Tobacco p.l.c. (BTI) acquired RAI. For 2018, Altria removed BTI from the Altria Peer Group as BTI no longer meets the pre-defined Altria Peer Group criteria as a U.S.-headquartered company. In addition, Altria has added U.S.-headquartered consumer product companies Keurig Dr Pepper Inc. and Molson Coors Brewing Company to the Altria Peer Group.

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Market and Dividend Information

The principal stock exchange on which Altria's common stock (par value $0.33 1/3 per share) is listed is the New York Stock Exchange under the trading symbol "MO". At February 12, 2019, there were approximately 61,000 holders of record of Altria's common stock.

Issuer Purchases of Equity Securities During the Quarter Ended December 31, 2018

In January 2018, Altria's Board of Directors (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 December 31, 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
October 1- October 31, 2018	2,136,142	$ 61.78	2,136,091	$569,444,104
November 1- November 30, 2018	2,000,726	$ 59.80	1,909,568	$454,690,573
December 1- December 31, 2018	2,075,772	$ 52.52	2,075,590	$345,671,297
For the Quarter Ended December 31, 2018	6,212,640	$ 58.05	6,121,249	

(1) The total number of shares purchased includes (a) shares purchased under the January 2018 share repurchase program (which totaled 2,136,091 shares in October, 1,909,568 shares in November and 2,075,590 shares in December) 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 51 shares in October, 91,158 shares in November and 182 shares in December).

Item 6. Selected Financial Data.

(in millions of dollars, except per share data)

	2018	2017	2016	2015	2014
Net revenues	$25,364	$25,576	$25,744	$25,434	$24,522
Net earnings [1][2]	6,967	10,227	14,244	5,243	5,070
Net earnings attributable to Altria [1][2]	6,963	10,222	14,239	5,241	5,070
Basic EPS — net earnings attributable to Altria [1][2]	3.69	5.31	7.28	2.67	2.56
Diluted EPS— net earnings attributable to Altria [1][2]	3.68	5.31	7.28	2.67	2.56
Dividends declared per share	3.00	2.54	2.35	2.17	2.00
Total assets [2][3]	55,638	43,202	45,932	31,459	33,440
Long-term debt	11,898	13,030	13,881	12,843	13,610
Total debt [3]	25,746	13,894	13,881	12,847	