ALTRIA GROUP, INC.
Form 10-Q
May 07, 2009
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

(X) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2009

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 1-8940

Altria Group, Inc.

(Exact name of registrant as specified in its charter)

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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

At April 30, 2009, there were 2,067,645,552 shares outstanding of the registrant s common stock, par value $0.33 1/3 per share.

Table of Contents

ALTRIA GROUP, INC.

TABLE OF CONTENTS

-2-

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

Altria Group, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(in millions of dollars)

(Unaudited)

	March 31, 2009	December 31, 2008
ASSETS		
Consumer products		
Cash and cash equivalents	$ 3,858	$ 7,916
Receivables (less allowances of $2 in 2009 and $3 in 2008)	86	44
Inventories:		
Leaf tobacco	1,030	727
Other raw materials	182	145
Finished product	821	197
	2,033	1,069
Deferred income taxes	1,751	1,690
Other current assets	351	357
Total current assets	8,079	11,076
Property, plant and equipment, at cost	6,049	5,344
Less accumulated depreciation	3,205	3,145
	2,844	2,199
Goodwill	4,998	77
Other intangible assets, net	12,152	3,039
Investment in SABMiller	4,354	4,261
Other assets	1,155	1,080
Total consumer products assets	33,582	21,732
Financial services		

Finance assets, net	5,046	5,451
Other assets	28	32
Total financial services assets	5,074	5,483
TOTAL ASSETS	$ 38,656	$ 27,215

See notes to condensed consolidated financial statements.

Continued

Table of Contents

Altria Group, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets (Continued)

(in millions of dollars, except share and per share data)

(Unaudited)

	March 31, 2009	December 31, 2008
LIABILITIES		
Consumer products		
Short-term borrowings	$ 835	$ -
Current portion of long-term debt	375	135
Accounts payable	415	510
Accrued liabilities:		
Marketing	303	374
Taxes, except income taxes	152	98
Employment costs	107	248
Settlement charges	5,034	3,984
Other	1,673	1,128
Income taxes	44	
Dividends payable	666	665
Total current liabilities	9,604	7,142
Long-term debt	11,960	6,839
Deferred income taxes	3,824	351
Accrued pension costs	1,585	1,393
Accrued postretirement health care costs	2,326	2,208
Other liabilities	1,249	1,208
Total consumer products liabilities	30,548	19,141
Financial services		
Debt	500	500
Deferred income taxes	4,286	4,644
Other liabilities	509	102
Total financial services liabilities	5,295	5,246
Total liabilities	35,843	24,387
Contingencies (Note 13)		
Redeemable noncontrolling interest	32	
STOCKHOLDERS EQUITY		
Common stock, par value $0.33 1/3 per share (2,805,961,317 shares issued)	935	935
Additional paid-in capital	6,159	6,350

Earnings reinvested in the business	22,058	22,131
Accumulated other comprehensive losses	(2,171)	(2,181)
	26,981	27,235
Less cost of repurchased stock (738,638,406 shares in 2009 and 744,589,733 shares in 2008)	(24,203)	(24,407)
Total stockholders equity attributable to Altria Group, Inc.	2,778	2,828
Noncontrolling interests	3	
Total stockholders equity	2,781	2,828
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 38,656	$ 27,215

See notes to condensed consolidated financial statements.

Table of Contents

Altria Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Earnings

(in millions of dollars, except per share data)

(Unaudited)

	For the Three Months Ended March 31, 2009	For the Three Months Ended March 31, 2008
Net revenues	$ 4,523	$ 4,410
Cost of sales	1,770	1,887
Excise taxes on products	711	806
Gross profit	2,042	1,717
Marketing, administration and research costs	717	648
Exit costs	128	258
Gain on sale of corporate headquarters building		(404)
Amortization of intangibles	6	2
Operating income	1,191	1,213
Interest and other debt expense (income), net	336	(16)
Loss on early extinguishment of debt		393
Equity earnings in SABMiller	(106)	(143)
Earnings from continuing operations before income taxes	961	979
Provision for income taxes	372	365
Earnings from continuing operations	589	614
Earnings from discontinued operations, net of income taxes		1,901
Net earnings	589	2,515
Net earnings attributable to noncontrolling interests		(61)
Net earnings attributable to Altria Group, Inc.	$ 589	$ 2,454
Amounts attributable to Altria Group, Inc. stockholders:		
Earnings from continuing operations	$ 589	$ 614
Earnings from discontinued operations		1,840
Net earnings attributable to Altria Group, Inc.	$ 589	$ 2,454
Per share data:		
Basic earnings per share:		
Continuing operations	$ 0.28	$ 0.29
Discontinued operations		0.87

Net earnings attributable to Altria Group, Inc.	$	0.28	$	1.16
Diluted earnings per share:				
Continuing operations	$	0.28	$	0.29
Discontinued operations				0.87
Net earnings attributable to Altria Group, Inc.	$	0.28	$	1.16
Dividends declared	$	0.32	$	0.75

See notes to condensed consolidated financial statements.

Table of Contents

Altria Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Stockholders Equity

for the Year Ended December 31, 2008 and

the Three Months Ended March 31, 2009

(in millions of dollars, except per share data)

(Unaudited)

	Attributable to Altria Group, Inc.							
	Common Stock	Additional Paid-in Capital	Earnings Reinvested in the Business	Accumulated Other Comprehen-sive Earnings (Losses)	Cost of Repurchased Stock	Compre-hensive Earnings	Non-controlling Interests	Total Stock-holders Equity
Balances, January 1, 2008	$ 935	$ 6,884	$ 34,426	$ 111	$ (23,454)	$ -	$ 418	$ 19,320
Comprehensive earnings:								
Net earnings			4,930			4,930	61	4,991
Other comprehensive earnings (losses), net of income taxes:								
Currency translation adjustments				233		233	7	240
Change in net loss and prior service cost				(1,385)		(1,385)		(1,385)
Change in fair value of derivatives accounted for as hedges				(177)		(177)		(177)
Ownership share of SABMiller other comprehensive losses				(308)		(308)		(308)
Total other comprehensive (losses) earnings						(1,637)	7	(1,630)
Total comprehensive earnings						3,293	68	3,361
Exercise of stock options and issuance of other stock awards		(534)			213			(321)
Cash dividends declared ($1.68 per share)			(3,505)					(3,505)
Stock repurchased					(1,166)			(1,166)
Payments/other related to noncontrolling interests							(130)	(130)
Spin-off of Philip Morris International Inc.			(13,720)	(655)			(356)	(14,731)
Balances, December 31, 2008	935	6,350	22,131	(2,181)	(24,407)		-	2,828
Comprehensive earnings:								
Net earnings			589			589		589
Other comprehensive earnings (losses), net of income taxes:								
Change in net loss and prior service cost				19		19		19
Ownership share of SABMiller other comprehensive losses				(9)		(9)		(9)

Total other comprehensive earnings						10	-	10
Total comprehensive earnings						599	-	599
Exercise of stock options and issuance of other stock awards		(191)			204			13
Cash dividends declared ($0.32 per share)			(662)					(662)
Acquisition of UST							3	3
Balances, March 31, 2009	$ 935	$ 6,159	$ 22,058	$ (2,171)	$ (24,203)		$ 3	$ 2,781

Total comprehensive earnings were $2,800 million for the quarter ended March 31, 2008, which consisted of total comprehensive earnings attributable to Altria Group, Inc. and noncontrolling interests of $2,732 million and $68 million, respectively.

See notes to condensed consolidated financial statements.

Table of Contents

Altria Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(in millions of dollars)

(Unaudited)

	For the Three Months Ended March 31, 2009	2008
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Earnings from continuing operations - Consumer products	$ 518	$ 572
- Financial services	71	42
Earnings from discontinued operations		1,901
Net earnings	589	2,515
Impact of earnings from discontinued operations		(1,901)
Adjustments to reconcile net earnings attributable to Altria Group, Inc. to operating cash flows:		
Consumer products		
Depreciation and amortization	78	59
Deferred income tax provision (benefit)	81	(305)
Equity earnings in SABMiller	(106)	(143)
Exit costs, net of cash paid	55	231
Gain on sale of corporate headquarters building		(404)
Loss on early extinguishment of debt		393
Cash effects of changes, net of the effects from acquired and divested companies:		
Receivables, net	18	(140)
Inventories	(168)	(23)
Accounts payable	(6)	(110)
Income taxes	258	867
Accrued liabilities and other current assets	133	(324)
Accrued settlement charges	1,046	1,181
Pension plan contributions	(19)	(10)
Pension provisions and postretirement, net	69	39
Other	21	19
Financial services		
Deferred income tax benefit	(358)	(153)
Other	352	144
Net cash provided by operating activities, continuing operations	2,043	1,935
Net cash provided by operating activities, discontinued operations		1,666

Net cash provided by operating activities	2,043	3,601

See notes to condensed consolidated financial statements.

Continued

-7-

Table of Contents

Altria Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Continued)

(in millions of dollars)

(Unaudited)

	For the Three Months Ended March 31, 2009	2008
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
Consumer products		
Capital expenditures	$ (43)	$ (45)
Acquisition of UST Inc., net of acquired cash	(10,244)	
Proceeds from sale of corporate headquarters building		525
Other	(58)	109
Financial services		
Proceeds from finance assets	464	122
Net cash (used in) provided by investing activities, continuing operations	(9,881)	711
Net cash used in investing activities, discontinued operations		(317)
Net cash (used in) provided by investing activities	(9,881)	394
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
Consumer products		
Net issuance of short-term borrowings	630	
Long-term debt issued	4,221	
Long-term debt repaid		(2,824)
Dividends paid on Altria Group, Inc. common stock	(661)	(1,583)
Issuance of Altria Group, Inc. common stock	11	35
Philip Morris International Inc. dividends paid to Altria Group, Inc.		3,019
Financing fees and debt issuance costs	(132)	
Tender and consent fees related to the early extinguishment of debt		(371)
Changes in amounts due to/from Philip Morris International Inc.		(699)
Other	(289)	(252)
Net cash provided by (used in) financing activities, continuing operations	3,780	(2,675)
Net cash used in financing activities, discontinued operations		(1,648)
Net cash provided by (used in) financing activities	3,780	(4,323)
Effect of exchange rate changes on cash and cash equivalents:		
Discontinued operations	-	(126)

Cash and cash equivalents, continuing operations:		
Decrease	(4,058)	(29)
Balance at beginning of period	7,916	4,842
Balance at end of period	$ 3,858	$ 4,813

See notes to condensed consolidated financial statements.

Table of Contents

Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 1. Background and Basis of Presentation:

Background

At March 31, 2009, Altria Group, Inc. s wholly-owned subsidiaries included Philip Morris USA Inc. (PM USA), which is engaged in the manufacture and sale of cigarettes and certain smokeless products in the United States; UST Inc. (UST), which through its subsidiaries is engaged in the manufacture and sale of smokeless products and wine; and John Middleton Co. (Middleton), which is engaged in the manufacture and sale of machine-made large cigars and pipe tobacco. Philip Morris Capital Corporation (PMCC), another wholly-owned subsidiary, maintains a portfolio of leveraged and direct finance leases. In addition, Altria Group, Inc. held a 28.5% economic and voting interest in SABMiller plc (SABMiller) at March 31, 2009. Altria Group, Inc. s access to the operating cash flows of its subsidiaries consists principally of cash received from the payment of dividends by its subsidiaries.

As discussed in Note 2. *UST Acquisition*, on January 6, 2009, Altria Group, Inc. acquired all of the outstanding common stock of UST, whose direct and indirect wholly-owned subsidiaries include U.S. Smokeless Tobacco Company (USSTC) and Ste. Michelle Wine Estates (Ste. Michelle). As a result of the acquisition, UST has become an indirect wholly-owned subsidiary of Altria Group, Inc.

On March 28, 2008, Altria Group, Inc. distributed all of its interest in Philip Morris International Inc. (PMI) to Altria Group, Inc. s stockholders in a tax-free distribution. Altria Group, Inc. has reflected the results of PMI prior to the distribution date as discontinued operations on the condensed consolidated statements of earnings and the condensed consolidated statements of cash flows.

In March 2008, Altria Group, Inc. sold its corporate headquarters building in New York City for $525 million and recorded a pre-tax gain of $404 million.

Basis of Presentation

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

These statements should be read in conjunction with the consolidated financial statements and related notes, which appear in Altria Group, Inc. s Annual Report to Stockholders and which are incorporated by reference into Altria Group, Inc. s Annual Report on Form 10-K for the year ended December 31, 2008.

Balance sheet accounts are segregated by two broad types of businesses. Consumer products assets and liabilities are classified as either current or non-current, whereas financial services assets and liabilities are unclassified, in accordance with respective industry practices. The financial services debt of $500 million matures in July 2009.

Beginning with the first quarter of 2009, Altria Group, Inc. revised its reportable segments to reflect the change in the way in which Altria Group, Inc. s management reviews the business as a result of the acquisition of UST. Altria Group, Inc. s segments, which are reflected in these financial statements, are cigarettes, smokeless products, cigars, wine, and financial services.

As disclosed in Altria Group, Inc. s Annual Report on Form 10-K for the year ended December 31, 2008, during the fourth quarter of 2008, Altria Group, Inc. identified that it had not recorded its share of other

Table of Contents

Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

comprehensive earnings or losses of SABMiller. As a result, total comprehensive earnings for the three months ended March 31, 2008, which was previously understated by $196 million, was corrected. There was no impact to reported earnings from continuing operations, net earnings, net earnings attributable to Altria Group, Inc., earnings per share or cash flows.

Certain prior year amounts have been reclassified to conform with the current year s presentation, due to the adoption of Statement of Financial Accounting Standards (SFAS) No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS 160), discussed in Note 14. *New Accounting Standards*.

Note 2. UST Acquisition:

On January 6, 2009, Altria Group, Inc. acquired all of the outstanding common stock of UST, in exchange for $69.50 in cash for each share of UST common stock. Additionally, each employee stock option of UST that was outstanding and unexercised was cancelled in exchange for the right to receive the difference between the exercise price for such option and $69.50. The transaction was valued at approximately $11.7 billion, which represented a purchase price of $10.4 billion and included the assumption of approximately $1.3 billion of debt, which together with acquisition-related costs and payments of approximately $0.6 billion (consisting primarily of financing fees, the funding of UST s non-qualified pension plans, investment banking fees and the early retirement of UST s revolving credit facility), represent a total cash outlay of approximately $11 billion.

In connection with the acquisition of UST, Altria Group, Inc. had in place a 364-day term bridge loan facility (the Bridge Facility). On January 6, 2009, Altria Group, Inc. borrowed the entire available amount of $4.3 billion under the Bridge Facility, which was used along with available cash of $6.7 billion, representing the net proceeds from the issuances of senior unsecured long-term notes in November and December 2008, to fund the acquisition of UST. As discussed in Note 7. *Debt*, in February 2009, Altria Group, Inc. issued $4.2 billion of senior unsecured long-term notes. The net proceeds from the issuance of these notes, along with available cash, were used to prepay all of the outstanding borrowings under the Bridge Facility. Upon such prepayment, the Bridge Facility was terminated.

UST s financial position and results of operations have been consolidated with Altria Group, Inc. as of January 6, 2009. The following unaudited supplemental pro forma data present consolidated information of Altria Group, Inc. as if the acquisition of UST had been consummated on January 1, 2008.

	Pro Forma Three Months Ended March 31, 2008 (in millions)
Net revenues	$ 4,883
Earnings from continuing operations	$ 406
Net earnings attributable to Altria Group, Inc.	$ 2,246

Pro forma results of Altria Group, Inc., for the three months ended March 31, 2009 assuming the acquisition had occurred on January 1, 2009, would not be materially different from the actual results reported for the three months ended March 31, 2009.

The pro forma amounts reflect the application of the following adjustments as if the acquisition had occurred on January 1, 2008:

Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

additional depreciation and amortization expense that would have been charged assuming the fair value adjustments to property, plant and equipment, and intangible assets had been applied from January 1, 2008;

additional interest expense and financing fees that would have been incurred assuming all borrowing arrangements used to fund the acquisition had been in place as of January 1, 2008;

restructuring costs incurred to restructure and integrate UST operations;

transaction costs associated with the acquisition; and

increased cost of sales, reflecting the fair value adjustment of UST s inventory sold during the period.

The following amounts represent the preliminary estimates of identifiable assets acquired and liabilities assumed in the UST acquisition, and are subject to revisions when appraisals are finalized, which is expected to occur during 2009 (in millions):

Cash and cash equivalents	$ 163
Inventories	796
Property, plant and equipment	688
Other intangible assets:	
Non-amortizable trademarks	9,059
Amortizable (20-year life)	60
Short-term borrowings	(205)
Current portion of long-term debt	(240)
Long-term debt	(900)
Deferred income taxes	(3,359)
Other assets and liabilities, net	(540)
Noncontrolling interests	(36)
Total identifiable net assets	5,486
Total purchase price	10,407
Goodwill	$ 4,921

The excess in the purchase price paid by Altria Group, Inc. over the identifiable net assets acquired in the acquisition of UST primarily reflects the value of adding USSTC and its subsidiaries to Altria Group, Inc. s family of tobacco operating companies (PM USA and Middleton), with leading brands in cigarettes, smokeless products and machine-made large cigars. The acquisition is anticipated to generate approximately $300 million in annual synergies by 2011, driven primarily by reduced selling, general and administrative, and corporate expenses. None of the goodwill or other intangible assets will be deductible for tax purposes.

The assets acquired, liabilities assumed, and noncontrolling interests of UST have been measured in accordance with SFAS No. 141 (revised 2007), Business Combinations as of the acquisition date. For purposes of measuring the fair value, where applicable, Altria Group, Inc. has used the guidance in SFAS No. 157, Fair Value Measurements (SFAS 157), which establishes a framework for measuring fair values. In valuing trademarks, Altria Group, Inc. estimated the fair value using a discounted cash flow methodology. Liabilities arising from contingencies were evaluated in accordance with Financial

Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Accounting Standards Board (FASB) Staff Position No. FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies (FSP FAS 141(R)-1), resulting in no material contingent liabilities being recognized as of the acquisition date because the acquisition date fair value of such contingencies cannot be determined, and the contingencies are not both probable and reasonably estimable. Additionally, costs incurred to effect the acquisition, as well as costs to restructure UST, are being recognized as expenses in the periods in which the costs are incurred. Altria Group, Inc. expects to incur approximately $0.5 billion (which is $0.1 billion lower than the previous estimate of $0.6 billion) in acquisition-related charges as well as restructuring and integration costs, of which $283 million were expensed during the first quarter of 2009, consisting of: exit costs ($103 million), integration costs ($16 million), inventory adjustments ($17 million), financing fees ($87 million) and transaction costs ($60 million).

Note 3. Exit, Implementation and Integration Costs:

Pre-tax exit, implementation and integration costs for the three months ended March 31, 2009 and 2008 consisted of the following (in millions):

	For the Three Months Ended March 31, 2009			
	Exit Costs	Implementation Costs	Integration Costs	Total
Cigarettes	$ 19	$ 18	$ -	$ 37
Smokeless products	101		15	116
Cigars			3	3
Wine	2		1	3
General corporate	6			6
Total	$ 128	$ 18	$ 19	$ 165

	For the Three Months Ended March 31, 2008			
	Exit Costs	Implementation Costs	Integration Costs	Total
Cigarettes	$ 11	$ 15	$ -	$ 26
Cigars			2	2
General corporate	247			247
Total	$ 258	$ 15	$ 2	$ 275

Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

The movement in the severance liability and details of exit costs for Altria Group, Inc. for the three months ended March 31, 2009 was as follows:

	Severance	Other	Total
		(in millions)	
Severance liability balance, January 1, 2009	$ 348	$ -	$ 348
Charges	107	21	128
Cash spent	(54)	(19)	(73)
Liability recorded in pension and postretirement plans, and other	(8)	(2)	(10)
Severance liability balance, March 31, 2009	$ 393	$ -	$ 393

Other charges in the table above primarily represent other employee termination benefits including pension and postretirement.

Integration and Restructuring Program:

In December 2008, Altria Group, Inc. initiated a company-wide integration and restructuring program, pursuant to which, over the next two years, Altria Group, Inc. expects to restructure its corporate, manufacturing, and sales and marketing functions as it integrates UST into its operations and continues to focus on optimizing company-wide cost structures.

As a result of this program, Altria Group, Inc. expects to incur total pre-tax charges of approximately $270 million in 2009. These charges are primarily related to employee separation costs, lease exit costs, relocation of employees, and other costs related to the integration of UST operations. Substantially all of these charges will result in cash expenditures.

For the three months ended March 31, 2009, PM USA, USSTC, Ste. Michelle and Altria Group, Inc. recorded pre-tax charges for this program of $2 million, $116 million, $3 million and $5 million, respectively, which included exit costs of $110 million and integration costs of $16 million.

The pre-tax integration costs were included in marketing, administrative and research costs in the condensed consolidated statements of earnings for the three months ended March 31, 2009. Total pre-tax charges incurred since the inception of the program were $252 million. Pre-tax charges of approximately $145 million are expected for the remainder of 2009 for the program. Cash payments related to the program of $16 million were made during the first quarter of 2009.

Headquarters Relocation:

During 2008, in connection with the spin-off of PMI, which included the relocation of Altria Group, Inc. s corporate headquarters functions to Richmond, Virginia, Altria Group, Inc. restructured its corporate headquarters. As a result of this restructuring, for the three months ended March 31, 2009 and 2008, pre-tax charges of $1 million and $192 million, respectively, were incurred. Total pre-tax charges incurred since the inception of this restructuring were $220 million. These charges consisted primarily of employee separation costs. Substantially all of the charges will result in cash expenditures. Cash payments related to this restructuring of $28 million were made during the first quarter of 2009, for a total of $164 million since inception.

For the three months ended March 31, 2008, corporate exit costs also included $55 million of investment banking and legal fees associated with the PMI spin-off.

Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Manufacturing Optimization Program:

On June 26, 2007, Altria Group, Inc. reported in its Form 8-K that it announced plans to close PM USA s Cabarrus, North Carolina manufacturing facility and consolidate manufacturing for the U.S. cigarette market at its Richmond, Virginia manufacturing center by the end of 2010. This decision was made to address manufacturing overcapacity resulting from ongoing declines in U.S. cigarette volume and reduced contract manufacturing for PMI.

On April 22, 2009, PM USA announced that it will cease production at its Cabarrus, North Carolina cigarette manufacturing facility and complete the consolidation of manufacturing capacity into its Richmond, Virginia facility by the end of July 2009. PM USA is taking this action to address ongoing cigarette volume declines, including the projected impact of the recently enacted federal excise tax increase. PM USA expects to complete the de-commissioning of the Cabarrus facility during 2010.

As a result of this program, from 2007 through 2010, PM USA expects to incur total pre-tax charges of approximately $785 million, which is higher than the previous estimate of $670 million due to scheduling cessation of production for July 2009. These pre-tax charges consist of employee separation costs of $367 million, accelerated depreciation of $284 million and other charges of $134 million, primarily related to the relocation of employees and equipment, net of estimated gains on sales of land and buildings. Approximately $400 million, about 50%, of the total pre-tax charges will result in cash expenditures.

PM USA recorded pre-tax charges for this program as follows:

	For the Three Months Ended March 31,	
	2009	2008
	(in millions)	
Exit costs	$ 17	$ 11
Implementation costs	18	15
Total	$ 35	$ 26

Pre-tax implementation costs related to this program were primarily related to accelerated depreciation and were included in cost of sales in the condensed consolidated statements of earnings for the three months ended March 31, 2009 and 2008. Total pre-tax charges incurred since the inception of the program were $524 million. Pre-tax charges of approximately $225 million are expected during the remainder of 2009 for the program. Cash payments related to the program of $36 million were made during the first quarter of 2009, for a total of $132 million since inception.

Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 4. Benefit Plans:

Altria Group, Inc. sponsors noncontributory defined benefit pension plans covering substantially all employees, except that as of January 1, 2008, new employees (excluding participants in UST plans) are not eligible to participate in the defined benefit plans, but instead are eligible for a company match in a defined contribution plan. In addition, Altria Group, Inc. and its subsidiaries provide health care and other benefits to substantially all retired employees. In connection with the acquisition of UST, Altria Group, Inc. recorded net liabilities for UST s defined benefit pension plans and liabilities for UST s postretirement healthcare plans of $351 million and $85 million, respectively, at January 6, 2009.

Pension Plans

Components of Net Periodic Benefit Cost

Net periodic pension cost consisted of the following:

	For the Three Months Ended March 31,	
	2009	2008
	(in millions)	
Service cost	$ 25	$ 25
Interest cost	87	77
Expected return on plan assets	(106)	(105)
Amortization:		
Net loss	27	17
Prior service cost	3	2
Other	(12)	36
Net periodic pension cost	$ 24	$ 52

Other pension (gain) cost of $(12) million and $36 million for the three months ended March 31, 2009 and 2008, respectively, primarily reflects termination benefits related to restructuring programs, which in 2009 were more than offset by curtailment gains related to the restructuring of UST s operations subsequent to the acquisition (see Note 3. *Exit, Implementation and Integration Costs*). The curtailment of UST s pension plans resulted in a decrease of $34 million to accrued pension costs, which is reflected in the March 31, 2009 condensed consolidated balance sheet.

Employer Contributions

Altria Group, Inc. presently makes, and plans to make, contributions, to the extent that they are tax deductible and to pay benefits that relate to plans for salaried employees that cannot be funded under Internal Revenue Service regulations. Employer contributions of $19 million were made to Altria Group, Inc. s pension plans during the three months ended March 31, 2009. Currently, Altria Group, Inc. anticipates additional employer contributions during the remainder of 2009 of approximately $33 million to its pension plans, which includes approximately $9 million related to UST plans, based on current tax law. However, these estimates are subject to change as a result of changes in tax and other benefit laws, as well as asset performance significantly above or below the assumed long-term rate of return on pension assets, or changes in interest rates.

Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Postretirement Benefit Plans

Net postretirement health care costs consisted of the following:

	For the Three Months Ended March 31,	
	2009	2008
	(in millions)	
Service cost	$ 10	$ 10
Interest cost	36	29
Amortization:		
Net loss	10	6
Prior service credit	(2)	(2)
Other	18	8
Net postretirement health care costs	$ 72	$ 51

Other postretirement cost of $18 million and $8 million for the three months ended March 31, 2009 and 2008, respectively, primarily reflects termination benefits related to restructuring programs, in addition to curtailment losses in 2009 related to the restructuring of UST s operations subsequent to the acquisition (see Note 3. *Exit, Implementation and Integration Costs*). The curtailment of UST s postretirement plans resulted in an increase in accrued postretirement health care costs of $6 million, which is reflected in the March 31, 2009 condensed consolidated balance sheet.

Table of Contents

Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 5. Goodwill and Other Intangible Assets, net:

Goodwill and other intangible assets, net, by segment were as follows (in millions):

	Goodwill		Other Intangible Assets, net	
	March 31, 2009	December 31, 2008	March 31, 2009	December 31, 2008
Cigarettes	$ -	$ -	$ 280	$ 283
Smokeless products	4,859		8,846	
Cigars	77	77	2,754	2,756
Wine	62		272	
Total	$ 4,998	$ 77	$ 12,152	$ 3,039

Intangible assets were as follows (in millions):

	March 31, 2009		December 31, 2008	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Non-amortizable intangible assets	$ 11,701		$ 2,642	
Amortizable intangible assets	464	$ 13	404	$ 7
Total intangible assets	$ 12,165	$ 13	$ 3,046	$ 7

Non-amortizable intangible assets substantially consist of trademarks from the January 2009 acquisition of UST ($9.1 billion) and the December 2007 acquisition of Middleton ($2.6 billion). Amortizable intangible assets consist primarily of customer relationships and certain cigarette trademarks. Pre-tax amortization expense for intangible assets during the three months ended March 31, 2009 and 2008, was $6 million and $2 million, respectively. Annual amortization expense for each of the next five years is estimated to be approximately $25 million, assuming no additional transactions occur that require the amortization of intangible assets.

Goodwill relates to the January 2009 acquisition of UST and the December 2007 acquisition of Middleton. The change in goodwill and gross carrying amount of other intangible assets from December 31, 2008 to March 31, 2009, is as follows (in millions):

	Goodwill	Other Intangible Assets
Balance at December 31, 2008	$ 77	$ 3,046
Changes due to:		
Acquisition of UST	4,921	9,119

Balance at March 31, 2009	$ 4,998	$ 12,165

Table of Contents

Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 6. Divestitures:

As discussed in Note 1. *Background and Basis of Presentation*, on March 28, 2008, Altria Group, Inc. distributed all of its interest in PMI to Altria Group, Inc. stockholders in a tax-free distribution.

Summarized financial information for discontinued operations for the three months ended March 31, 2008 was as follows (in millions):

	For the Three Months Ended March 31, 2008
Net revenues	$ 15,376
Earnings before income taxes	$ 2,701
Provision for income taxes	(800)
Earnings from discontinued operations, net of income taxes	1,901
Earnings attributable to noncontrolling interests	(61)
Earnings from discontinued operations	$ 1,840

Note 7. Debt:

At March 31, 2009, Altria Group, Inc. had in place a multi-year revolving credit facility (the Revolving Facility) in the amount of $3.5 billion, which expires April 15, 2010. The Revolving Facility is used to support the issuance of commercial paper and to fund short-term cash needs. At March 31, 2009, Altria Group, Inc. had $835 million of consumer products commercial paper outstanding, thereby reducing the amount available under the Revolving Facility to approximately $2.7 billion at March 31, 2009. The commercial paper of Altria Group, Inc. and borrowings under the Revolving Facility are fully and unconditionally guaranteed by PM USA (see Note 15. *Condensed Consolidating Financial Information*).

UST Debt:

At the date of the acquisition, UST s debt consisted of the following:

$200 million senior notes at 7.25%, due 2009, interest payable semi-annually;

$40 million senior notes at the 3-month London Interbank Offered Rate (LIBOR) plus 90 basis points, due 2009, interest payable quarterly;

$600 million senior notes at 6.625%, due 2012, interest payable semi-annually;

$300 million senior notes at 5.75%, due 2018, interest payable semi-annually; and

$205 million under a revolving credit facility. This UST revolving credit facility was prepaid and terminated on January 6, 2009.

The notes are senior unsecured obligations and rank equally in right of payment with all of UST s existing and future senior unsecured and unsubordinated indebtedness. With respect to the $300 million senior notes,

Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

upon the occurrence of both (i) a change of control of UST and (ii) these notes ceasing to be rated investment grade by each of Moody s Investors Service, Inc. and Standard & Poor s Ratings Services within a specified time period, UST would be required to make an offer to purchase these notes at a price equal to 101% of the aggregate principal amount of such series, plus accrued and unpaid interest to the date of repurchase as and to the extent set forth in the terms of these notes.

Debt Issued:

In February 2009, Altria Group, Inc. issued $4.2 billion of senior unsecured long-term notes (the Notes). The net proceeds from the issuance of the Notes, along with available cash, were used to prepay all of the outstanding borrowings under the Bridge Facility. Upon such prepayment, the Bridge Facility was terminated. For the three months ended March 31, 2009, Altria Group, Inc. incurred structuring and arrangement fees of $87 million related to the Bridge Facility. These amounts are included in interest and other debt expense (income), net, in Altria Group, Inc. s condensed consolidated statements of earnings.

The obligations of Altria Group, Inc. under the Notes are fully and unconditionally guaranteed by PM USA (see Note 15. *Condensed Consolidating Financial Information*). The Notes contain the following terms:

$525 million at 7.75%, due 2014, interest payable semi-annually;

$2.2 billion at 9.25%, due 2019, interest payable semi-annually; and

$1.5 billion at 10.20%, due 2039, interest payable semi-annually.

The Notes are Altria Group, Inc. s senior unsecured obligations and rank equally in right of payment with all of Altria Group, Inc. s existing and future senior unsecured indebtedness. The interest rate payable on each series of Notes is subject to adjustment from time to time if the rating assigned to the Notes of such series by Moody s Investors Service, Inc. or Standard & Poor s Ratings Services is downgraded (or subsequently upgraded) as and to the extent set forth in the terms of the Notes. Upon the occurrence of both (i) a change of control of Altria Group, Inc. and (ii) the Notes ceasing to be rated investment grade by each of Moody s Investors Service, Inc., Standard & Poor s Ratings Services and Fitch Ratings within a specified time period, Altria Group, Inc. will be required to make an offer to purchase the Notes of each series at a price equal to 101% of the aggregate principal amount of such series, plus accrued interest to the date of repurchase as and to the extent set forth in the terms of the Notes.

Tender Offer for Altria Group, Inc. Notes:

In connection with the spin-off of PMI, in the first quarter of 2008, Altria Group, Inc. and its subsidiary, Altria Finance (Cayman Islands) Ltd., completed tender offers to purchase for cash $2.3 billion of notes and debentures denominated in U.S. dollars, and 373 million in euro-denominated bonds, equivalent to $568 million in U.S. dollars.

As a result of the tender offers and consent solicitations, Altria Group, Inc. recorded a pre-tax loss of $393 million, which included tender and consent fees of $371 million, on the early extinguishment of debt in the first quarter of 2008.

Table of Contents

Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 8. Financial Instruments:

At March 31, 2009, UST had an interest rate swap contract, and various forward foreign exchange contracts, primarily in connection with anticipated oak barrel purchases for Ste. Michelle s wine operations. These contracts, which are not material and will expire in 2009, were designated as effective cash flow hedges.

During the first quarter of 2008, Altria Group, Inc. purchased forward foreign exchange contracts to mitigate its exposure to changes in exchange rates from its euro-denominated debt. While these forward exchange contracts were effective as economic hedges, they did not qualify for hedge accounting treatment and, therefore, $36 million of gains for the three months ended March 31, 2008 relating to these contracts were reported in interest and other debt expense, net, in Altria Group, Inc. s condensed consolidated statement of earnings. These contracts and the related debt matured in the second quarter of 2008.

Within currency translation adjustments during the quarter ended March 31, 2008, Altria Group, Inc. recorded losses, net of income taxes, of $85 million, which represented effective hedges of net investments. The accumulated losses recorded as net investment hedges of foreign operations were recognized and recorded in connection with the PMI distribution.

Hedging activity affected accumulated other comprehensive earnings (losses), net of income taxes, as follows:

	For the Three Months Ended March 31,	
	2009	2008
	(in millions)	
Loss at beginning of period	$ -	$ (5)
Derivative losses transferred to earnings		89
Change in fair value		(270)
PMI spin-off		182
Loss as of March 31	$ -	$ (4)

Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 9. Earnings Per Share:

Effective January 1, 2009, Altria Group, Inc. adopted FASB Staff Position Emerging Issues Task Force 03-6-1 Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities, (FSP EITF 03-6-1). FSP EITF 03-6-1 states that unvested share-based payment awards that contain nonforfeitable rights to dividends are participating securities and therefore are included in the earnings per share (EPS) calculation pursuant to the two class method described in SFAS No. 128, Earnings per Share.

The calculations of basic and diluted EPS reflect the adoption of FSP EITF 03-6-1 and accordingly, prior period calculations have been adjusted retrospectively.

Basic and diluted EPS from continuing and discontinued operations were calculated using the following:

	For the Three Months Ended March 31,	
	2009	2008
	(in millions)	
Earnings from continuing operations	$ 589	$ 614
Earnings from discontinued operations		1,840
Net earnings attributable to Altria Group, Inc.	589	2,454
Less: Distributed and undistributed earnings attributable to unvested restricted and deferred shares	(2)	(7)
Earnings for basic EPS	587	2,447
Add: Undistributed earnings attributable to unvested restricted and deferred shares	-	3
Less: Undistributed earnings reallocated to unvested restricted and deferred shares	-	(3)
Earnings for diluted EPS	$ 587	$ 2,447
Weighted average shares for basic EPS	2,061	2,107
Add: Incremental shares from stock options	6	11
Weighted average shares for diluted EPS	2,067	2,118

For the three months ended March 31, 2009 computation, 1.2 million stock options were excluded from the calculation of weighted average shares for diluted EPS because their effects were antidilutive. For the three months ended March 31, 2008 computation, there were no antidilutive stock options.

Table of Contents

Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 10. Accumulated Other Comprehensive Earnings (Losses):

The following table sets forth the changes in each component of accumulated other comprehensive earnings (losses) (in millions):

	Currency Translation Adjustments	Changes in Net Loss and Prior Service Cost	Changes in Fair Value of Derivatives Accounted for as Hedges	Ownership of SABMiller s Other Comprehensive Earnings (Losses)	Accumulated Other Comprehensive Earnings (Losses)
Balances, January 1, 2008	$ 728	$ (960)	$ (5)	$ 348	$ 111
Period Change	233	(1,385)	(177)	(308)	(1,637)
Spin-off of Philip Morris International Inc.	(961)	124	182		(655)
Balances, December 31, 2008	-	(2,221)	-	40	(2,181)
Period Change		19		(9)	10
Balances, March 31, 2009	$ -	$ (2,202)	$ -	$ 31	$ (2,171)