ALTRIA GROUP, INC.
Form 10-Q
July 31, 2009
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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 June 30, 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 July 20, 2009, there were 2,071,359,145 shares outstanding of the registrant s common stock, par value $0.33 1/3 per share.

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ALTRIA GROUP, INC.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

Altria Group, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(in millions of dollars)

(Unaudited)

	June 30, 2009	December 31, 2008
ASSETS		
Consumer products		
Cash and cash equivalents	$ 544	$ 7,916
Receivables (less allowances of $2 in 2009 and $3 in 2008)	101	44
Inventories:		
Leaf tobacco	908	727
Other raw materials	183	145
Work in process	250	9
Finished product	540	188
	1,881	1,069
Deferred income taxes	1,561	1,690
Other current assets	795	357
Total current assets	4,882	11,076
Property, plant and equipment, at cost	6,081	5,344
Less accumulated depreciation	3,257	3,145
	2,824	2,199
Goodwill	4,998	77
Other intangible assets, net	12,149	3,039
Investment in SABMiller	4,780	4,261
Other assets	1,138	1,080
Total consumer products assets	30,771	21,732

Financial services		
Finance assets, net	5,031	5,451
Other assets	27	32
Total financial services assets	5,058	5,483
TOTAL ASSETS	$ 35,829	$ 27,215

See notes to condensed consolidated financial statements.

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Altria Group, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets (Continued)

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

(Unaudited)

	June 30, 2009	December 31, 2008
LIABILITIES		
Consumer products		
Short-term borrowings	$ 393	$ -
Current portion of long-term debt	775	135
Accounts payable	293	510
Accrued liabilities:		
Marketing	465	374
Taxes, except income taxes	686	98
Employment costs	150	248
Settlement charges	2,208	3,984
Other	1,340	1,128
Dividends payable	667	665
Total current liabilities	6,977	7,142
Long-term debt	11,184	6,839
Deferred income taxes	3,971	351
Accrued pension costs	1,592	1,393
Accrued postretirement health care costs	2,352	2,208
Other liabilities	1,246	1,208
Total consumer products liabilities	27,322	19,141
Financial services		
Debt	500	500
Deferred income taxes	4,220	4,644
Other liabilities	410	102
Total financial services liabilities	5,130	5,246
Total liabilities	32,452	24,387
Contingencies (Note 14)		
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	6,082	6,350
Earnings reinvested in the business	22,404	22,131

Accumulated other comprehensive losses	(2,015)	(2,181)
	27,406	27,235
Less cost of repurchased stock (734,700,625 shares in 2009 and 744,589,733 shares in 2008)	(24,063)	(24,407)
Total stockholders equity attributable to Altria Group, Inc.	3,343	2,828
Noncontrolling interests	2	
Total stockholders equity	3,345	2,828
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 35,829	$ 27,215

See notes to condensed consolidated financial statements.

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Altria Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Earnings

(in millions of dollars, except per share data)

(Unaudited)

	For the Six Months Ended June 30, 2009	For the Six Months Ended June 30, 2008
Net revenues	$ 11,242	$ 9,464
Cost of sales	3,908	4,055
Excise taxes on products	2,836	1,681
Gross profit	4,498	3,728
Marketing, administration and research costs	1,455	1,297
Exit costs	166	277
Gain on sale of corporate headquarters building		(404)
Amortization of intangibles	9	3
Operating income	2,868	2,555
Interest and other debt expense, net	623	2
Loss on early extinguishment of debt		393
Earnings from equity investment in SABMiller	(323)	(290)
Earnings from continuing operations before income taxes	2,568	2,450
Provision for income taxes	968	906
Earnings from continuing operations	1,600	1,544
Earnings from discontinued operations, net of income taxes		1,901
Net earnings	1,600	3,445
Net earnings attributable to noncontrolling interests	(1)	(61)
Net earnings attributable to Altria Group, Inc.	$ 1,599	$ 3,384
Amounts attributable to Altria Group, Inc. stockholders:		
Earnings from continuing operations	$ 1,599	$ 1,544
Earnings from discontinued operations		1,840
Net earnings attributable to Altria Group, Inc.	$ 1,599	$ 3,384
Per share data:		
Basic earnings per share:		
Continuing operations	$ 0.77	$ 0.74
Discontinued operations		0.88
Net earnings attributable to Altria Group, Inc.	$ 0.77	$ 1.62

Diluted earnings per share:				
Continuing operations	$	0.77	$	0.73
Discontinued operations				0.88
Net earnings attributable to Altria Group, Inc.	$	0.77	$	1.61
Dividends declared	$	0.64	$	1.04

See notes to condensed consolidated financial statements.

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Altria Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Earnings

(in millions of dollars, except per share data)

(Unaudited)

	For the Three Months Ended June 30, 2009	2008
Net revenues	$ 6,719	$ 5,054
Cost of sales	2,138	2,168
Excise taxes on products	2,125	875
Gross profit	2,456	2,011
Marketing, administration and research costs	738	649
Exit costs	38	19
Amortization of intangibles	3	1
Operating income	1,677	1,342
Interest and other debt expense, net	287	18
Earnings from equity investment in SABMiller	(217)	(147)
Earnings before income taxes	1,607	1,471
Provision for income taxes	596	541
Net earnings	1,011	930
Net earnings attributable to noncontrolling interests	(1)	
Net earnings attributable to Altria Group, Inc.	$ 1,010	$ 930
Per share data:		
Basic earnings per share attributable to Altria Group, Inc.	$ 0.49	$ 0.45
Diluted earnings per share attributable to Altria Group, Inc.	$ 0.49	$ 0.45
Dividends declared	$ 0.32	$ 0.29

See notes to condensed consolidated financial statements.

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Altria Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Stockholders Equity

for the Year Ended December 31, 2008 and

the Six Months Ended June 30, 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 Comprehensive Earnings (Losses)	Cost of Repurchased Stock	Comprehensive Earnings	Non-controlling Interests	Total Stockholders 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[1]						3,293	68	3,361
Exercise of stock options and other stock award activity		(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			1,599			1,599	1	1,600
Other comprehensive earnings, net of income taxes:								
Currency translation adjustments				1		1		1
Change in net loss and prior service cost				39		39		39
Ownership share of SABMiller other comprehensive earnings				126		126		126

Total other comprehensive earnings						166	-	166
Total comprehensive earnings[1]						1,765	1	1,766
Exercise of stock options and other stock award activity		(268)			344			76
Cash dividends declared ($0.64 per share)			(1,326)					(1,326)
Other							1	1
Balances, June 30, 2009	$ 935	$ 6,082	$ 22,404	$ (2,015)	$ (24,063)		$ 2	$ 3,345

(1) Total comprehensive earnings were $1,167 million for the quarter ended June 30, 2009, which consisted of total comprehensive earnings attributable to Altria Group, Inc. and noncontrolling interests of $1,166 million and $1 million, respectively. Total comprehensive earnings were $846 million for the quarter ended June 30, 2008, all of which was comprehensive earnings attributable to Altria Group, Inc. Total comprehensive earnings were $3,646 million for the six months ended June 30, 2008, which consisted of total comprehensive earnings attributable to Altria Group, Inc. and noncontrolling interests of $3,578 million and $68 million, respectively.

See notes to condensed consolidated financial statements.

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Altria Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(in millions of dollars)

(Unaudited)

	For the Six Months Ended June 30, 2009	2008
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		
Earnings from continuing operations - Consumer products	$ 1,481	$ 1,488
- Financial services	119	56
Earnings from discontinued operations		1,901
Net earnings	1,600	3,445
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	147	110
Deferred income tax provision	336	91
Earnings from equity investment in SABMiller	(323)	(290)
Exit costs, net of cash paid	(12)	145
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	(11)	(69)
Inventories	(16)	115
Accounts payable	(58)	(156)
Income taxes	(103)	(163)
Accrued liabilities and other current assets	337	(184)
Accrued settlement charges	(1,780)	(1,577)
Pension plan contributions	(30)	(17)
Pension provisions and postretirement, net	135	78
Other	147	(10)
Financial services		
Deferred income tax benefit	(424)	(119)
Other	190	67
Net cash provided by (used in) operating activities, continuing operations	135	(446)
Net cash provided by operating activities, discontinued operations		1,666

Net cash provided by operating activities	135	1,220

See notes to condensed consolidated financial statements.

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Altria Group, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Continued)

(in millions of dollars)

(Unaudited)

	For the Six Months Ended June 30, 2009	2008
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES		
Consumer products		
Capital expenditures	$ (112)	$ (85)
Acquisition of UST LLC, net of acquired cash	(10,244)	
Proceeds from sale of corporate headquarters building		525
Other	(48)	110
Financial services		
Investments in finance assets	(9)	
Proceeds from finance assets	553	148
Net cash (used in) provided by investing activities, continuing operations	(9,860)	698
Net cash used in investing activities, discontinued operations		(317)
Net cash (used in) provided by investing activities	(9,860)	381
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		
Consumer products		
Net issuance of short-term borrowings	188	1,711
Long-term debt issued	4,221	
Long-term debt repaid	(375)	(3,814)
Repurchase of Altria Group, Inc. common stock		(1,166)
Dividends paid on Altria Group, Inc. common stock	(1,324)	(3,168)
Issuance of Altria Group, Inc. common stock	51	72
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.		(721)
Other	(276)	(241)
Net cash provided by (used in) financing activities, continuing operations	2,353	(4,679)
Net cash used in financing activities, discontinued operations		(1,648)
Net cash provided by (used in) financing activities	2,353	(6,327)

Effect of exchange rate changes on cash and cash equivalents:		
Discontinued operations	-	(126)
Cash and cash equivalents, continuing operations:		
Decrease	(7,372)	(4,427)
Balance at beginning of period	7,916	4,842
Balance at end of period	$ 544	$ 415

See notes to condensed consolidated financial statements.

Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 1. Background and Basis of Presentation:

Background

At June 30, 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 LLC (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 27.4% economic and voting interest in SABMiller plc (SABMiller) at June 30, 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 LLC (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.

During the second quarter of 2008, Altria Group, Inc. repurchased 53.5 million shares of its common stock at an aggregate cost of approximately $1.2 billion, or an average price of $21.81 per share. In January 2009, Altria Group, Inc. suspended its $4.0 billion (2008 to 2010) share repurchase program, which is at the discretion of its Board of Directors.

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. As part of the preparation of the interim condensed consolidated financial statements, Altria Group, Inc. performed an evaluation of subsequent events occurring after the condensed consolidated balance sheet date of June 30, 2009, through July 31, 2009, the date the interim condensed consolidated financial statements were issued.

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.

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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.

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 comprehensive earnings or losses of SABMiller. As a result, total comprehensive earnings for the six months and three months ended June 30, 2008, which were previously understated by $110 million and overstated by $86 million, respectively, were 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), which requires transactions between an entity and a noncontrolling interest to be accounted for as equity transactions.

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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 8. *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. The pro forma results are not necessarily indicative of what actually would have occurred if the acquisition and related borrowings had been consummated on January 1, 2008.

	Pro Forma Six Months Ended June 30, 2008	Pro Forma Three Months Ended June 30, 2008
	(in millions, except per share data)	
Net revenues	$ 10,443	$ 5,560
Earnings from continuing operations	$ 1,270	$ 864
Net earnings	$ 3,171	$ 864
Net earnings attributable to Altria Group, Inc.	$ 3,109	$ 863
Per share data:		
Basic earnings per share:		
Continuing operations	$ 0.60	$ 0.41
Discontinued operations	0.88	
Net earnings attributable to Altria Group, Inc.	$ 1.48	$ 0.41
Diluted earnings per share:		
Continuing operations	$ 0.60	$ 0.41
Discontinued operations	0.88	
Net earnings attributable to Altria Group, Inc.	$ 1.48	$ 0.41

Pro forma results of Altria Group, Inc., for the six months ended June 30, 2009 assuming the acquisition had occurred on January 1, 2009, would not be materially different from the actual results reported for the six months ended June 30, 2009.

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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

- 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 the fair value 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 fair value of 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

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

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 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. For the six months and three months ended June 30, 2009, Altria Group, Inc. incurred acquisition-related charges, as well as restructuring and integration costs, consisting of the following:

	For the Six Months Ended June 30, 2009	For the Three Months Ended June 30, 2009
	(in millions)	
Exit costs	$ 125	$ 22
Integration costs	30	14
Inventory adjustments	23	6
Structuring and arrangement fees	88	1
Transaction costs	60	
Total	$ 326	$ 43

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Altria Group, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 3. Exit, Implementation and Integration Costs:

Pre-tax exit, implementation and integration costs for the six months and three months ended June 30, 2009 and 2008 consisted of the following (in millions):

	For the Six Months Ended June 30, 2009			
	Exit Costs	Implementation Costs	Integration Costs	Total
Cigarettes	$ 34	$ 50	$ -	$ 84
Smokeless products	123		28	151
Cigars			7	7
Wine	2		2	4
General corporate	7			7
Total	$ 166	$ 50	$ 37	$ 253

	For the Six Months Ended June 30, 2008			
	Exit Costs	Implementation Costs	Integration Costs	Total
Cigarettes	$ 29	$ 32	$ -	$ 61
Cigars			3	3
General corporate	248			248
Total	$ 277	$ 32	$ 3	$ 312

	For the Three Months Ended June 30, 2009			
	Exit Costs	Implementation Costs	Integration Costs	Total
Cigarettes	$ 15	$ 32	$ -	$ 47
Smokeless products	22		13	35
Cigars			4	4
Wine			1	1
General corporate	1			1
Total	$ 38	$ 32	$ 18	$ 88

For the Three Months Ended June 30, 2008

	Exit Costs	Implementation Costs	Integration Costs	Total
Cigarettes	$ 18	$ 17	$ -	$ 35
Cigars			1	1
General corporate	1			1
Total	$ 19	$ 17	$ 1	$ 37

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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 six months ended June 30, 2009 was as follows:

	Severance	Other	Total
		(in millions)	
Severance liability balance, January 1, 2009	$ 348	$ -	$ 348
Charges	112	54	166
Cash spent	(133)	(45)	(178)
Liability recorded in pension and postretirement plans, and other	(1)	(9)	(10)
Severance liability balance, June 30, 2009	$ 326	$ -	$ 326

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. will restructure its corporate, manufacturing, and sales and marketing functions as it completes the integration of UST into its operations and continues to focus on optimizing company-wide cost structures in light of ongoing declines in U.S. cigarette volumes, including the projected impact of the federal excise tax (FET) increase enacted in the first quarter of 2009.

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 six months ended June 30, 2009, the cigarettes segment, smokeless products segment, wine segment and Altria Group, Inc. reported pre-tax charges for this program of $2 million, $151 million, $4 million and $6 million, respectively, which included exit costs of $133 million and integration costs of $30 million. For the three months ended June 30, 2009, the smokeless products segment, wine segment and Altria Group, Inc. reported pre-tax charges for this program of $35 million, $1 million and $1 million, respectively, which included exit costs of $23 million and integration costs of $14 million.

The pre-tax integration costs were included in marketing, administrative and research costs in the condensed consolidated statements of earnings for the six months and three months ended June 30, 2009. Total pre-tax charges incurred since the inception of the program were $289 million. Pre-tax charges of approximately $107 million are expected for the remainder of 2009 for the program. Cash payments related to the program of $103 million and $87 million were made during the six months and three months ended June 30, 2009, respectively, for a total of $103 million since inception.

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. During the six months ended June 30, 2009, pre-tax charges of $1 million were incurred for this program. Pre-tax charges for the six months and three months ended June 30, 2008 were $193 million and $1 million, respectively, for this program. Total pre-tax charges incurred since the inception of this restructuring were $220 million as of June 30, 2009. These charges consist primarily of employee separation costs. Substantially all of the charges resulted in cash expenditures. Cash payments related to

this restructuring of $36 million and $8 million were made during the six months and three months ended June 30, 2009, respectively, for a total of $172 million since inception.

For the six months ended June 30, 2008, corporate exit costs also included $55 million of investment banking and legal fees associated with the PMI spin-off.

Manufacturing Optimization Program:

On April 22, 2009, PM USA announced that it would 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. Production in fact ceased on July 29, 2009. PM USA took this action to address ongoing cigarette volume declines including the projected impact of the recently enacted FET 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 production ceasing in July 2009. These pre-tax charges consist of employee separation costs of $353 million, accelerated depreciation of $284 million and other charges of $148 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 Six Months Ended June 30,		For the Three Months Ended June 30,	
	2009	2008	2009	2008
	(in millions)			
Exit costs	$ 32	$ 29	$ 15	$ 18
Implementation costs	50	32	32	17
Total	$ 82	$ 61	$ 47	$ 35

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 six months and three months ended June 30, 2009 and 2008, respectively. Total pre-tax charges incurred since the inception of the program were $571 million. Pre-tax charges of approximately $175 million are expected during the remainder of 2009 for the program. Cash payments related to the program of $74 million and $38 million were made during the six months and three months ended June 30, 2009, respectively, for a total of $170 million since inception.

Altria Group, Inc. and Subsidiaries

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(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 Six Months Ended June 30,		For the Three Months Ended June 30,	
	2009	2008	2009	2008
	(in millions)			
Service cost	$ 50	$ 50	$ 25	$ 25
Interest cost	173	153	86	76
Expected return on plan assets	(212)	(210)	(106)	(105)
Amortization:				
Net loss	55	34	28	17
Prior service cost	6	4	3	2
Other	(9)	38	3	2
Net periodic pension cost	$ 63	$ 69	$ 39	$ 17

Other pension (gain)/cost of $(9) million and $38 million for the six months ended June 30, 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 June 30, 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 $30 million were made to Altria Group, Inc. s pension plans during the six months ended June 30, 2009. Currently, Altria Group, Inc. anticipates additional employer contributions during the remainder of 2009 of approximately $22 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.

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Postretirement Benefit Plans

Net postretirement health care costs consisted of the following:

	For the Six Months Ended June 30,		For the Three Months Ended June 30,	
	2009	2008	2009	2008
	(in millions)			
Service cost	$ 20	$ 19	$ 10	$ 9
Interest cost	73	58	37	29
Amortization:				
Net loss	20	13	10	7
Prior service credit	(4)	(4)	(2)	(2)
Other	19	8	1	
Net postretirement health care costs	$ 128	$ 94	$ 56	$ 43

Other postretirement cost of $19 million and $8 million for the six months ended June 30, 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 June 30, 2009 condensed consolidated balance sheet.

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Altria Group, Inc. and Subsidiaries

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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	
	June 30, 2009	December 31, 2008	June 30, 2009	December 31, 2008
Cigarettes	$ -	$ -	$ 278	$ 283
Smokeless products	4,859		8,846	
Cigars	77	77	2,753	2,756
Wine	62		272	