ALTRIA GROUP, INC.
Form 10-Q
October 25, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2018

OR

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

For the transition period from to

Commission File Number 1-08940

Altria Group, Inc.
(Exact name of registrant as specified in its charter)

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

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

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

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

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

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

Large accelerated filer	þ	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨
		Emerging growth company	¨

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

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

At October 15, 2018, there were 1,879,045,481 shares outstanding of the registrant's common stock, par value $0.33 1/3 per share.

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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements.
Altria Group, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
(in millions of dollars)
(Unaudited)

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

See notes to condensed consolidated financial statements.

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

	September 30, 2018	December 31, 2017
Liabilities		
Current portion of long-term debt	$ 2,007	$ 864
Accounts payable	289	374
Accrued liabilities:		
Marketing	690	695
Employment costs	147	188
Settlement charges	3,230	2,442
Other	775	971
Dividends payable	1,508	1,258
Total current liabilities	8,646	6,792
Long-term debt	11,896	13,030
Deferred income taxes	5,427	5,247
Accrued pension costs	260	445
Accrued postretirement health care costs	1,983	1,987
Other liabilities	207	283
Total liabilities	28,419	27,784
Contingencies (Note 10)		
Redeemable noncontrolling interest	38	38
Stockholders' Equity		
Common stock, par value $0.33 1/3 per share (2,805,961,317 shares issued)	935	935
Additional paid-in capital	5,959	5,952
Earnings reinvested in the business	43,805	42,251
Accumulated other comprehensive losses	(2,034)	(1,897)
Cost of repurchased stock (925,893,647 shares at September 30, 2018 and 904,702,125 shares at December 31, 2017)	(33,171)	(31,864)
Total stockholders' equity attributable to Altria	15,494	15,377
Noncontrolling interests	2	3
Total stockholders' equity	15,496	15,380
Total Liabilities and Stockholders' Equity	$ 43,953	$ 43,202

See notes to condensed consolidated financial statements.

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

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

See notes to condensed consolidated financial statements.

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

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

See notes to condensed consolidated financial statements.

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

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

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

See notes to condensed consolidated financial statements.

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

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

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

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

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

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

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

See notes to condensed consolidated financial statements.

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

Note 1. Background and Basis of Presentation:

Background

At September 30, 2018, Altria Group, Inc.'s ("Altria") wholly-owned subsidiaries included Philip Morris USA Inc. ("PM USA"), which is engaged in the manufacture and sale of cigarettes in the United States; John Middleton Co. ("Middleton"), which is engaged in the manufacture and sale of machine-made large cigars and pipe tobacco and is a wholly-owned subsidiary of PM USA; Sherman Group Holdings, LLC and its subsidiaries ("Nat Sherman"), which are engaged in the manufacture and sale of super premium cigarettes and the sale of premium cigars; and UST LLC ("UST"), which through its wholly-owned subsidiaries, including U.S. Smokeless Tobacco Company LLC ("USSTC") and Ste. Michelle Wine Estates Ltd. ("Ste. Michelle"), is engaged in the manufacture and sale of smokeless tobacco products and wine. Altria's other operating companies included Nu Mark LLC ("Nu Mark"), a wholly-owned subsidiary that is engaged in the manufacture and sale of innovative tobacco products, and Philip Morris Capital Corporation ("PMCC"), a wholly-owned subsidiary that maintains a portfolio of finance assets, substantially all of which are leveraged leases. Other Altria wholly-owned subsidiaries included Altria Group Distribution Company, which provides sales and distribution services to certain Altria operating subsidiaries, and Altria Client Services LLC, which provides various support services in areas such as legal, regulatory, consumer engagement, finance, human resources and external affairs to Altria and its subsidiaries. Altria's access to the operating cash flows of its wholly-owned subsidiaries consists of cash received from the payment of dividends and distributions, and the payment of interest on intercompany loans by its subsidiaries. At September 30, 2018, Altria's principal wholly-owned subsidiaries were not limited by long-term debt or other agreements in their ability to pay cash dividends or make other distributions with respect to their equity interests.

At September 30, 2018, Altria had an approximate 10.1% ownership of Anheuser-Busch InBev SA/NV ("AB InBev"), which Altria accounts for under the equity method of accounting using a one-quarter lag. Altria receives cash dividends on its interest in AB InBev if and when AB InBev pays such dividends.

Dividends and Share Repurchases

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

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

Following the completion of the July 2015 share repurchase program, the Board of Directors authorized a new $1.0 billion share repurchase program in January 2018 that it expanded to $2.0 billion in May 2018 (as expanded, the "January 2018 share repurchase program"). During the nine and three months ended September 30, 2018, Altria repurchased 21.5 million shares and 6.2 million shares, respectively, of its common stock (at an aggregate cost of approximately $1,299 million and $367 million, respectively, and at an average price of $60.40 per share and $59.18 per share, respectively) under the January 2018 share repurchase program. At September 30, 2018, Altria had approximately $700 million remaining in the January 2018 share repurchase program. The timing of share repurchases under this program depends upon marketplace conditions and other factors, and the program remains subject to the discretion of the Board of Directors.

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Altria's share repurchase activity was as follows:

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

Basis of Presentation

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

These statements should be read in conjunction with the consolidated financial statements and related notes, which appear in Altria's Annual Report on Form 10-K for the year ended December 31, 2017.

On January 1, 2018, Altria adopted the following Accounting Standards Updates ("ASU"):
ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) and all related ASU amendments (collectively "ASU No. 2014-09");
ASU No. 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities and the related ASU amendment (collectively "ASU No. 2016-01");
ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments ("ASU No. 2016-15");
ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash ("ASU No. 2016-18"); and
ASU No. 2017-07, Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost ("ASU No. 2017-07").

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

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

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

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

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

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

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

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

Note 2. Revenues from Contracts with Customers:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Note 3. Investment in AB InBev:

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

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

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

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

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

Note 4. Benefit Plans:

Components of Net Periodic Benefit Cost (Income)

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

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