

ALTRIA GROUP, INC.
Form 10-K
February 25, 2016

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

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015

OR

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

For the transition period from _____ to _____

Commission File Number 1-08940

ALTRIA GROUP, INC.

(Exact name of registrant as specified in its charter)

Virginia

13-3260245

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

6601 West Broad Street, Richmond, Virginia

23230

(Address of principal executive offices)

(Zip Code)

804-274-2200

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Common Stock, \$0.33 1/3 par value

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K 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

Accelerated filer

Non-accelerated filer (Do not check if smaller reporting company) Smaller operating company

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

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As of June 30, 2015, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately \$96 billion based on the closing sale price of the common stock as reported on the New York Stock Exchange.

Class	Outstanding at February 12, 2016
Common Stock, \$0.33 ¹ / ₃ par value	1,957,931,815 shares

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for use in connection with its annual meeting of shareholders to be held on May 19, 2016, to be filed with the Securities and Exchange Commission on or about April 7, 2016, are incorporated by reference into Part III hereof.

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Part I

Item 1. Business.

General Development of Business

General: Altria Group, Inc. is a holding company incorporated in the Commonwealth of Virginia in 1985. At December 31, 2015, Altria Group, Inc.'s wholly-owned subsidiaries included Philip Morris USA Inc. ("PM USA"), which is engaged predominantly 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; 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 Group, Inc.'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 Group, Inc. wholly-owned subsidiaries included Altria Group Distribution Company, which provides sales, distribution and consumer engagement services to certain Altria Group, Inc. operating subsidiaries, and Altria Client Services LLC, which provides various support services in areas such as legal, regulatory, finance, human resources and external affairs, to Altria Group, Inc. and its subsidiaries.

At December 31, 2015, Altria Group, Inc. also held approximately 27% of the economic and voting interest of SABMiller plc ("SABMiller"), which Altria Group, Inc. accounts for under the equity method of accounting. On November 11, 2015, Anheuser-Busch InBev SA/NV ("AB InBev") announced its firm offer to effect a business combination with SABMiller in a cash and stock transaction. For further discussion, see Note 6. Investment in SABMiller to the consolidated financial statements in Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K ("Item 8").

Source of Funds: Because Altria Group, Inc. is a holding company, its access to the operating cash flows of its wholly-owned subsidiaries consists of cash received from the payment of dividends and distributions, and the payment of interest on intercompany loans by its subsidiaries. At December 31, 2015, Altria Group, Inc.'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. In addition, Altria Group, Inc. receives cash dividends on its interest in SABMiller if and when SABMiller pays such dividends.

Financial Information About Segments

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

other category due to the continued reduction of the lease portfolio of PMCC and the relative financial contribution of Altria Group, Inc.'s innovative tobacco products businesses to Altria Group, Inc.'s consolidated results.

Altria Group, Inc.'s chief operating decision maker reviews operating companies income to evaluate the performance of, and allocate resources to, the segments. Operating companies income for the segments is defined as operating income before amortization of intangibles and general corporate expenses. Interest and other debt expense, net, and provision for income taxes are centrally managed at the corporate level and, accordingly, such items are not presented by segment since they are excluded from the measure of segment profitability reviewed by Altria Group, Inc.'s chief operating decision maker. Net revenues and operating companies income (together with a reconciliation to earnings before income taxes) attributable to each such segment for each of the last three years are set forth in Note 15.

Segment Reporting to the consolidated financial statements in Item 8 ("Note 15"). Information about total assets by segment is not disclosed because such information is not reported to or used by Altria Group, Inc.'s chief operating decision maker. Segment goodwill and other intangible assets, net, are disclosed in Note 4. Goodwill and Other Intangible Assets, net to the consolidated financial statements in Item 8 ("Note 4"). The accounting policies of the segments are the same as those described in Note 2. Summary of Significant Accounting Policies to the consolidated financial statements in Item 8 ("Note 2").

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The relative percentages of operating companies income (loss) attributable to each reportable segment and the all other category were as follows:

	2015	2014	2013	
Smokeable products	87.4	% 87.2	% 84.5	%
Smokeless products	12.8	13.4	12.2	
Wine	1.8	1.7	1.4	
All other	(2.0) (2.3) 1.9	
Total	100.0	% 100.0	% 100.0	%

For items affecting the comparability of the relative percentages of operating companies income (loss) attributable to each reportable segment, see Note 15.

Narrative Description of Business

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

Tobacco Space

Altria Group, Inc.'s tobacco operating companies include PM USA, USSTC and other subsidiaries of UST, Middleton and Nu Mark. Altria Group Distribution Company provides sales,

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distribution and consumer engagement services to Altria Group, Inc.'s tobacco operating companies.

The products of Altria Group, Inc.'s tobacco subsidiaries include smokeable tobacco products comprised of cigarettes manufactured and sold by PM USA and machine-made large cigars and pipe tobacco manufactured and sold by Middleton; smokeless tobacco products, substantially all of which are manufactured and sold by USSTC; and innovative tobacco products, including e-vapor products manufactured and sold by Nu Mark.

Cigarettes: PM USA is the largest cigarette company in the United States, with total cigarette shipment volume in the United States of approximately 126.0 billion units in 2015, an increase of 0.5% from 2014. Marlboro, the principal cigarette brand of PM USA, has been the largest-selling cigarette brand in the United States for the past 40 years.

Cigars: Middleton is engaged in the manufacture and sale of machine-made large cigars and pipe tobacco to customers, substantially all of which are located in the United States. Middleton sources a portion of its cigars from an importer through a third-party contract manufacturing arrangement. Total shipment volume for cigars was approximately 1.3 billion units in 2015, an increase of 4.2% from 2014. Black & Mild is the principal cigar brand of Middleton.

Smokeless tobacco products: USSTC is the leading producer and marketer of moist smokeless tobacco ("MST") products. The smokeless products segment includes the premium brands, Copenhagen and Skoal, value brands, Red Seal and Husky, and Marlboro Snus, a premium PM USA spit-free smokeless tobacco product. Substantially all of the smokeless tobacco products are manufactured and sold to customers in the United States. Total smokeless products shipment volume was 813.5 million units in 2015, an increase of 2.5% from 2014.

Innovative tobacco products: Nu Mark participates in the e-vapor category and has developed and commercialized other innovative tobacco products. In addition, Nu Mark sources the production of its e-vapor products through overseas contract manufacturing arrangements. In 2013, Nu Mark introduced MarkTen e-vapor products. In April 2014, Nu Mark acquired the e-vapor business of Green Smoke, Inc. and its affiliates ("Green Smoke"), which has been selling e-vapor products since 2009. For a further discussion of the acquisition of Green Smoke, see Note 3. Acquisition of Green Smoke to the consolidated financial statements in Item 8 ("Note 3").

In December 2013, Altria Group, Inc.'s subsidiaries entered into a series of agreements with Philip Morris International Inc. ("PMI") pursuant to which Altria Group, Inc.'s subsidiaries provide an exclusive license to PMI to sell Altria Group, Inc.'s subsidiaries' e-vapor products outside the United States, and PMI's subsidiaries provide an exclusive license to Altria Group, Inc.'s subsidiaries to sell two of PMI's heated tobacco product technologies in the United States. Further, in July 2015, Altria Group, Inc. announced the expansion of its strategic framework with PMI to include a joint research, development and

technology-sharing agreement. Under this agreement, Altria Group, Inc. and PMI will collaborate to develop e-vapor products for commercialization in the United States by Altria Group, Inc. and in markets outside the United States by PMI. This agreement also provides for exclusive technology cross licenses, technical information sharing and cooperation on scientific assessment, regulatory engagement and approval related to e-vapor products.

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

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

In June 2009, the President of the United States of America signed into law the Family Smoking Prevention and Tobacco Control Act ("FSPTCA"), which provides the United States Food and Drug Administration ("FDA") with broad authority to regulate the design, manufacture, packaging, advertising, promotion, sale and distribution of cigarettes, cigarette tobacco and smokeless tobacco products; the authority to require disclosures of related information; and the authority to enforce the FSPTCA and related regulations. The FSPTCA imposes restrictions on the advertising, promotion, sale and distribution of tobacco products, including at retail. The law also grants the FDA authority to extend the FSPTCA application, by regulation, to all other tobacco products, including cigars, pipe tobacco and

e-vapor products. In April 2014, the FDA issued proposed regulations for other tobacco products, which as proposed would include machine-made large cigars, e-vapor products, pipe tobacco and oral tobacco-derived nicotine products marketed and sold by some of Altria Group, Inc.'s tobacco subsidiaries. The proposed regulations would impose the FSPTCA regulatory framework on products manufactured, marketed and sold by Middleton and Nu Mark with potentially wide-ranging impact on their businesses. PM USA and USSTC are subject to quarterly user fees as a result of the FSPTCA. Their respective FDA user fee amounts are determined by an allocation formula administered by the FDA that is based on the respective market shares of manufacturers and importers of each kind of tobacco product. PM USA, USSTC and other U.S. tobacco manufacturers have agreed to other marketing restrictions in the United States as part of the settlements of state health care cost recovery actions.

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

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Tobacco production in the United States was historically subject to government controls, including the production control programs administered by the United States Department of Agriculture (the “USDA”). In October 2004, the Fair and Equitable Tobacco Reform Act of 2004 (“FETRA”), which applied to PM USA, Middleton and USSTC, was signed into law. FETRA eliminated the federal tobacco quota and price support program through an industry-funded buy-out of tobacco growers and quota holders. The cost of the 10-year buy-out, which expired after the third quarter of 2014, was approximately \$9.5 billion and was paid by manufacturers and importers of each kind of tobacco product subject to federal excise tax (“FET”). The cost was allocated based on the relative market shares of manufacturers and importers of each kind of tobacco product. As a result of FETRA, Altria Group, Inc.’s subsidiaries recorded charges to cost of sales of approximately \$0.3 billion for the year ended December 31, 2014 and approximately \$0.4 billion for the year ended December 31, 2013.

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

Middleton purchases burley and dark air-cured tobaccos of various grades and styles through leaf merchants.

Middleton does not have a contract growing program.

Altria Group, Inc.’s tobacco subsidiaries believe there is an adequate supply of tobacco in the world markets to satisfy their current and anticipated production requirements. See Item 1A. Risk Factors of this Annual Report on Form 10-K (“Item 1A”) and Tobacco Space - Business Environment - Price, Availability and Quality of Agricultural Products in Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations of this Annual Report on Form 10-K for a discussion of risks associated with tobacco supply.

Wine

Ste. Michelle is a producer and supplier of premium varietal and blended table wines and of sparkling wines. Ste. Michelle is a leading producer of Washington state wines, primarily Chateau Ste. Michelle, Columbia Crest and 14 Hands, and owns wineries in or distributes wines from several other domestic and foreign wine regions. Ste. Michelle’s total 2015 wine shipment volume of approximately 8.9 million cases increased 6.2% from 2014.

Ste. Michelle holds an 85% ownership interest in Michelle-Antinori, LLC, which owns Stag’s Leap Wine Cellars in Napa Valley. Ste. Michelle also owns Conn Creek in Napa Valley and Erath in Oregon. In addition, Ste. Michelle imports and markets Antinori, Torres and Villa Maria Estate wines and Champagne Nicolas Feuillatte in the United States.

Distribution, Competition and Raw Materials: Key elements of Ste. Michelle’s strategy are expanded domestic distribution of its wines, especially in certain account categories such as restaurants, wholesale clubs, supermarkets, wine shops and mass merchandisers, and a focus on improving product mix to higher-priced, premium products.

Ste. Michelle’s business is subject to significant competition, including competition from many larger, well-established domestic and international companies, as well as from many smaller wine producers. Wine segment competition is primarily based on quality, price, consumer and trade wine tastings, competitive wine judging, third-party acclaim and advertising. Substantially all of Ste. Michelle’s sales occur in the United States through state-licensed distributors. Federal, state and local governmental agencies regulate the beverage alcohol industry through various means, including licensing requirements, pricing rules, labeling and advertising restrictions, and distribution and production policies. Further regulatory restrictions or additional excise or other taxes on the manufacture and sale of alcoholic beverages may have an adverse effect on Ste. Michelle’s wine business.

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

Financial Services Business

In 2003, PMCC ceased making new investments and began focusing exclusively on managing its portfolio of finance assets in order to maximize its operating results and cash flows from its existing lease portfolio activities and asset sales. For further information on PMCC’s finance assets, see Note 7. Finance Assets, net to the consolidated financial

statements in Item 8 (“Note 7”).

Other Matters

Customers: The largest customer of PM USA, USSTC and Middleton, McLane Company, Inc., accounted for approximately 26% of Altria Group, Inc.’s consolidated net revenues for the year ended December 31, 2015, and 27% for each of the years ended December 31, 2014 and 2013. In addition, Core-Mark Holding Company, Inc. accounted for approximately 10% of Altria Group, Inc.’s consolidated net revenues for the year ended December 31, 2015. Substantially all of these net revenues were reported in the smokeable products and smokeless products segments. Sales to three distributors accounted for approximately 66%, 67% and 66% of net revenues for the wine segment for the years ended December 31, 2015, 2014 and 2013, respectively.

Employees: At December 31, 2015, Altria Group, Inc. and its subsidiaries employed approximately 8,800 people.

Executive Officers of Altria Group, Inc.: The disclosure regarding executive officers is included in Item 10. Directors, Executive Officers and Corporate Governance - Executive Officers as of February 12, 2016 of this Annual Report on Form 10-K.

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Research and Development: Research and development expense for the years ended December 31, 2015, 2014 and 2013 is set forth in Note 17. Additional Information to the consolidated financial statements in Item 8.

Intellectual Property: Trademarks are of material importance to Altria Group, Inc. and its operating companies, and are protected by registration or otherwise. In addition, as of December 31, 2015, the portfolio of over 600 United States patents owned by Altria Group, Inc.'s businesses, as a whole, was material to Altria Group, Inc. and its tobacco businesses. However, no one patent or group of related patents was material to Altria Group, Inc.'s business or its tobacco businesses as of December 31, 2015. Altria Group, Inc.'s businesses also have proprietary secrets, technology, know-how, processes and other intellectual property rights that are protected by appropriate confidentiality measures. Certain trade secrets are material to Altria Group, Inc. and its tobacco and wine businesses.

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

Financial Information About Geographic Areas

Substantially all of Altria Group, Inc.'s net revenues are from sales generated in the United States for each of the last three fiscal years and substantially all of Altria Group, Inc.'s long-lived assets are located in the United States.

Available Information

Altria Group, Inc. is required to file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission ("SEC"). Investors may read and copy any document that Altria Group, Inc. files, including this Annual Report on Form 10-K, at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. Investors may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet site at <http://www.sec.gov> that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, from which investors can electronically access Altria Group, Inc.'s SEC filings.

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

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

Item 1A. Risk Factors

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

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

We cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties and assumptions that may prove to be _____

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

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inaccurate. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. You should bear this in mind as you consider forward-looking statements and whether to invest in or remain invested in Altria Group, Inc.'s securities. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, we are identifying important factors that, individually or in the aggregate, could cause actual results and outcomes to differ materially from those contained in any forward-looking statements made by us; any such statement is qualified by reference to the following cautionary statements. We elaborate on these and other risks we face throughout this document, particularly in the "Business Environment" sections preceding our discussion of the operating results of our subsidiaries' businesses in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations of this Annual Report on Form 10-K ("Item 7"). You should understand that it is not possible to predict or identify all risk factors. Consequently, you should not consider the following to be a complete discussion of all potential risks or uncertainties. We do not undertake to update any forward-looking statement that we may make from time to time except as required by applicable law.

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

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

Litigation is subject to uncertainty and it is possible that there could be adverse developments in pending or future cases. An unfavorable outcome or settlement of pending tobacco-related or other litigation could encourage the commencement of additional litigation. Damages claimed in some tobacco-related or other litigation are significant and, in certain cases, range in the billions of dollars. The variability in pleadings in multiple jurisdictions, together with the actual experience of management in litigating claims, demonstrate that the monetary relief that may be specified in a lawsuit bears little relevance to the ultimate outcome. In certain cases, plaintiffs claim that defendants' liability is joint and several. In such cases, Altria Group, Inc. or its subsidiaries may face the risk that one or more co-defendants decline or otherwise fail to participate in the bonding required for an appeal or to pay their proportionate or jury-allocated share of a judgment. As a result, Altria Group, Inc. or its subsidiaries under certain circumstances may have to pay more than their proportionate share of any bonding- or judgment-related amounts. Furthermore, in those cases where plaintiffs are successful, Altria Group, Inc.

or its subsidiaries may also be required to pay interest and attorneys' fees.

Although PM USA has historically been able to obtain required bonds or relief from bonding requirements in order to prevent plaintiffs from seeking to collect judgments while adverse verdicts have been appealed, there remains a risk that such relief may not be obtainable in all cases. This risk has been substantially reduced given that 47 states and Puerto Rico now limit the dollar amount of bonds or require no bond at all. As discussed in Note 18, Contingencies to the consolidated financial statements in Item 8 ("Note 18"), tobacco litigation plaintiffs have challenged the constitutionality of Florida's bond cap statute in several cases and plaintiffs may challenge state bond cap statutes in other jurisdictions as well. Such challenges may include the applicability of state bond caps in federal court. Although we cannot predict the outcome of such challenges, it is possible that the consolidated results of operations, cash flows or financial position of Altria Group, Inc., or the businesses of one or more of its subsidiaries, could be materially adversely affected in a particular fiscal quarter or fiscal year by an unfavorable outcome of one or more such challenges.

In certain litigation, PM USA faces potentially significant non-monetary remedies. For example, in the lawsuit brought by the United States Department of Justice, discussed in Note 18, the district court did not impose monetary penalties but ordered significant non-monetary remedies, including the issuance of "corrective statements" in various media.

Altria Group, Inc. and its subsidiaries have achieved substantial success in managing litigation. Nevertheless, litigation is subject to uncertainty, and significant challenges remain.

It is possible that the consolidated results of operations, cash flows or financial position of Altria Group, Inc., or the businesses of one or more of its subsidiaries, could be materially adversely affected in a particular fiscal quarter or fiscal year by an unfavorable outcome or settlement of certain pending litigation. Altria Group, Inc. and each of its subsidiaries named as a defendant believe, and each has been so advised by counsel handling the respective cases, that it has valid defenses to the litigation pending against it, as well as valid bases for appeal of adverse verdicts. Each of the companies has defended, and will continue to defend, vigorously against litigation challenges. However, Altria Group, Inc. and its subsidiaries may enter into settlement discussions in particular cases if they believe it is in the best interests of Altria Group, Inc. to do so. See Item 3. Legal Proceedings of this Annual Report on Form 10-K (“Item 3”), Note 18 and Exhibits 99.1 and 99.2 to this Annual Report on Form 10-K for a discussion of pending tobacco-related litigation.

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

As described in Tobacco Space - Business Environment in Item 7, PM USA faces significant governmental and private sector actions, including efforts aimed at reducing the incidence of

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tobacco use and efforts seeking to hold PM USA responsible for the adverse health effects associated with both smoking and exposure to environmental tobacco smoke. These actions, combined with the diminishing social acceptance of smoking, have resulted in reduced cigarette industry volume, and we expect that these factors will continue to reduce cigarette consumption levels.

Actions by the FDA and other federal, state or local governments or agencies, including those specific actions described in Tobacco Space - Business Environment in Item 7, may impact the consumer acceptability of tobacco products, limit adult tobacco consumer choices, delay or prevent the launch of new or modified tobacco products or products with claims of reduced risk, require the recall or other removal of tobacco products from the marketplace (for example as a result of product contamination or a determination by the FDA that one or more tobacco products do not satisfy the statutory requirements for substantial equivalence), restrict communications to adult tobacco consumers, restrict the ability to differentiate tobacco products, create a competitive advantage or disadvantage for certain tobacco companies, impose additional manufacturing, labeling or packing requirements, interrupt manufacturing or otherwise significantly increase the cost of doing business, or restrict or prevent the use of specified tobacco products in certain locations or the sale of tobacco products by certain retail establishments. Any one or more of these actions may have a material adverse impact on the business, consolidated results of operations, cash flows or financial position of Altria Group, Inc. and its tobacco subsidiaries. See Tobacco Space - Business Environment in Item 7 for a more detailed discussion of these risks.

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

Tobacco products are subject to substantial excise taxes, and significant increases in tobacco product-related taxes or fees have been proposed or enacted and are likely to continue to be proposed or enacted within the United States at the state, federal and local levels. Tax increases are expected to continue to have an adverse impact on sales of the tobacco products of our tobacco subsidiaries through lower consumption levels and the potential shift in adult consumer purchases from the premium to the non-premium or discount segments or to other low-priced or low-taxed tobacco products or to counterfeit and contraband products. Such shifts may have an adverse impact on the reported share performance of tobacco products of Altria Group, Inc.'s tobacco subsidiaries. For further discussion, see Tobacco Space - Business Environment - Excise Taxes in Item 7.

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

Each of Altria Group, Inc.'s tobacco subsidiaries operates in highly competitive tobacco categories. Significant methods of

competition include product quality, taste, price, product innovation, marketing, packaging, distribution and promotional activities. A highly competitive environment could negatively impact the profitability, market share and shipment volume of our tobacco subsidiaries, which could have an adverse effect on the consolidated results of operations or cash flows of Altria Group, Inc.

PM USA also faces competition from lowest priced brands sold by certain United States and foreign manufacturers that have cost advantages because they are not parties to settlements of certain tobacco litigation in the United States. These settlements, among other factors, have resulted in substantial cigarette price increases. These manufacturers may fail to comply with related state escrow legislation or may avoid escrow deposit obligations on the majority of their sales by concentrating on certain states where escrow deposits are not required or are required on fewer than all such manufacturers' cigarettes sold in such states. Additional competition has resulted from diversion into the United States market of cigarettes intended for sale outside the United States, the sale of counterfeit cigarettes by third parties, the sale of cigarettes by third parties over the Internet and by other means designed to avoid collection of applicable taxes, and imports of foreign lowest priced brands. USSTC faces significant competition in the smokeless tobacco category and has experienced consumer down-trading to lower-priced brands. In the cigar category, additional competition has resulted from increased imports of machine-made large cigars manufactured offshore.

Altria Group, Inc. and its subsidiaries may be unsuccessful in anticipating changes in adult consumer preferences, responding to changes in consumer purchase behavior or managing through difficult competitive and economic conditions.

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

promote brand equity successfully;

anticipate and respond to new and evolving adult consumer preferences;

develop, manufacture, market and distribute products that appeal to adult consumers (including, where appropriate, through arrangements with, or investments in, third parties);

improve productivity; and

protect or enhance margins through cost savings and price increases.

See Tobacco Space - Business Environment - Summary in Item 7 for additional discussion concerning evolving adult tobacco consumer preferences, including increased consumer awareness of, and expenditures on, e-vapor products.

Continued growth of this product category could further contribute to reductions in cigarette consumption levels and cigarette industry sales volume

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and could adversely affect the growth rates of other tobacco products.

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

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

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

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

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

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

do succeed, our tobacco subsidiaries may be at a competitive disadvantage.

Significant changes in tobacco leaf price, availability or quality could have an adverse effect on the profitability and business of Altria Group, Inc.'s tobacco subsidiaries.

Any significant change in tobacco leaf prices, quality or availability could adversely affect our tobacco subsidiaries' profitability and business. For further discussion, see Tobacco Space - Business Environment - Price, Availability and Quality of Agricultural Products in Item 7.

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

Altria Group, Inc.'s tobacco subsidiaries face risks inherent in reliance on a few significant facilities and a small number of significant suppliers. A natural or man-made disaster or other disruption that affects the manufacturing operations of any of Altria Group, Inc.'s tobacco subsidiaries or the operations of any significant suppliers of any of Altria Group, Inc.'s tobacco subsidiaries could adversely impact the operations of the affected subsidiaries. An extended disruption in operations experienced by one or more of Altria Group, Inc.'s subsidiaries or significant suppliers could have a material adverse effect on the business, the consolidated results of operations, cash flows or

financial position of Altria Group, Inc. and its tobacco subsidiaries.

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

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

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

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

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

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

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

Altria Group, Inc.'s reported earnings from and carrying value of its equity investment in SABMiller may be adversely affected by unfavorable foreign currency exchange rates and other factors.

For purposes of financial reporting, the earnings from and carrying value of our equity investment in SABMiller are translated into U.S. dollars from various local currencies. During times of a strengthening U.S. dollar against these currencies, our reported earnings from and carrying value of our equity investment in SABMiller will be reduced because the local currencies will translate into fewer U.S. dollars. The earnings from and carrying value of our equity investment in SABMiller are also subject to the risks encountered by SABMiller in its business.

Altria Group, Inc. may be required to write down intangible assets, including goodwill, due to impairment, which would reduce earnings.

We periodically calculate the fair value of our reporting units and intangible assets to test for impairment. This calculation may be affected by several factors, including general economic conditions, regulatory developments, changes in category growth rates as a result of changing adult consumer preferences, success of planned new product introductions, competitive activity and tobacco-related taxes. If an impairment is determined to exist, we will incur impairment losses, which will reduce our earnings.

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

Ste. Michelle's business is subject to significant competition, including from many large, well-established domestic and international companies. The adequacy of Ste. Michelle's grape supply is influenced by consumer demand for wine in relation to industry-wide production levels as well as by weather and crop

conditions, particularly in eastern Washington. Supply shortages related to any one or more of these factors could increase production costs and wine prices, which ultimately may have a negative impact on Ste. Michelle's sales. In addition, federal, state and local governmental agencies regulate the alcohol beverage industry through various means, including licensing requirements, pricing, labeling and advertising restrictions, and distribution and production policies. New regulations or revisions to existing regulations, resulting in further restrictions or taxes on the manufacture and sale of alcoholic beverages, may have an adverse effect on Ste. Michelle's wine business. For further discussion, see Wine Segment - Business Environment in Item 7.

The failure of Altria Group, Inc.'s information systems or service providers' information systems to function as intended, or cyberattacks or security breaches, could result in loss of revenue, assets, personal data, intellectual property, trade secrets or other sensitive data, violation of applicable privacy and data security laws, reputational harm and significant costs.

Altria Group, Inc. and its subsidiaries rely on information systems to help manage business processes, collect and interpret business data, comply with regulatory, financial reporting and tax requirements, engage in marketing and e-commerce activities, collect and store sensitive data and confidential information, and communicate internally and externally with employees, investors, suppliers, trade customers, adult consumers and others. Many of these information systems are managed by third-party service providers. We have implemented administrative, technical and physical safeguards, including testing and auditing protocols, backup systems and business continuity plans, intended to protect our systems and data. However, because the techniques used in cyberattacks and security breaches change frequently and often are not recognized until launched against a target, we may be unable to anticipate these

techniques or to implement adequate preventative measures. To date, interruptions of our information systems have been infrequent and have not had a material impact on our operations. Failure of our systems or service providers' systems to function as intended or cyberattacks or security breaches by parties intent on extracting or corrupting information or otherwise disrupting business processes could result in loss of revenue, assets, personal data, intellectual property, trade secrets or other sensitive and confidential data, violation of applicable privacy and data security laws, damage to the reputation of our companies and their brands, legal challenges and significant remediation and other costs to Altria Group, Inc. and its subsidiaries.

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

From time to time, Altria Group, Inc. and its subsidiaries are subject to governmental investigations on a range of matters. We cannot predict whether new investigations may be commenced or the outcome of such investigations, and it is possible that our

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business could be materially adversely affected by an unfavorable outcome of future investigations.

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

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

AB InBev's proposed transaction to effect a business combination with SABMiller may not be completed within the anticipated time frame or at all, which could have a negative effect on the value of our equity investment in SABMiller.

As described in more detail in Note 6, Investment in SABMiller to the consolidated financial statements in Item 8 ("Note 6"), on November 11, 2015, AB InBev announced its firm offer to effect a business combination with SABMiller. The proposed transaction is subject to a number of closing conditions, including shareholder approvals of both SABMiller and AB InBev, and receipt of the required regulatory approvals. These conditions may not be satisfied or may take longer than expected to be satisfied. The transaction is also subject to other risks and uncertainties over which Altria Group, Inc. has no control. We cannot provide any assurance that the proposed transaction will be completed or that there will not be a delay in the completion of the proposed transaction. If the transaction is not completed or is subject to a delay, the value of our investment in SABMiller could be adversely affected.

If AB InBev's proposed transaction to effect a business combination with SABMiller is completed, AB InBev may not achieve the intended benefits of the transaction, which could have a negative effect on our reported earnings from and carrying value of our equity investment in the combined company.

There can be no assurance that AB InBev will be able to successfully integrate SABMiller's business or otherwise realize the expected benefits of the proposed transaction. Any of these outcomes could result in increased costs to the combined company and dilution to its shareholders, and could adversely affect the combined company's financial condition and Altria Group, Inc.'s reported earnings from and carrying value of our investment in the combined company.

If AB InBev's proposed transaction to effect a business combination with SABMiller is completed, we will receive a substantial portion of our transaction consideration in the form of restricted shares. Furthermore, the number of restricted shares we expect to receive is, under certain circumstances described below, subject to proration, which if it were to occur would decrease the number of restricted shares and increase the amount of cash that we receive in connection with the transaction. Any cash we receive will be subject to taxation and to risks associated with changes in the value of the U.S. dollar versus the British pound.

Altria Group, Inc. has committed to elect the partial share alternative ("PSA") in the transaction. Therefore, upon completion of the proposed transaction, we expect to receive a substantial portion of our transaction consideration in the form of shares that will be subject to certain limitations and restrictions, including a five-year restriction on sale or transfer, subject to limited exceptions. These transfer restrictions will require us to bear the risks associated with our investment in the combined company for a five-year period following completion of the proposed transaction. Further, while we have committed to elect the PSA in the transaction, our election is subject to proration to the extent that other SABMiller shareholders also elect this alternative and these elections exceed the maximum number of shares that AB InBev's firm offer makes available to those SABMiller shareholders that elect the PSA. If we receive more cash and less equity consideration than we currently expect, we will be subject to additional tax liabilities, our percentage ownership of the combined company will be reduced and we may be unable to account for our investment under the equity method of accounting as we currently do for our investment in SABMiller.

In addition, the cash consideration we expect to receive will be denominated in British pounds. Based on the British pound to U.S. dollar exchange rate on November 10, 2015, the trading day prior to the announcement of the proposed transaction, we anticipate receiving approximately \$2.5 billion in pre-tax cash. We entered into a derivative financial instrument in the form of a put option to hedge our exposure to foreign currency exchange rate movements. We are exposed to the risk of default by, or failure of, our counterparty financial institution to perform under the contractual obligation of the derivative financial instrument. In addition, as indicated above, we may receive more cash consideration than we anticipate because our election of the PSA is subject to proration and, therefore, we may not be successful in effectively mitigating our foreign currency exchange rate risk on any additional cash proceeds above the \$2.5 billion in pre-tax cash that we may receive. As a result of either of the above risks, Altria Group, Inc. could incur a decrease in the amount of the gain recorded upon the completion of the AB InBev and SABMiller transaction.

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If AB InBev's proposed transaction to effect a business combination with SABMiller is completed, our tax treatment of the transaction may be challenged.

While we expect the equity consideration that we receive in the transaction to qualify for tax-deferred treatment, we cannot provide any assurance that federal and state tax authorities will not challenge the expected tax treatment and, if they do, what the outcome of any such challenge will be. It is also possible that the tax treatment of the dividends Altria Group, Inc. expects to receive from the combined company may not be as favorable as that applied to the dividends we receive from SABMiller.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

The property in Richmond, Virginia that serves as the headquarters facility for Altria Group, Inc., PM USA, USSTC, Middleton, Nu Mark and certain other subsidiaries is under lease.

At December 31, 2015, the smokeable products segment used four manufacturing and processing facilities. PM USA owns and operates two tobacco manufacturing and processing facilities located in the Richmond, Virginia area that are used in the manufacturing and processing of cigarettes. Middleton owns and operates two manufacturing and processing facilities - one in King of Prussia, Pennsylvania and one in Limerick, Pennsylvania - that are used in the manufacturing and processing of cigars and pipe tobacco. In addition, PM USA owns a research and technology center in Richmond, Virginia that is leased to an affiliate, Altria Client Services LLC.

At December 31, 2015, the smokeless products segment used four smokeless tobacco manufacturing and processing facilities located in Franklin Park, Illinois; Hopkinsville, Kentucky; Nashville, Tennessee; and Richmond, Virginia, all of which are owned and operated by USSTC. In 2016, USSTC expects to complete construction of a new facility located in Hopkinsville, Kentucky and expects the facility to be operational in the second half of 2016.

At December 31, 2015, the wine segment used 11 wine-making facilities - seven in Washington, three in California and one in Oregon. All of these facilities are owned and operated by Ste. Michelle, with the exception of a facility that is leased by Ste. Michelle in Washington. In addition, in order to support the production of its wines, the wine segment used vineyards in Washington, California and Oregon that are leased or owned by Ste. Michelle.

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

Item 3. Legal Proceedings.

The information required by this Item is included in Note 18 and Exhibits 99.1 and 99.2 to this Annual Report on Form 10-K. Altria Group, Inc.'s consolidated financial statements and

accompanying notes for the year ended December 31, 2015 were filed on Form 8-K on January 28, 2016 (such consolidated financial statements and accompanying notes are also included in Item 8). The following summarizes certain developments in Altria Group, Inc.'s litigation since the filing of such Form 8-K.

Recent Developments

Smoking and Health Litigation

Non-Engle Progeny Litigation:

In Pooshs, on February 8, 2016, a California federal court jury returned a verdict in favor of PM USA.

In Bullock, on February 8, 2016, the district court denied plaintiff's motion for a new trial.

In Schwarz, on February 10, 2016, PM USA filed a petition for writ of certiorari with the United States Supreme Court.

Engle Progeny Trial Results:

In McCoy, on January 27, 2016, plaintiff filed a notice of cross-appeal to the Florida Fourth District Court of Appeal.

In Ewing, on January 28, 2016, an Escambia County jury returned a verdict in favor of PM USA.

In Pollari, on January 28, 2016, PM USA posted a bond in the amount of \$2.5 million.

On January 29, 2016, the Florida Supreme Court upheld the trial court's decision in favor of plaintiff in R. Cohen. On February 1, 2016, the Florida Supreme Court upheld the trial courts' decisions in favor of plaintiffs in Kayton and Putney. On February 3, 2016, defendants filed a motion for clarification in Putney. On February 8, 2016, in Kayton

and R. Cohen, PM USA posted riders increasing the amount of its bonds to \$15 million and \$7.5 million, respectively. In Buchanan, on February 2, 2016, the Florida Supreme Court declined to accept jurisdiction of PM USA's petition for review. On February 8, 2016, PM USA posted a rider increasing the amount of its bond to \$5.5 million.

In Bowden, on February 2, 2016, the Florida First District Court of Appeal affirmed the trial court's decision in favor of plaintiff. In the first quarter of 2016, PM USA will record a provision of approximately \$1.6 million for the judgment plus interest.

In Barbose, on February 17, 2016, PM USA posted a bond in the amount of \$2.5 million and, on February 16, 2016, defendants filed a notice of appeal to the Florida Second District Court of Appeal.

In Cooper, on February 10, 2016, the trial court entered final judgment in favor of plaintiff, reducing the compensatory damages award against PM USA to approximately \$300,000.

In Ahrens, on February 13, 2016, a Pinellas County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds Tobacco Company ("R.J. Reynolds") awarding \$9 million in compensatory damages and allocating 24% of the fault to PM USA. The jury also awarded \$2.5 million in punitive damages against each defendant.

In Greene (formerly Rizzuto), on February 16, 2016, PM USA paid the judgment plus interest in the amount of approximately \$6.8 million.

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In Hess, on February 22, 2016, PM USA paid the judgment plus interest and associated costs in the amount of approximately \$10.6 million.

In E. Smith, on February 22, 2016, a Palm Beach County jury returned a verdict in favor of PM USA and R.J. Reynolds.

In Ledoux, on February 23, 2016, the trial court denied defendants' post-trial motions.

Medical Monitoring Class Actions: In Donovan, on February 10, 2016, a Massachusetts jury returned a verdict in favor of PM USA.

Health Care Cost Recovery Litigation

NPM Adjustment Disputes: On February 8, 2016, PM USA and certain other manufacturers entered into an agreement with the State of Missouri to settle the non-participating manufacturer ("NPM") adjustment disputes under the 1998 Master Settlement Agreement ("MSA"). The settlement is contingent upon Missouri's enactment by June 3, 2016 of certain amendments to its existing escrow statute. Similar to the settlement of these disputes with 24 other signatory states, the settlement with Missouri would resolve the disputes for the years 2003-2012 and treat 2013-2014 as "transition years." If the settlement becomes effective, PM USA will retain approximately \$36 million previously received as a result of an arbitration panel's ruling that Missouri did not diligently enforce its escrow statute during 2003 and will receive an additional approximately \$18 million in the form of a reduction to the next MSA payment following the effectiveness of the settlement. In addition, if the settlement becomes effective, the NPM Adjustment provision will be revised and streamlined as to Missouri for the years after 2014. The original participating manufacturers have agreed that the amounts they receive under the settlement for the years after 2014 will be allocated among them pursuant to a formula that modifies the MSA allocation formula in a manner favorable to PM USA, although the extent to which it remains favorable to PM USA will depend upon future developments.

On February 22, 2016, the Court of Appeals of Maryland denied PM USA's petition for discretionary judicial review of the Maryland intermediate appellate court decision that had reversed the Maryland trial court's ruling in PM USA's favor on the pro rata judgment reduction method. This decision leaves in effect the intermediate court's decision applying a judgment reduction method that is more favorable to the state. As a result of this denial of PM USA's petition, PM USA will be required to return approximately \$12 million of the 2003 NPM Adjustment and \$7 million of the interest it received (plus interest on those amounts). In addition, PM USA will record a corresponding reduction to its pre-tax earnings in the first quarter of 2016.

Federal Government's Lawsuit: On February 8, 2016, the U.S. District Court for the District of Columbia issued an order on the content of the corrective communications and ordered the parties to submit proposed changes to the consent order on the implementation details by April 1, 2016.

"Lights/Ultra Lights" Cases

State Trial Court Class Certifications: In Aspinall, on February 19, 2016, the trial court issued its "Findings of Fact and Conclusions of Law." The court found that (1) PM USA violated Massachusetts consumer protection laws in marketing Marlboro "Lights" and (2) plaintiffs proved that class members were economically injured, but did not prove a specific measure of damages. As a result, the court awarded statutory damages of \$25 per class member, for a total of \$4.9 million, plus interest, attorneys' fees and costs.

Certain Other Tobacco-Related Litigation

Argentine Grower Cases: In Hupan, on January 29, 2016, plaintiffs filed an amended complaint against defendants, including PM USA. On February 12, 2016, PM USA and Philip Morris Global Brands Inc. (a subsidiary of PMI) filed a motion to strike the amended complaint.

UST Litigation: In Vassallo, on February 3, 2016, the trial court denied plaintiff's motion to amend the complaint to add fraud and conspiracy claims.

Item 4. Mine Safety Disclosures.

Not applicable.

Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Performance Graph

The graph below compares the cumulative total shareholder return of Altria Group, Inc.'s common stock for the last five years with the cumulative total return for the same period of the S&P 500 Index and the Altria Group, Inc. Peer Group ⁽¹⁾. The graph assumes the investment of \$100 in common stock and each of the indices as of the market close on December 31, 2010 and the reinvestment of all dividends on a quarterly basis.

Date	Altria Group, Inc.	Altria Group, Inc. Peer Group	S&P 500
December 2010	\$100.00	\$100.00	\$100.00
December 2011	\$127.66	\$114.65	\$102.11
December 2012	\$142.68	\$124.68	\$118.44
December 2013	\$183.42	\$155.86	\$156.79
December 2014	\$246.72	\$175.31	\$178.24
December 2015	\$303.71	\$204.47	\$180.68

Source: Bloomberg - "Total Return Analysis" calculated on a daily basis and assumes reinvestment of dividends as of the ex-dividend date.

⁽¹⁾In 2015, the Altria Group, Inc. Peer Group consisted of U.S.-headquartered consumer product companies that are competitors to Altria Group, Inc.'s tobacco operating companies subsidiaries or that have been selected on the basis of revenue or market capitalization: Campbell Soup Company, The Coca-Cola Company, Colgate-Palmolive Company, ConAgra Foods, Inc., General Mills, Inc., The Hershey Company, Kellogg Company, Kimberly-Clark Corporation, Kraft Foods Group, Inc., The Kraft Heinz Company, Lorillard, Inc., Mondelēz International, Inc., PepsiCo, Inc. and Reynolds American Inc.

Note - On October 1, 2012, Kraft Foods Inc. (KFT) spun off Kraft Foods Group, Inc. (KRFT) to its shareholders and then changed its name from Kraft Foods Inc. to Mondelēz International, Inc. (MDLZ). On July 2, 2015, Kraft Foods Group, Inc. merged with and into a wholly owned subsidiary of H.J. Heinz Holding Corporation, which was renamed The Kraft Heinz Company (KHC). On June 12, 2015, Reynolds American Inc. (RAI) acquired Lorillard, Inc. (LO).

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Market and Dividend Information

The principal stock exchange on which Altria Group, Inc.'s common stock (par value \$0.33 1/3 per share) is listed is the New York Stock Exchange. At February 12, 2016, there were approximately 71,000 holders of record of Altria Group, Inc.'s common stock.

The table below discloses the high and low sales prices and cash dividends declared per share for Altria Group, Inc.'s common stock as reported by the New York Stock Exchange.

	Price Per Share		Cash Dividends
	High	Low	Declared Per Share
2015:			
Fourth Quarter	\$61.74	\$53.68	\$0.565
Third Quarter	\$56.39	\$47.41	\$0.565
Second Quarter	\$52.99	\$47.31	\$0.52
First Quarter	\$56.70	\$48.52	\$0.52
2014:			
Fourth Quarter	\$51.67	\$44.59	\$0.52
Third Quarter	\$46.20	\$40.26	\$0.52
Second Quarter	\$43.38	\$37.13	\$0.48
First Quarter	\$38.38	\$33.80	\$0.48

Issuer Purchases of Equity Securities During the Quarter Ended December 31, 2015

The Board of Directors authorized a \$1.0 billion share repurchase program in July 2015 (the "July 2015 share repurchase program"), which Altria Group, Inc. expects to complete by the end of 2016. The timing of share repurchases under the July 2015 share repurchase program depends upon marketplace conditions and other factors, and the program remains subject to the discretion of the Board of Directors.

Altria Group, Inc.'s share repurchase activity for each of the three months in the period ended December 31, 2015, was as follows:

Period	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
October 1- October 31, 2015	1,811	\$61.14	—	\$1,000,000,000
November 1- November 30, 2015	1,977	\$54.03	—	\$1,000,000,000
December 1- December 31, 2015	613,973	\$57.65	612,000	\$964,710,531
For the Quarter Ended December 31, 2015	617,761	\$57.65		

The total number of shares purchased include (a) shares purchased under the July 2015 share repurchase program (which totaled 612,000 shares in December) and (b) shares withheld by Altria Group, Inc. in an amount equal to ⁽¹⁾ the statutory withholding taxes for holders who vested in restricted stock and restricted stock units, and forfeitures of restricted stock for which consideration was paid in connection with termination of employment of certain employees (which totaled 1,811 shares in October, 1,977 shares in November and 1,973 shares in December).

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Item 6. Selected Financial Data.

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

	2015	2014	2013	2012	2011		
Summary of Operations:							
Net revenues	\$25,434	\$24,522	\$24,466	\$24,618	\$23,800		
Cost of sales	7,740	7,785	7,206	7,937	7,680		
Excise taxes on products	6,580	6,577	6,803	7,118	7,181		
Operating income	8,361	7,620	8,084	7,253	6,068		
Interest and other debt expense, net	817	808	1,049	1,126	1,216		
Earnings from equity investment in SABMiller	757	1,006	991	1,224	730		
Earnings before income taxes	8,078	7,774	6,942	6,477	5,582		
Pre-tax profit margin	31.8	% 31.7	% 28.4	% 26.3	% 23.5	%	%
Provision for income taxes	2,835	2,704	2,407	2,294	2,189		
Net earnings	5,243	5,070	4,535	4,183	3,393		
Net earnings attributable to Altria Group, Inc.	5,241	5,070	4,535	4,180	3,390		
Basic and Diluted EPS — net earnings attributable to Altria Group, Inc.	2.67	2.56	2.26	2.06	1.64		
Dividends declared per share	2.17	2.00	1.84	1.70	1.58		
Weighted average shares (millions) — Basic and Diluted	1,961	1,978	1,999	2,024	2,064		
Capital expenditures	229	163	131	124	105		
Depreciation	204	188	192	205	233		
Property, plant and equipment, net	1,982	1,983	2,028	2,102	2,216		
Inventories	2,031	2,040	1,879	1,746	1,779		
Total assets	32,535	34,475	34,859	35,329	36,751		
Long-term debt	12,915	13,693	13,992	12,419	13,089		
Total debt	12,919	14,693	14,517	13,878	13,689		
Total stockholders' equity	2,873	3,010	4,118	3,170	3,683		
Common dividends declared as a % of Basic and Diluted EPS	81.3	% 78.1	% 81.4	% 82.5	% 96.3	%	%
Book value per common share outstanding	1.47	1.53	2.07	1.58	1.80		
Market price per common share — high/low	61.74-47.31	51.67-33.80	38.58-31.85	36.29-28.00	30.40-23.20		
Closing price per common share at year end	58.21	49.27	38.39	31.44	29.65		
Price/earnings ratio at year end — Basic and Diluted	22	19	17	15	18		
Number of common shares outstanding at year end (millions)	1,960	1,971	1,993	2,010	2,044		
Approximate number of employees	8,800	9,000	9,000	9,100	9,900		

The Selected Financial Data should be read in conjunction with Item 7 and Item 8.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion should be read in conjunction with the other sections of this Annual Report on Form 10-K, including the consolidated financial statements and related notes contained in Item 8, and the discussion of cautionary factors that may affect future results in Item 1A.

Description of the Company

At December 31, 2015, Altria Group, Inc.'s wholly-owned subsidiaries included PM USA, which is engaged predominantly in the manufacture and sale of cigarettes in the United States; 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; and UST, which through its wholly-owned subsidiaries, including USSTC and Ste. Michelle, is engaged in the manufacture and sale of smokeless tobacco products and wine. Altria Group, Inc.'s other operating companies included Nu Mark, a wholly-owned subsidiary that is engaged in the manufacture and sale of innovative tobacco products, and PMCC, a wholly-owned subsidiary that maintains a portfolio of finance assets, substantially all of which are leveraged leases. Other Altria Group, Inc. wholly-owned subsidiaries included Altria Group Distribution Company, which provides sales, distribution and consumer engagement services to certain Altria Group, Inc. operating subsidiaries, and Altria Client Services LLC, which provides various support services in areas such as legal, regulatory, finance, human resources and external affairs, to Altria Group, Inc. and its subsidiaries. In addition, Nu Mark and Middleton use third-party contract manufacturing arrangements in the manufacture of their products. Altria Group, Inc.'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 December 31, 2015, Altria Group, Inc.'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 December 31, 2015, Altria Group, Inc. also held approximately 27% of the economic and voting interest of SABMiller, which Altria Group, Inc. accounts for under the equity method of accounting. Altria Group, Inc. receives cash dividends on its interest in SABMiller if and when SABMiller pays such dividends. On November 11, 2015, AB InBev announced its firm offer to effect a business combination with SABMiller in a cash and stock transaction. For further discussion, see Note 6.

Altria Group, Inc.'s reportable segments are smokeable products, smokeless products and wine. The financial services and the innovative tobacco products businesses are included in an all other category due to the continued reduction of the lease portfolio of PMCC and the relative financial contribution of Altria

Group, Inc.'s innovative tobacco products businesses to Altria Group, Inc.'s consolidated results.

Executive Summary

The following executive summary is intended to provide significant highlights of the Discussion and Analysis that follows.

Consolidated Results of Operations

The changes in Altria Group, Inc.'s net earnings and diluted earnings per share ("EPS") attributable to Altria Group, Inc. for the year ended December 31, 2015, from the year ended December 31, 2014, were due primarily to the following:

(in millions, except per share data)	Net Earnings	Diluted EPS
For the year ended December 31, 2014	\$5,070	\$2.56
2014 NPM Adjustment Items	(56)	(0.03)
2014 Asset impairment, exit, integration and acquisition-related costs	14	0.01
2014 Tobacco and health litigation items	28	0.01
2014 SABMiller special items	17	0.01
2014 Loss on early extinguishment of debt	28	0.02
2014 Tax items	(14)	(0.01)

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Subtotal 2014 special items	17	0.01	
2015 NPM Adjustment Items	51	0.03	
2015 Asset impairment, exit and integration costs	(9)	—
2015 Tobacco and health litigation items	(94)	(0.05)
2015 SABMiller special items	(82)	(0.04)
2015 Loss on early extinguishment of debt	(143)	(0.07)
2015 Other income, net	3	—	
2015 Tax items	11	—	
Subtotal 2015 special items	(263)	(0.13)
Fewer shares outstanding	—	0.02	
Change in tax rate	(53)	(0.03)
Operations	470	0.24	
For the year ended December 31, 2015	\$5,241	\$2.67	

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

Fewer Shares Outstanding: Fewer shares outstanding during 2015 compared with 2014 were due primarily to shares repurchased by Altria Group, Inc. under its share repurchase programs.

Change in Tax Rate: The change in tax rate was due primarily to decreased recognition of foreign tax credits associated with SABMiller dividends.

Operations: The increase of \$470 million in operations shown in the table above was due primarily to the following: higher income from the smokeable products and smokeless products segments; and lower interest and other debt expense, net;

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partially offset by:

lower earnings from Altria's equity investment in SABMiller.

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

2016 Forecasted Results

In January 2016, Altria Group, Inc. forecasted that its 2016 full-year adjusted diluted EPS growth rate is expected to be in the range of 7% to 9% over 2015 full-year adjusted diluted EPS. This forecasted growth rate excludes the net expenses in the table below. Altria Group, Inc. expects that its 2016 full-year effective tax rate on operations will be 35.3%. This forecast does not include any impact from the anticipated AB InBev and SABMiller business combination, as the transaction remains subject to certain approvals and the closing date has not yet been determined. In addition, the factors described in Item 1A represent continuing risks to this forecast.

Expense (Income), Net Excluded from Adjusted Diluted EPS

	2016	2015
NPM Adjustment Items	\$—	\$(0.03)
Asset impairment, exit and implementation costs ¹	0.05	—
Tobacco and health litigation items	—	0.05
SABMiller special items	—	0.04
Loss on early extinguishment of debt	—	0.07
	\$0.05	\$0.13

¹ Represents restructuring charges, substantially all of which are expected to be recorded in the first quarter of 2016 in connection with the productivity initiative announced in January 2016. For further discussion of the productivity initiative, see Note 21. Subsequent Event to the consolidated financial statements in Item 8.

Altria Group, Inc. reports its financial results in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Altria Group, Inc.'s management reviews certain financial results, including diluted EPS, on an adjusted basis, which excludes certain income and expense items that management believes are not part of underlying operations. These items may include, for example, loss on early extinguishment of debt, restructuring charges, SABMiller special items, certain tax items, charges associated with tobacco and health litigation items, and settlements of, and determinations made in connection with, disputes with certain states and territories related to the NPM adjustment provision under the MSA (such settlements and determinations are referred to collectively as "NPM Adjustment Items" and are more fully described in Health Care Cost Recovery Litigation - NPM Adjustment Disputes in Note 18). Altria Group, Inc.'s management does not view any of these special items to be part of Altria Group, Inc.'s sustainable results as they may be highly variable, are difficult to predict and can distort underlying business trends and results. Altria Group, Inc.'s management also reviews income tax rates on an adjusted basis. Altria

Group, Inc.'s effective tax rate on operations may exclude certain tax items from its reported effective tax rate. Altria Group, Inc.'s management believes that adjusted financial measures provide useful insight into underlying business trends and results and provide a more meaningful comparison of year-over-year results. Adjusted financial measures are used by management and regularly provided to Altria Group, Inc.'s chief operating decision maker for planning, forecasting and evaluating business and financial performance, including allocating resources and evaluating results relative to employee compensation targets. These adjusted financial measures are not consistent with U.S. GAAP and may not be calculated the same as similarly titled measures used by other companies. These adjusted financial measures should thus be considered as supplemental in nature and not considered in isolation or as a substitute for the related financial information prepared in accordance with U.S. GAAP.

Altria Group, Inc.'s full-year adjusted diluted EPS guidance and full-year forecast for its effective tax rate on operations exclude the impact of certain income and expense items, including those items noted in the preceding paragraph. Altria Group, Inc.'s management cannot estimate on a forward-looking basis the impact of these items on Altria Group, Inc.'s reported diluted EPS and reported effective tax rate because these items, which could be significant, are difficult to predict and may be highly variable. As a result, Altria Group, Inc. does not provide a

corresponding U.S. GAAP measure for, or reconciliation to, its adjusted diluted EPS guidance or its forecast for its effective tax rate on operations.

Discussion and Analysis

Critical Accounting Policies and Estimates

Note 2 includes a summary of the significant accounting policies and methods used in the preparation of Altria Group, Inc.'s consolidated financial statements. In most instances, Altria Group, Inc. must use an accounting policy or method because it is the only policy or method permitted under U.S. GAAP.

The preparation of financial statements includes the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the dates of the financial statements and the reported amounts of net revenues and expenses during the reporting periods. If actual amounts are ultimately different from previous estimates, the revisions are included in Altria Group, Inc.'s consolidated results of operations for the period in which the actual amounts become known. Historically, the aggregate differences, if any, between Altria Group, Inc.'s estimates and actual amounts in any year have not had a significant impact on its consolidated financial statements.

The following is a review of the more significant assumptions and estimates, as well as the accounting policies and methods, used in the preparation of Altria Group, Inc.'s consolidated financial statements:

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Consolidation: The consolidated financial statements include Altria Group, Inc., as well as its wholly-owned and majority-owned subsidiaries. Investments in which Altria Group, Inc. has the ability to exercise significant influence are accounted for under the equity method of accounting. All intercompany transactions and balances have been eliminated.

Revenue Recognition: Altria Group, Inc.'s businesses recognize revenues, net of sales incentives and sales returns, and including shipping and handling charges billed to customers, upon shipment of goods when title and risk of loss pass to customers. Payments received in advance of revenue recognition are deferred and recorded in other accrued liabilities until revenue is recognized. Altria Group, Inc.'s businesses also include excise taxes billed to customers in net revenues. Shipping and handling costs are classified as part of cost of sales.

Depreciation, Amortization, Impairment Testing and Asset Valuation: Altria Group, Inc. depreciates property, plant and equipment and amortizes its definite-lived intangible assets using the straight-line method over the estimated useful lives of the assets. Machinery and equipment are depreciated over periods up to 25 years, and buildings and building improvements over periods up to 50 years. Definite-lived intangible assets are amortized over their estimated useful lives up to 25 years.

Altria Group, Inc. reviews long-lived assets, including definite-lived intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying value of the assets may not be fully recoverable. Altria Group, Inc. performs undiscounted operating cash flow analyses to determine if an impairment exists. These analyses are affected by general economic conditions and projected growth rates. For purposes of recognition and measurement of an impairment for assets held for use, Altria Group, Inc. groups assets and liabilities at the lowest level for which cash flows are separately identifiable. If an impairment is determined to exist, any related impairment loss is calculated based on fair value. Impairment losses on assets to be disposed of, if any, are based on the estimated proceeds to be received, less costs of disposal. Altria Group, Inc. also reviews the estimated remaining useful lives of long-lived assets whenever events or changes in business circumstances indicate the lives may have changed.

Goodwill and indefinite-lived intangible assets recorded by Altria Group, Inc. at December 31, 2015 relate primarily to the acquisitions of Green Smoke in 2014, UST in 2009 and Middleton in 2007. Altria Group, Inc. conducts a required annual review of goodwill and indefinite-lived intangible assets for potential impairment, and more frequently if an event occurs or circumstances change that would require Altria Group, Inc. to perform an interim review. If the carrying value of goodwill exceeds its fair value, which is determined using discounted cash flows, goodwill is considered impaired. The amount of impairment loss is measured as the difference between the carrying value and the implied fair value. If the carrying value of an indefinite-lived intangible asset exceeds its fair value,

which is determined using discounted cash flows, the intangible asset is considered impaired and is reduced to fair value.

Goodwill and indefinite-lived intangible assets, by reporting unit at December 31, 2015 were as follows:

(in millions)	Goodwill	Indefinite-Lived Intangible Assets
Cigarettes	\$—	\$2
Smokeless products	5,023	8,801
Cigars	77	2,640
Wine	74	258
E-vapor	111	10
Total	\$5,285	\$11,711

During 2015, 2014 and 2013, Altria Group, Inc. completed its quantitative annual impairment test of goodwill and indefinite-lived intangible assets, and no impairment charges resulted.

At December 31, 2015:

the estimated fair values of all reporting units substantially exceeded their carrying values;

the estimated fair values of the indefinite-lived intangible assets within the cigars and wine reporting units substantially exceeded their carrying values; and

in the smokeless products reporting unit, the estimated fair value of the Copenhagen trademark substantially exceeded its carrying value, while the estimated fair values of the Skoal trademark and certain other smokeless products trademarks (primarily Red Seal and Husky) did not substantially exceed their carrying values.

At December 31, 2015, the estimated fair value of the Skoal trademark exceeded its carrying value of \$3.9 billion by approximately 15%, and the estimated fair value of certain other smokeless products trademarks (primarily Red Seal and Husky) exceeded their collective carrying value of \$921 million by approximately 10%. The 2015 results for Skoal continue to be impacted by a lower category growth rate and increased competitive activity. USSTC continues to implement strategies to enhance Skoal's equity and to invest more efficiently in the brand. USSTC expects these strategies to improve Skoal's profitability over the long term. Red Seal and Husky continue to be impacted by lower levels of promotional support on these brands, increased competitive activity in the discount category and sustained growth in popular priced products.

In 2015, Altria Group, Inc. used an income approach to estimate the fair values of substantially all of its reporting units and indefinite-lived intangible assets. The income approach reflects the discounting of expected future cash flows to their present value at a rate of return that incorporates the risk-free rate for the use of those funds, the expected rate of inflation and the risks associated with realizing expected future cash flows. The average discount rate used in performing the valuations was approximately 10%.

In performing the 2015 discounted cash flow analysis, Altria Group, Inc. made various judgments, estimates and assumptions, the most significant of which were volume,

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income, growth rates and discount rates. The analysis incorporated assumptions used in Altria Group, Inc.'s long-term financial forecast, which is used by Altria Group, Inc.'s management to evaluate business and financial performance, including allocating resources and evaluating results relative to setting employee compensation targets. The assumptions incorporated the highest and best use of Altria Group, Inc.'s indefinite-lived intangible assets and also included perpetual growth rates for periods beyond the long-term financial forecast. The perpetual growth rate used in performing all of the valuations was 2%. Fair value calculations are sensitive to changes in these estimates and assumptions, some of which relate to broader macroeconomic conditions outside of Altria Group, Inc.'s control. Although Altria Group, Inc.'s discounted cash flow analysis is based on assumptions that are considered reasonable and based on the best available information at the time that the discounted cash flow analysis is developed, there is significant

judgment used in determining future cash flows. The following factors have the most potential to impact expected future cash flows and, therefore, Altria Group, Inc.'s impairment conclusions: general economic conditions; federal, state and local regulatory developments; changes in category growth rates as a result of changing consumer preferences; success of planned product expansions; competitive activity; and tobacco-related taxes. For further discussion of these factors, see Operating Results by Business Segment - Tobacco Space - Business Environment below.

While Altria Group, Inc.'s management believes that the estimated fair values of each reporting unit and indefinite-lived intangible asset are reasonable, actual performance in the short-term or long-term could be significantly different from forecasted performance, which could result in impairment charges in future periods. For additional information on goodwill and other intangible assets, see Note 4.

Marketing Costs: Altria Group, Inc.'s businesses promote their products with consumer engagement programs, consumer incentives and trade promotions. Such programs include discounts, coupons, rebates, in-store display incentives, event marketing and volume-based incentives. Consumer engagement programs are expensed as incurred. Consumer incentive and trade promotion activities are recorded as a reduction of 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. For interim reporting purposes, consumer engagement programs and certain consumer incentive expenses are charged to operations as a percentage of sales, based on estimated sales and related expenses for the full year.

Contingencies: As discussed in Note 18 and Item 3, legal proceedings covering a wide range of matters are pending or threatened in various United States and foreign jurisdictions against Altria Group, Inc. and its subsidiaries, including PM

USA and UST and its subsidiaries, as well as their respective indemnitees. In 1998, PM USA and certain other U.S. tobacco product manufacturers entered into the MSA with 46 states and various other governments and jurisdictions to settle asserted and unasserted health care cost recovery and other claims. PM USA and certain other U.S. tobacco product manufacturers had previously entered into agreements to settle similar claims brought by Mississippi, Florida, Texas and Minnesota (together with the MSA, the "State Settlement Agreements"). PM USA's portion of ongoing adjusted payments and legal fees is based on its relative share of the settling manufacturers' domestic cigarette shipments, including roll-your-own cigarettes, in the year preceding that in which the payment is due. PM USA, USSTC and Middleton were also subject to payment obligations imposed by FETRA. The FETRA payment obligations expired after the third quarter of 2014. In addition, in June 2009, PM USA and USSTC became subject to quarterly user fees imposed by the FDA as a result of the FSPTCA. Payments under the State Settlement Agreements and the FDA user fees are based on variable factors, such as volume, operating income, market share and inflation, depending on the subject payment. Altria Group, Inc.'s subsidiaries account for the cost of the State Settlement Agreements, FETRA and FDA user fees as a component of cost of sales. As a result of the State Settlement Agreements, FETRA and FDA user fees, Altria Group, Inc.'s subsidiaries recorded approximately \$4.8 billion, \$4.9 billion and \$4.4 billion of charges to cost of sales for the years ended December 31, 2015, 2014 and 2013, respectively. The 2015, 2014 and 2013 amounts included reductions to cost of sales of \$97 million, \$43 million and \$664 million, respectively, related to the NPM Adjustment Items discussed further below and in Health Care Cost

Recovery Litigation - NPM Adjustment Disputes in Note 18. In addition, the 2015 and 2014 amounts reflected decreases in the charge to cost of sales of approximately \$300 million and \$100 million, respectively, for the expiration of the obligations imposed by FETRA after the third quarter of 2014.

Altria Group, Inc. and its subsidiaries record provisions in the consolidated financial statements for pending litigation when they determine that an unfavorable outcome is probable and the amount of the loss can be reasonably estimated. At the present time, while it is reasonably possible that an unfavorable outcome in a case may occur, except to the extent discussed in Note 18 and Item 3: (i) management has concluded that it is not probable that a loss has been incurred in any of the pending tobacco-related cases; (ii) management is unable to estimate the possible loss or range of loss that could result from an unfavorable outcome in any of the pending tobacco-related cases; and (iii) accordingly, management has not provided any amounts in the consolidated financial statements for unfavorable outcomes, if any. Litigation defense costs are expensed as incurred and included in marketing, administration and research costs on the consolidated statements of earnings.

Employee Benefit Plans: As discussed in Note 16. Benefit Plans to the consolidated financial statements in Item 8 (“Note

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16”), Altria Group, Inc. provides a range of benefits to its employees and retired employees, including pension, postretirement health care and postemployment benefits. Altria Group, Inc. records annual amounts relating to these plans based on calculations specified by U.S. GAAP, which include various actuarial assumptions as to discount rates, assumed rates of return on plan assets, mortality, compensation increases, turnover rates and health care cost trend rates. Altria Group, Inc. reviews its actuarial assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is deemed appropriate to do so. Any effect of the modifications is generally amortized over future periods.

Altria Group, Inc. recognizes the funded status of its defined benefit pension and other postretirement plans on the consolidated balance sheet and records as a component of other comprehensive earnings (losses), net of deferred income taxes, the gains or losses and prior service costs or credits that have not been recognized as components of net periodic benefit cost. The gains or losses and prior service costs or credits recorded as components of other comprehensive earnings (losses) are subsequently amortized into net periodic benefit cost in future years.

At December 31, 2015, Altria Group, Inc. changed the approach used to estimate the service and interest cost components of net periodic benefit costs for Altria Group, Inc.’s pension and postretirement plans. In 2015 and prior years, Altria Group, Inc. estimated the service and interest cost components using a single weighted-average discount rate derived from the yield curve used to measure the pension and postretirement plans benefit obligations. Beginning in 2016, Altria Group, Inc. will use a spot rate approach in the estimation of these components of net periodic benefit costs by applying the specific spot rates along the yield curve to the relevant projected cash flows, as Altria Group, Inc. believes that this approach provides a more precise estimate of service and interest costs. Altria Group, Inc. is accounting for this change prospectively as a change in accounting estimate. This change will not affect the measurement of Altria Group, Inc.’s pension and postretirement benefit obligations as the change in the service and interest costs will be offset by a corresponding change in actuarial gains/losses.

At December 31, 2015, Altria Group, Inc.’s discount rate assumptions for its pension and postretirement plans obligations increased to 4.4% from 4.1% and 4.0%, respectively, at December 31, 2014. Altria Group, Inc. presently anticipates a decrease of approximately \$160 million in its 2016 pre-tax pension and postretirement expense versus 2015, not including amounts in each year, if any, related to termination, settlement and curtailment. This anticipated decrease is due primarily to the impact of the change in approach used to estimate service and interest costs (\$90 million) and the impact of the higher discount rate. Assuming no change to the shape of the yield curve, a 50 basis point decrease in Altria Group, Inc.’s discount rates would increase Altria Group, Inc.’s pension and postretirement expense by approximately \$50 million, and a 50 basis point increase in Altria Group, Inc.’s discount rates would

decrease Altria Group, Inc.’s pension and postretirement expense by approximately \$43 million. Similarly, a 50 basis point decrease (increase) in the expected return on plan assets would increase (decrease) Altria Group, Inc.’s pension expense by approximately \$35 million. See Note 16 for a sensitivity discussion of the assumed health care cost trend rates.

Income Taxes: Significant judgment is required in determining income tax provisions and in evaluating tax positions. Altria Group, Inc.’s deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Altria Group, Inc. records a valuation allowance when it is more-likely-than-not that some portion or all of a deferred tax asset will not be realized.

Altria Group, Inc. recognizes a benefit for uncertain tax positions when a tax position taken or expected to be taken in a tax return is more-likely-than-not to be sustained upon examination by taxing authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. Altria Group, Inc. recognizes accrued interest and penalties associated with uncertain tax positions as part of the provision for income taxes on its consolidated statements of earnings.

As discussed in Note 14. Income Taxes to the consolidated financial statements in Item 8 (“Note 14”), Altria Group, Inc. recognized income tax benefits and charges in the consolidated statements of earnings during 2015, 2014 and 2013 as a result of various tax events.

Leasing: Substantially all of PMCC's net revenues in 2015 related to income on leveraged leases and related gains on asset sales. Income attributable to leveraged leases is initially recorded as unearned income, which is included in the line item finance assets, net, on Altria Group, Inc.'s consolidated balance sheets and subsequently recognized as revenue over the terms of the respective leases at constant after-tax rates of return on the positive net investment balances. As discussed in Note 7, PMCC lessees are affected by bankruptcy filings, credit rating changes and financial market conditions.

PMCC's investment in leases is included in the line item finance assets, net, on the consolidated balance sheets as of December 31, 2015 and 2014. At December 31, 2015, PMCC's net finance receivables of approximately \$1.3 billion, which are included in finance assets, net, on Altria Group, Inc.'s consolidated balance sheet, consisted of rents receivable (\$2.1 billion) and the residual value of assets under lease (\$0.7 billion), reduced by third-party nonrecourse debt (\$1.2 billion) and unearned income (\$0.3 billion). The repayment of the nonrecourse debt is collateralized by lease payments receivable and the leased property, and is nonrecourse to the general assets of PMCC. As required by U.S. GAAP, the third-party nonrecourse debt has been offset against the related rents receivable and has been presented on a net basis within finance assets, net, on Altria Group, Inc.'s consolidated balance sheets.

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Finance assets, net, of \$1.2 billion at December 31, 2015 also included an allowance for losses.

Estimated residual values represent PMCC's estimate at lease inception as to the fair values of assets under lease at the end of the non-cancelable lease terms. The estimated residual values are reviewed at least annually by PMCC's management, which includes analysis of a number of factors, including activity in the relevant industry. If necessary, revisions are recorded to reduce the residual values. In 2015 and 2014, PMCC's review of estimated residual values resulted in a decrease of \$65 million and \$63 million, respectively, to unguaranteed residual values. These decreases in unguaranteed residual values resulted in a reduction to PMCC's net revenues of \$41 million and \$26 million in 2015 and 2014, respectively. There were no such adjustments in 2013.

PMCC considers rents receivable past due when they are beyond the grace period of their contractual due date. PMCC stops recording income ("non-accrual status") on rents receivable when contractual payments become 90 days past due or earlier if management believes there is significant uncertainty of collectability of rent payments, and resumes recording income when collectability of rent payments is reasonably certain. Payments received on rents receivable that are on non-accrual status are used to reduce the rents receivable balance. Write-offs to the allowance for losses are recorded when amounts are deemed to be uncollectible. There were no rents receivable on non-accrual status at December 31, 2015.

To the extent that rents receivable due to PMCC may be uncollectible, PMCC records an allowance for losses against its finance assets. Losses on such leases are recorded when probable and estimable. PMCC regularly performs a systematic assessment of each individual lease in its portfolio to determine potential credit or collection issues that might indicate impairment. Impairment takes into consideration both the probability of default and the likelihood of recovery if default were to occur. PMCC considers both quantitative and qualitative factors of each investment when performing its assessment of the allowance for losses. For further discussion, see Note 7.

Consolidated Operating Results

(in millions)	For the Years Ended December 31,		
	2015	2014	2013
Net Revenues:			
Smokeable products	\$22,792	\$21,939	\$21,868
Smokeless products	1,879	1,809	1,778
Wine	692	643	609
All other	71	131	211
Net revenues	\$25,434	\$24,522	\$24,466
Excise Taxes on Products:			
Smokeable products	\$6,423	\$6,416	\$6,651
Smokeless products	133	138	130
Wine	24	23	22
Excise taxes on products	\$6,580	\$6,577	\$6,803
Operating Income:			
Operating companies income (loss):			
Smokeable products	\$7,569	\$6,873	\$7,063
Smokeless products	1,108	1,061	1,023
Wine	152	134	118
All other	(169)	(185)	157
Amortization of intangibles	(21)	(20)	(20)
General corporate expenses	(237)	(241)	(235)
Changes to Mondelēz and PMI tax-related receivables/payables	(41)	(2)	(22)
Operating income	\$8,361	\$7,620	\$8,084

As discussed further in Note 15, Altria Group, Inc.'s chief operating decision maker reviews operating companies income to evaluate the performance of, and allocate resources to, the segments. Operating companies income for the

segments is defined as operating income before amortization of intangibles and general corporate expenses. Management believes it is appropriate to disclose this measure to help investors analyze the business performance and trends of the various business segments.

The following events that occurred during 2015, 2014 and 2013 affected the comparability of statement of earnings amounts.

NPM Adjustment Items: For the years ended December 31, 2015, 2014 and 2013, pre-tax income for NPM Adjustment Items was recorded in Altria Group, Inc.'s consolidated statements of earnings as follows:

(in millions)	2015	2014	2013
Smokeable products segment	\$97	\$43	\$664
Interest and other debt expense, net	(13)	47	—
Total	\$84	\$90	\$664

The amounts shown in the table above for the smokeable products segment were recorded by PM USA as reductions to costs of sales, which increased operating companies income in the smokeable products segment. For further discussion, see Health

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Care Cost Recovery Litigation - NPM Adjustment Disputes in Note 18.

Tobacco and Health Litigation Items: For the years ended December 31, 2015, 2014 and 2013, pre-tax charges related to certain tobacco and health litigations items were recorded in Altria Group, Inc.'s consolidated statements of earnings as follows:

(in millions)	2015	2014	2013
Smokeable products segment	\$127	\$27	\$18
General corporate	—	15	—
Interest and other debt expense, net	23	2	4
Total	\$150	\$44	\$22

During 2015, PM USA recorded pre-tax charges in marketing, administration and research costs related to tobacco and health judgments in seven state Engle progeny lawsuits and Schwarz of \$59 million and \$25 million, respectively, as well as \$14 million and \$9 million, respectively, in interest costs related to these cases. Additionally in 2015, PM USA and certain other cigarette manufacturers reached an agreement to resolve approximately 415 pending federal Engle progeny cases. As a result of the agreement, PM USA recorded a pre-tax provision of approximately \$43 million in marketing, administration and research costs. For further discussion, see Smoking and Health Litigation in Note 18.

During 2014, Altria Group, Inc. and PM USA recorded an aggregate pre-tax charge of \$31 million in marketing, administration and research costs for the estimated costs of implementing the corrective communications remedy in connection with the federal government's lawsuit against Altria Group, Inc. and PM USA. For further discussion, see Health Care Cost Recovery Litigation - Federal Government's Lawsuit in Note 18.

Asset Impairment, Exit, Integration and Acquisition-Related Costs: Pre-tax asset impairment, exit, integration and acquisition-related costs for the years ended December 31, 2015, 2014 and 2013 were \$11 million, \$21 million and \$11 million, respectively.

For 2014, these costs consisted primarily of integration and acquisition-related costs of \$28 million related to the acquisition of Green Smoke, partially offset by a pre-tax gain of \$10 million from the sale of PM USA's Cabarrus, North Carolina manufacturing facility in 2014. For further discussion of the Green Smoke acquisition, see Note 3.

Loss on Early Extinguishment of Debt: During 2015 and 2013, Altria Group, Inc. completed debt tender offers to purchase for cash certain of its senior unsecured notes in aggregate principal amounts of \$0.8 billion and \$2.1 billion, respectively.

During 2014, UST redeemed in full its \$300 million (aggregate principal amount) 5.75% senior notes due 2018.

As a result of the Altria Group, Inc. debt tender offers and the UST debt redemption, pre-tax losses on early extinguishment of debt were recorded as follows:

(in millions)	2015	2014	2013
Premiums and fees	\$226	\$44	\$1,054
Write-off of unamortized debt discounts and debt issuance costs	2	—	30
Total	\$228	\$44	\$1,084

For further discussion, see Note 9. Long-Term Debt to the consolidated financial statements in Item 8 ("Note 9").

SABMiller Special Items: Altria Group, Inc.'s earnings from its equity investment in SABMiller for 2015 included net pre-tax charges of \$126 million, consisting primarily of Altria Group, Inc.'s share of SABMiller's asset impairment charges.

Tax Items: Tax items for 2015 primarily included the reversal of tax reserves and associated interest due primarily to the closure in August 2015 of the Internal Revenue Service audit of Altria Group, Inc. and its consolidated subsidiaries' 2007-2009 tax years, partially offset by a reversal of foreign tax credits primarily associated with SABMiller dividends. Tax items for 2014 included the reversal of tax accruals no longer required. Tax items for 2013 included the reversal of tax accruals no longer required and the recognition of previously unrecognized foreign tax

credits primarily associated with SABMiller dividends. For further discussion, see Note 14.

2015 Compared with 2014

The following discussion compares consolidated operating results for the year ended December 31, 2015, with the year ended December 31, 2014.

Net revenues, which include excise taxes billed to customers, increased \$912 million (3.7%), due primarily to higher net revenues in the smokeable products segment.

Cost of sales decreased \$45 million (0.6%), due primarily to lower resolution expenses (due principally to the end of the federal tobacco quota buy-out payments after the third quarter of 2014) and higher NPM Adjustment Items in 2015, partially offset by higher manufacturing costs in the smokeable products and smokeless products segments.

Marketing, administration and research costs increased \$169 million (6.7%), due primarily to higher costs in the smokeable products segment (which included higher tobacco and health litigation items).

Operating income increased \$741 million (9.7%), due primarily to higher operating results from the smokeable products and smokeless products segments.

Interest and other debt expense, net, increased \$9 million (1.1%), due primarily to interest income recorded during 2014 and the reversal of interest income recorded during 2015 as a result of the NPM Adjustment Items, and higher interest costs related to tobacco and health litigation items, mostly offset by

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lower interest costs on debt as a result of debt refinancing activities in 2015 and 2014.

Earnings from Altria Group, Inc.'s equity investment in SABMiller, which decreased \$249 million (24.8%), were negatively affected by SABMiller special items and unfavorable currency impacts from a stronger U.S. dollar.

Net earnings attributable to Altria Group, Inc. of \$5,241 million increased \$171 million (3.4%), due primarily to higher operating income, partially offset by lower earnings from Altria Group, Inc.'s equity investment in SABMiller and higher losses on early extinguishment of debt. Diluted and basic EPS attributable to Altria Group, Inc. of \$2.67, each increased by 4.3% due to higher net earnings attributable to Altria Group, Inc. and fewer shares outstanding.

2014 Compared with 2013
The following discussion compares consolidated operating results for the year ended December 31, 2014, with the year ended December 31, 2013.

Net revenues, which include excise taxes billed to customers, were essentially unchanged, due primarily to higher net revenues in all reportable segments, offset by lower gains on asset sales in the financial services business.

Excise taxes on products decreased \$226 million (3.3%), due primarily to lower smokeable products shipment volume.

Cost of sales increased \$579 million (8.0%), due primarily to higher NPM Adjustment Items in 2013.

Marketing, administration and research costs increased \$199 million (8.5%), due primarily to higher investment spending in the innovative tobacco products businesses, lower reductions to the allowance for losses in the financial services business and higher costs in the smokeable products segment.

Operating income decreased \$464 million (5.7%), due primarily to lower operating results from the smokeable products segment (which reflected higher NPM Adjustment Items in 2013), higher investment spending in the innovative tobacco products businesses and lower income from the financial services business, partially offset by higher operating results from the smokeless products segment.

Interest and other debt expense, net, decreased \$241 million (23.0%) due primarily to lower interest costs on debt as a result of debt maturities in 2013 and 2014, and debt refinancing activities during 2013, as well as interest income recorded in 2014 as a result of the NPM Adjustment Items.

Net earnings attributable to Altria Group, Inc. of \$5,070 million increased \$535 million (11.8%), due primarily to lower losses on early extinguishment of debt, lower interest and other debt expense, net, partially offset by lower operating income. Diluted and basic EPS attributable to Altria Group, Inc. of \$2.56, each increased by 13.3% due to higher net earnings attributable to Altria Group, Inc. and fewer shares outstanding.

Operating Results by Business Segment

Tobacco Space

Business Environment

Summary

The United States tobacco industry faces a number of business and legal challenges that have adversely affected and may adversely affect the business and sales volume of our tobacco subsidiaries and our consolidated results of operations, cash flows or financial position. These challenges, some of which are discussed in more detail below, in Note 18, Item 1A and Item 3, include:

pending and threatened litigation and bonding requirements;

the requirement to issue "corrective statements" in various media in connection with the federal government's lawsuit; restrictions and requirements imposed by the FSPTCA, and restrictions and requirements that have been, and in the future will be, imposed by the FDA;

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

bans and restrictions on tobacco use imposed by governmental entities and private establishments and employers; other federal, state and local government actions, including:

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

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

additional restrictions on the advertising and promotion of tobacco products;
other actual and proposed tobacco product legislation and regulation; and
governmental investigations;
the diminishing prevalence of cigarette smoking and increased efforts by tobacco control advocates and others
(including employers and retail establishments) to further restrict tobacco use;
changes in adult tobacco consumer purchase behavior, which is influenced by various factors such as economic
conditions, excise taxes and price gap relationships, may result in adult tobacco consumers switching to discount
products or other lower priced tobacco products;

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the highly competitive nature of the tobacco categories in which our tobacco subsidiaries operate, including competitive disadvantages related to cigarette price increases attributable to the settlement of certain litigation; illicit trade in tobacco products; and potential adverse changes in tobacco leaf price, availability and quality.

In addition to and in connection with the foregoing, evolving adult tobacco consumer preferences pose challenges for Altria Group, Inc.'s tobacco subsidiaries. Our tobacco subsidiaries believe that a significant number of adult tobacco consumers switch between tobacco categories, use multiple forms of tobacco products and try innovative tobacco products, such as e-vapor products. While the e-vapor category grew significantly in recent years, Nu Mark estimates a slowdown in growth during 2015.

Altria Group, Inc. and its tobacco subsidiaries work to meet these evolving adult tobacco consumer preferences over time by developing, manufacturing, marketing and distributing products both within and outside the United States through innovation and adjacency growth strategies (including, where appropriate, arrangements with, or investments in, third parties). For example, Nu Mark entered the e-vapor category in 2013. See the discussions regarding new product technologies, adjacency growth strategy and evolving consumer preferences in Item 1A for certain risks associated with the foregoing discussion.

We have provided additional detail on the following topics below:

FSPTCA and FDA Regulation;

Excise Taxes;

International Treaty on Tobacco Control;

State Settlement Agreements;

Other Federal, State and Local Regulation and Activity;

Illicit Trade in Tobacco Products;

Price, Availability and Quality of Agricultural Products; and

Timing of Sales.

FSPTCA and FDA Regulation

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

Among other measures, the FSPTCA:

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

requires extensive product disclosures to the FDA and may require public disclosures;

prohibits any express or implied claims that a tobacco product is or may be less harmful than other tobacco products without FDA authorization;

imposes reporting obligations relating to contraband activity and grants the FDA authority to impose recordkeeping and other obligations to address illicit trade in tobacco products;

changes the language of the cigarette and smokeless tobacco product health warnings, enlarges their size and requires the development by the FDA of graphic warnings for cigarettes, and gives the FDA the authority to require new warnings;

authorizes the FDA to adopt product regulations and related actions, including imposing tobacco product standards that are appropriate for the protection of the public health (e.g., related to the use of menthol in cigarettes, nicotine yields and other constituents or ingredients) and imposing manufacturing standards for tobacco products;

establishes pre-market review pathways for new and modified tobacco products, including:

authorizing the FDA to subject tobacco products that would be modified or first introduced into the market after March 22, 2011 to application and pre-market review and authorization requirements (the "New Product Application

Process”) if the FDA does not find them, as a manufacturer may contend, to be “substantially equivalent” to products commercially marketed as of February 15, 2007, and possibly to deny any such new product application, thereby preventing the distribution and sale of any product affected by such denial; and authorizing the FDA to determine that certain existing tobacco products modified or introduced into the market for the first time between February 15, 2007 and March 22, 2011 are not “substantially equivalent” to products commercially marketed as of February 15, 2007, in which case the FDA could require the removal of such products from the marketplace or subject them to the New Product Application Process and, if any such applications are denied, prevent the continued distribution and sale of such products (see FDA Regulatory Actions - Substantial Equivalence and Other New Product Processes/Pathways below); and

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equips the FDA with a variety of investigatory and enforcement tools, including the authority to inspect tobacco product manufacturing and other facilities.

In April 2014, the FDA issued proposed regulations for other tobacco products, which as proposed would include machine-made large cigars, e-vapor products, pipe tobacco and oral tobacco-derived nicotine products marketed and sold by some of our tobacco subsidiaries. The proposed regulations would impose the FSPTCA regulatory framework on products manufactured, marketed and sold by Middleton and Nu Mark with potentially wide-ranging impact on their businesses. See FDA Regulatory Actions - Proposed Deeming Regulations below.

Implementation Timing, Rulemaking and Guidance: The implementation of the FSPTCA began in 2009 and will continue over time. The provisions of the FSPTCA that require the FDA to take action through rulemaking generally involve consideration of public comment and, for some issues, scientific review. From time to time, the FDA also issues guidance for public comment, which may be issued in draft or final form.

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

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

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

- impact the consumer acceptability of tobacco products;
- delay, discontinue or prevent the sale or distribution of existing, new or modified tobacco products;
- limit adult tobacco consumer choices;
- impose restrictions on communications with adult tobacco consumers;
- create a competitive advantage or disadvantage for certain tobacco companies;
- impose additional manufacturing, labeling or packaging requirements;
- impose additional restrictions at retail;
- result in increased illicit trade in tobacco products; or

otherwise significantly increase the cost of doing business.

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

The FSPTCA imposes fees on tobacco product manufacturers and importers to pay for the cost of regulation and other matters. The cost of the FDA user fee is allocated first among tobacco product categories subject to FDA regulation and then among manufacturers and importers within each respective category based on their relative market shares, all as prescribed by the statute and FDA regulations. Payments for user fees are adjusted for several factors, including inflation, market share and industry volume. For a discussion of the impact of the FDA user fee payments on Altria Group, Inc., see Financial Review - Off-Balance Sheet Arrangements and Aggregate Contractual Obligations - Payments Under State Settlement and Other Tobacco Agreements, and FDA Regulation below. In addition, compliance with the FSPTCA's regulatory requirements has resulted and will continue to result in additional costs for our tobacco businesses. The amount of additional compliance and related costs has not been material in any given quarter or year to date but could become material, either individually or in the aggregate, and will depend on the nature of the requirements imposed by the FDA.

Investigation and Enforcement: The FDA has a number of investigatory and enforcement tools available to it, including document requests and other required information submissions, facility inspections, examinations and

investigations, injunction proceedings, monetary penalties, product withdrawals and recalls, and product seizures. The use of any of these investigatory or enforcement tools by the FDA could result in significant costs to the tobacco businesses of Altria Group, Inc. or otherwise have a material adverse effect on the business, consolidated results of operations, cash flows or financial position of Altria Group, Inc. and its tobacco subsidiaries.

TPSAC

The Role of the TPSAC: As required by the FSPTCA, the FDA has established a tobacco product scientific advisory committee (the “TPSAC”), which consists of voting and non-voting members, to provide advice, reports, information and recommendations to the FDA on scientific and health issues relating to tobacco products.

Challenge to TPSAC Membership: In February 2011, Lorillard Tobacco Company (“Lorillard”) and R.J. Reynolds filed suit in the U.S. District Court for the District of Columbia against the United States Department of Health and Human Services and individual defendants (sued in their official capacities) asserting that the composition of the TPSAC and the composition of the Constituents Subcommittee of the TPSAC violates several federal laws, including the Federal Advisory Committee Act, because four

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of the voting members of the TPSAC have financial and other conflicts (including service as paid experts for plaintiffs in tobacco litigation). In July 2014, the district court granted plaintiffs' summary judgment motion, in part, and denied defendants' summary judgment motion, ordering the FDA to reconstitute the TPSAC and barring defendants from relying on the TPSAC report on menthol, discussed below. The FDA appealed to the U.S. Court of Appeals for the District of Columbia Circuit in September 2014. On January 15, 2016, the U.S. Court of Appeals for the District of Columbia Circuit vacated the trial court's ruling on procedural grounds, finding that plaintiffs lacked standing to bring suit.

TPSAC Action on Menthol: As mandated by the FSPTCA, in March 2011, the TPSAC submitted to the FDA a report on the impact of the use of menthol in cigarettes on the public health and related recommendations. The TPSAC report recommended, among other things, that the "[r]emoval of menthol cigarettes from the marketplace would benefit public health in the United States." The TPSAC report noted the potential that any ban on menthol cigarettes could lead to an increase in contraband cigarettes and other potential unintended consequences and suggested that the FDA consult with appropriate experts on this matter.

In March 2011, PM USA submitted a report to the FDA outlining its position that neither science nor other evidence demonstrates that regulatory actions or restrictions related to the use of menthol cigarettes are warranted. The report noted PM USA's belief that significant restrictions on the use of menthol cigarettes would have unintended consequences detrimental to public health and society. The FDA has stated that the TPSAC report is only a recommendation, and, in July 2013, the FDA released its preliminary scientific evaluation on menthol, which states "that menthol cigarettes pose a public health risk above that seen with non-menthol cigarettes." At the same time, the FDA also issued an advance notice of proposed rulemaking requesting comments on the FDA's preliminary scientific evaluation and information that may inform potential regulatory actions regarding menthol in cigarettes or other tobacco products. In November 2013, PM USA submitted comments to the FDA raising a number of concerns with the preliminary scientific evidence and about unintended consequences detrimental to public health and society. No future action can be taken by the FDA to regulate the manufacture, marketing or sale of menthol cigarettes (including a possible ban) until the completion of the rulemaking process.

Final Tobacco Marketing Rule: As required by the FSPTCA, the FDA re-promulgated in March 2010 a wide range of advertising and promotion restrictions in substantially the same form as regulations that were previously adopted in 1996 (but never imposed on tobacco manufacturers due to a United States Supreme Court ruling) (the "Final Tobacco Marketing Rule"). The Final Tobacco Marketing Rule:

bans the use of color and graphics in tobacco product labeling and advertising;

prohibits the sale of cigarettes and smokeless tobacco to underage persons;

restricts the use of non-tobacco trade and brand names on cigarettes and smokeless tobacco products;

requires the sale of cigarettes and smokeless tobacco in direct, face-to-face transactions;

prohibits sampling of cigarettes and prohibits sampling of smokeless tobacco products except in qualified adult-only facilities;

prohibits gifts or other items in exchange for buying cigarettes or smokeless tobacco products;

prohibits the sale or distribution of items such as hats and tee shirts with tobacco brands or logos; and

prohibits brand name sponsorship of any athletic, musical, artistic or other social or cultural event, or any entry or team in any event.

Subject to the limitations described below, the Final Tobacco Marketing Rule took effect in June 2010. At the time of the re-promulgation of the Final Tobacco Marketing Rule, the FDA also issued an advance notice of proposed rulemaking regarding the so-called "1000 foot rule," which would establish restrictions on the placement of outdoor tobacco advertising in relation to schools and playgrounds. PM USA and USSTC submitted comments on this advance notice.

Since enactment, several lawsuits have been filed challenging various provisions of the FSPTCA and the Final Tobacco Marketing Rule, including their constitutionality and the scope of the FDA's authority thereunder. Altria Group, Inc. and its tobacco subsidiaries are not parties to any of these lawsuits. As a result of one such challenge (Commonwealth Brands), the portion of the Final Tobacco Marketing Rule that bans the use of color and graphics in

labeling and advertising is unenforceable by the FDA. For a further discussion of the Final Tobacco Marketing Rule and the status of graphic warnings for cigarette packages and advertising, see FDA Regulatory Actions - Graphic Warnings below.

In a separate lawsuit that challenged the constitutionality of an FDA regulation that restricts tobacco manufacturers from using the trade or brand name of a non-tobacco product on cigarettes or smokeless tobacco products, the case was dismissed without prejudice pursuant to a stipulation by which the FDA agreed not to enforce the current or any amended trade name rule against plaintiffs until at least 180 days after rulemaking on the amended rule concludes. This relief only applies to plaintiffs in the case. However, in May 2010, the FDA issued guidance on the use of non-tobacco trade and brand names applicable to all cigarette and smokeless tobacco product manufacturers. This guidance indicated the FDA's intention not to commence enforcement actions under the regulation while it considers how to address the concerns raised by various manufacturers. In November 2011, the FDA proposed an amended rule, but has not yet issued a final rule.

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FDA Regulatory Actions

Graphic Warnings: In June 2011, as required by the FSPTCA, the FDA issued its final rule to modify the required warnings that appear on cigarette packages and in cigarette advertisements. The FSPTCA requires the warnings to consist of nine new textual warning statements accompanied by color graphics depicting the negative health consequences of smoking. The graphic health warnings will (i) be located beneath the cellophane, and comprise the top 50% of the front and rear panels of cigarette packages and (ii) occupy 20% of a cigarette advertisement and be located at the top of the advertisement. After a legal challenge to the rule initiated by R.J. Reynolds, Lorillard and several other plaintiffs, in which plaintiffs prevailed both at the federal trial and appellate levels, the FDA decided not to seek further review of the U.S. Court of Appeals' decision and announced its plans to propose a new graphic warnings rule in the future.

Substantial Equivalence and Other New Product Processes/Pathways: In January 2011, the FDA issued guidance concerning reports that manufacturers must submit for certain FDA-regulated tobacco products that the manufacturer modified or introduced for the first time into the market after February 15, 2007. These reports must be reviewed by the FDA to determine if such tobacco products are "substantially equivalent" to products commercially available as of February 15, 2007. In general, in order to continue marketing the products commercially available before March 22, 2011, manufacturers of FDA-regulated tobacco products were required to send to the FDA a report demonstrating substantial equivalence by March 22, 2011. PM USA and USSTC submitted timely reports. PM USA and USSTC can continue marketing these products unless the FDA makes a determination that a specific product is not substantially equivalent. If the FDA ultimately makes such a determination, it could require the removal of such products from the marketplace or subject them to the New Product Application Process and, if any such applications are denied, prevent the continued distribution and sale of such products. While PM USA and USSTC believe that all of their current products meet the statutory requirements of the FSPTCA, they cannot predict whether, when or how the FDA ultimately will apply its guidance to their various respective substantial equivalence reports or seek to enforce the law and regulations consistent with its guidance.

Manufacturers intending to introduce new products and certain modified products into the market after March 22, 2011 must submit a report to the FDA and obtain a "substantial equivalence order" from the FDA before introducing the products into the market. If the FDA declines to issue a so-called "substantial equivalence order" for a product or if the manufacturer itself determines that the product does not meet the substantial equivalence requirements, the product would need to undergo the New Product Application Process.

The FDA began announcing its decisions on substantial equivalence reports in the second quarter of 2013. However, there are a significant number of substantial equivalence reports for which the FDA has not announced decisions. At this time, it is not possible to predict how long reviews by the FDA of substantial equivalence reports or new product applications will take. "Not substantially equivalent" determinations could have a material adverse impact on the business results of Altria Group, Inc.'s tobacco subsidiaries.

In March 2015, the FDA issued a document entitled "Guidance for Industry: Demonstrating the Substantial Equivalence of a New Tobacco Product: Responses to Frequently Asked Questions" ("Substantial Equivalence Guidance"). In that document, the FDA announced that (i) certain label changes and (ii) changes to the quantity of tobacco product(s) in a package would each require submission of newly required substantial equivalence reports and authorization from the FDA prior to marketing tobacco products with such changes, even when the tobacco product itself is not changed. PM USA and USSTC market various products that fall within the scope of the Substantial Equivalence Guidance.

In April 2015, PM USA, USSTC and other tobacco product manufacturers filed a lawsuit in the U.S. District Court for the District of Columbia against the FDA, the United States Department of Health and Human Services, and the heads of both agencies seeking to declare these new requirements invalid and to enjoin defendants from enforcing them. In May 2015, the FDA announced that it was continuing to consider the Substantial Equivalence Guidance in light of comments received and that it would not enforce the requirements under such guidance until further notice. In light of the FDA's announcement, the plaintiffs dismissed the pending lawsuit without prejudice in June 2015.

In September 2015, the FDA issued a second edition of the Substantial Equivalence Guidance (the “Revised SE Guidance”), which continues to require FDA pre-authorization for certain label changes and for product quantity changes. PM USA, USSTC and other tobacco product manufacturers filed a new lawsuit in the U.S. District Court for the District of Columbia against the same defendants named in the prior suit seeking to declare the requirements of the Revised SE Guidance invalid and to enjoin defendants from enforcing them. On October 30, 2015, plaintiffs filed a motion for summary judgment. Defendants opposed the motion for summary judgment and moved to dismiss the complaint on December 8, 2015.

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

Proposed Deeming Regulations: As noted above in FSPTCA and FDA Regulation - The Regulatory Framework, the FDA

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proposed regulations in April 2014 that would impose the FSPTCA regulatory framework on machine-made large cigars, e-vapor products, pipe tobacco and chewable tobacco-derived nicotine products. Nu Mark and Middleton submitted comments on the proposed regulations in August 2014. Nu Mark's submission covers a number of topics, including its perspective on (1) the guiding principles that the FDA should follow to help ensure successful implementation of the deeming regulation, (2) the potential for e-vapor products and other tobacco-derived nicotine products to reduce tobacco-related harm and (3) the establishment of product approval pathways that encourage innovation of potentially reduced harm products. Middleton's comments covered its perspective on the overall regulation of cigars and on the use of the word "mild" in the Black & Mild brand name. The proposed regulations suggested that the FDA may apply the descriptor prohibition to cigars and pipe tobacco, which could potentially prohibit the use of the word "Mild" in the Black & Mild brand name. As reflected in the comments, Middleton believes neither the FDA's regulatory authority nor the First or Fifth Amendments to the United States Constitution allow the FDA to ban words such as "mild" regardless of the context and that the FDA can only prohibit the word "mild" when used as a descriptor of modified risk.

Excise Taxes

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

Federal, state and local excise taxes have increased substantially over the past decade, far outpacing the rate of inflation. By way of example, in 2009, the federal excise tax ("FET") on cigarettes increased from \$0.39 per pack to approximately \$1.01 per pack, in 2010, the New York state excise tax increased by \$1.60 to \$4.35 per pack and in October 2014, Philadelphia, Pennsylvania enacted a \$2.00 per pack local cigarette excise tax. Between the end of 1998 and February 22, 2016, the weighted-average state and certain local cigarette excise taxes increased from \$0.36 to \$1.54 per pack. During 2015, Alabama, Nevada, Kansas, Vermont, Louisiana, Ohio, Rhode Island and Connecticut enacted legislation to increase their cigarette excise taxes. As of February 22, 2016, no state has increased its cigarette excise tax in 2016. The Federal Budget released by the President in February 2016 proposes significant increases in the FET for all tobacco products. The proposed budget would increase the FET on a pack of cigarettes by \$0.94 per pack, raising the total FET to \$1.95 per pack, and would also increase the tax on other tobacco products by a proportionate amount. It is not possible to predict whether this proposed FET increase will be enacted.

Tax increases are expected to continue to have an adverse impact on sales of the tobacco products of our tobacco

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

A majority of states currently tax smokeless tobacco products using an ad valorem method, which is calculated as a percentage of the price of the product, typically the wholesale price. This ad valorem method results in more tax being paid on premium products than is paid on lower-priced products of equal weight. Altria Group, Inc.'s subsidiaries support legislation to convert ad valorem taxes on smokeless tobacco to a weight-based methodology because, unlike the ad valorem tax, a weight-based tax subjects cans of equal weight to the same tax. As of February 22, 2016, the federal government, 22 states, Puerto Rico, Philadelphia, Pennsylvania and Cook County, Illinois have adopted a weight-based tax methodology for smokeless tobacco.

International Treaty on Tobacco Control

The World Health Organization's Framework Convention on Tobacco Control (the "FCTC") entered into force in February 2005. As of February 22, 2016, 179 countries, as well as the European Community, have become parties to the FCTC. While the United States is a signatory of the FCTC, it is not currently a party to the agreement, as the agreement has not been submitted to, or ratified by, the United States Senate. The FCTC is the first international public health treaty and its objective is to establish a global agenda for tobacco regulation with the purpose of reducing initiation of tobacco use and encouraging cessation. The treaty recommends (and in certain instances, requires) signatory nations to enact legislation that would, among other things: establish specific actions to prevent

youth tobacco product use; restrict or eliminate all tobacco product advertising, marketing, promotion and sponsorship; initiate public education campaigns to inform the public about the health consequences of tobacco consumption and exposure to tobacco smoke and the benefits of quitting; implement regulations imposing product testing, disclosure and performance standards; impose health warning requirements on packaging; adopt measures intended to combat tobacco product smuggling and counterfeit tobacco products, including tracking and tracing of tobacco products through the distribution chain; and restrict smoking in public places.

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

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apply to the United States until the Senate ratifies the FCTC and until the President signs, and the Senate ratifies, the Protocol. It is not possible to predict the outcome of these proposals or the impact of any FCTC actions on legislation or regulation in the United States, either indirectly or as a result of the United States becoming a party to the FCTC, or whether or how these actions might indirectly influence FDA regulation and enforcement.

State Settlement Agreements

As discussed in Note 18, during 1997 and 1998, PM USA and other major domestic tobacco product manufacturers entered into the State Settlement Agreements. These settlements require participating manufacturers to make substantial annual payments, which are adjusted for several factors, including inflation, operating income, market share and industry volume. For a discussion of the impact of the State Settlement Agreements on Altria Group, Inc., see Financial Review - Off Balance Sheet Arrangements and Aggregate Contractual Obligations - Payments Under State Settlement and Other Tobacco Agreements, and FDA Regulation below and Note 18. The State Settlement Agreements also place numerous requirements and restrictions on participating manufacturers' business operations, including prohibitions and restrictions on the advertising and marketing of cigarettes and smokeless tobacco products. Among these are prohibitions of outdoor and transit brand advertising, payments for product placement and free sampling (except in adult-only facilities). Restrictions are also placed on the use of brand name sponsorships and brand name non-tobacco products. The State Settlement Agreements also place prohibitions on targeting youth and the use of cartoon characters. In addition, the State Settlement Agreements require companies to affirm corporate principles directed at reducing underage use of cigarettes; impose requirements regarding lobbying activities; mandate public disclosure of certain industry documents; limit the industry's ability to challenge certain tobacco control and underage use laws; and provide for the dissolution of certain tobacco-related organizations and place restrictions on the establishment of any replacement organizations.

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

Other Federal, State and Local Regulation and Activity

Federal, State and Local Regulation: A number of states and localities have enacted or proposed legislation that imposes restrictions on tobacco products (including innovative tobacco products, such as e-vapor products), such as legislation that (1) prohibits the sale of certain tobacco products with certain characterizing flavors, (2) requires the disclosure of health information separate from or in addition to federally-mandated health warnings and (3) restricts commercial speech or imposes additional restrictions on the marketing or sale of tobacco

products (including proposals to ban all tobacco product sales or to increase the legal age to purchase tobacco products above the current federal minimum age requirement of 18). The legislation varies in terms of the type of tobacco products, the conditions under which such products are or would be restricted or prohibited, and exceptions to the restrictions or prohibitions. For example, a number of proposals involving characterizing flavors would prohibit smokeless tobacco products with characterizing flavors without providing an exception for mint- or wintergreen-flavored products.

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

Health Effects of Tobacco Consumption and Exposure to Environmental Tobacco Smoke ("ETS"): Altria Group, Inc. and its tobacco subsidiaries believe that the public should be guided by the messages of the United States Surgeon General and public health authorities worldwide in making decisions concerning the use of tobacco products. Reports with respect to the health effects of smoking have been publicized for many years, including in a January 2014 United States Surgeon General report titled "The Health Consequences of Smoking - 50 Years of Progress" and in a June 2006 United States Surgeon General report on ETS titled "The Health Consequences of Involuntary Exposure to Tobacco Smoke."

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

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

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It is not possible to predict what, if any, additional legislation, regulation or other governmental action will be enacted or implemented (and, if challenged, upheld) relating to the manufacturing, design, packaging, marketing, advertising, sale or use of tobacco products, or the tobacco industry generally. It is possible, however, that legislation, regulation or other governmental action could be enacted or implemented that would materially adversely affect the business and volume of our tobacco subsidiaries and our consolidated results of operations and cash flows.

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

Illicit Trade in Tobacco Products

Illicit trade in tobacco products can have an adverse impact on the businesses of Altria Group, Inc. and its tobacco subsidiaries. Illicit trade can take many forms, including the sale of counterfeit tobacco products; the sale of tobacco products in the United States that are intended for sale outside the country; the sale of tobacco products over the Internet and by other means designed to avoid the collection of applicable taxes; and diversion into one taxing jurisdiction of tobacco products intended for sale in another. Counterfeit tobacco products, for example, are manufactured by unknown third parties in unregulated environments. Counterfeit versions of PM USA, USSTC or Middleton products can negatively affect adult tobacco consumer experiences with and opinions of those brands. Illicit trade in tobacco products also harms law-abiding wholesalers and retailers by depriving them of lawful sales and undermines the significant investment Altria Group, Inc.'s tobacco subsidiaries have made in legitimate distribution channels. Moreover, illicit trade in tobacco products results in federal, state and local governments losing tax revenues. Losses in tax revenues can cause such governments to take various actions, including increasing excise taxes; imposing legislative or regulatory requirements that may adversely impact Altria Group, Inc.'s consolidated results of operations and cash flows and the businesses of its tobacco subsidiaries; or asserting claims against manufacturers of tobacco products or members of the trade channels through which such tobacco products are distributed and sold.

Altria Group, Inc. and its tobacco subsidiaries devote significant resources to help prevent illicit trade in tobacco products and to protect legitimate trade channels. For example, Altria Group, Inc.'s tobacco subsidiaries are engaged in a number of initiatives to help prevent illicit trade in tobacco products, including communication with wholesale and retail trade members regarding illicit trade in tobacco products and how they can help prevent such activities; enforcement of wholesale and retail trade programs and policies that address illicit trade in tobacco products; engagement with and support of law enforcement and regulatory agencies; litigation to protect their trademarks; and support for a variety of federal and state

legislative initiatives. Legislative initiatives to address illicit trade in tobacco products are designed to protect the legitimate channels of distribution, impose more stringent penalties for the violation of illegal trade laws and provide additional tools for law enforcement. Regulatory measures and related governmental actions to prevent the illicit manufacture and trade of tobacco products continue to evolve as the nature of illicit tobacco products evolves.

Price, Availability and Quality of Agricultural Products

Shifts in crops (such as those driven by economic conditions and adverse weather patterns), government mandated prices and production control programs may increase or decrease the cost or reduce the supply or quality of tobacco and other agricultural products used to manufacture our products. As with other agriculture commodities, the price of tobacco leaf can be influenced by economic conditions and imbalances in supply and demand and crop quality and availability can be influenced by variations in weather patterns, including those caused by climate change. Tobacco production in certain countries is subject to a variety of controls, including government mandated prices and production control programs. Changes in the patterns of demand for agricultural products and the cost of tobacco production could impact tobacco leaf prices and tobacco supply. Any significant change in the price, quality or availability of tobacco leaf or other agricultural products used to manufacture our products could adversely affect our subsidiaries' profitability and businesses.

Timing of Sales

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

Operating Results

The following table summarizes operating results for the smokeable and smokeless products segments:

(in millions)	For the Years Ended December 31,			Operating Companies Income		
	Net Revenues			2015	2014	2013
	2015	2014	2013	2015	2014	2013
Smokeable products	\$22,792	\$21,939	\$21,868	\$7,569	\$6,873	\$7,063
Smokeless products	1,879	1,809	1,778	1,108	1,061	1,023
Total smokeable and smokeless products	\$24,671	\$23,748	\$23,646	\$8,677	\$7,934	\$8,086

Smokeable Products Segment

The smokeable products segment's net revenues, operating companies income and operating companies income margin

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increased during 2015 due primarily to higher pricing. PM USA grew Marlboro's and its total cigarette retail share versus 2014.

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

(sticks in millions)	Shipment Volume		
	For the Years Ended December 31,		
	2015	2014	2013
Cigarettes:			
Marlboro	108,113	108,023	111,421
Other premium	6,753	7,047	7,721
Discount	11,152	10,320	10,170
Total cigarettes	126,018	125,390	129,312
Cigars:			
Black & Mild	1,295	1,246	1,177
Other	30	25	21
Total cigars	1,325	1,271	1,198
Total smokeable products	127,343	126,661	130,510

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

The following table summarizes the smokeable products segment retail share performance:

	Retail Share		
	For the Years Ended December 31,		
	2015	2014	2013
Cigarettes:			
Marlboro	44.0	% 43.8	% 43.7
Other premium	2.8	2.9	3.1
Discount	4.5	4.2	3.9
Total cigarettes	51.3	% 50.9	% 50.7
Cigars:			
Black & Mild	27.3	% 28.3	% 28.8
Other	0.4	0.4	0.2
Total cigars	27.7	% 28.7	% 29.0

Retail share results for cigarettes are based on data from IRI/Management Science Associate Inc., a tracking service that uses a sample of stores and certain wholesale shipments to project market share and depict share trends. Retail share results for cigars are based on data from IRI InfoScan, a tracking service that uses a sample of stores to project market share and depict share trends. Both services track sales in the food, drug and mass merchandisers (including Wal-Mart), convenience, military, dollar store and club trade classes. For

other trade classes selling cigarettes, retail share is based on shipments from wholesalers to retailers through the Store Tracking Analytical Reporting System ("STARS"). These services are not designed to capture sales through other channels, including the internet, direct mail and some illicitly tax-advantaged outlets. Retail share results for cigars are based on data for machine-made large cigars. Middleton defines machine-made large cigars as cigars, made by machine, that weigh greater than three pounds per thousand, except cigars sold at retail in packages of 20 cigars. Because the cigars service represents retail share performance only in key trade channels, it should not be considered a precise measurement of actual retail share. It is IRI's standard practice to periodically refresh its services, which could restate retail share results that were previously released in these services.

PM USA and Middleton executed the following pricing and promotional allowance actions during 2015, 2014 and 2013:

Effective November 15, 2015, PM USA increased the list price on all of its cigarette brands by \$0.07 per pack.

Effective May 17, 2015, PM USA increased the list price on all of its cigarette brands by \$0.07 per pack.

Effective November 16, 2014, PM USA reduced its wholesale promotional allowance on L&M by \$0.07 per pack. In addition, PM USA increased the list price on all of its other cigarette brands by \$0.07 per pack.

Effective May 11, 2014, PM USA reduced its wholesale promotional allowance on Marlboro and L&M by \$0.06 per pack. In addition, PM USA increased the list price on all of its other cigarette brands by \$0.06 per pack, except for Parliament, which PM USA increased by \$0.11 per pack.

Effective December 1, 2013, PM USA reduced its wholesale promotional allowance on Marlboro and L&M by \$0.07 per pack. In addition, PM USA increased the list price on all of its other cigarette brands by \$0.07 per pack.

Effective June 10, 2013, PM USA reduced its wholesale promotional allowance on Marlboro and L&M by \$0.06 per pack. In addition, PM USA increased the list price on all of its other cigarette brands by \$0.06 per pack.

The following discussion compares operating results for the smokeable products segment for the year ended December 31, 2015 with the year ended December 31, 2014.

Net revenues, which include excise taxes billed to customers, increased \$853 million (3.9%), due primarily to higher pricing, which includes higher promotional investments, and higher shipment volume (\$133 million).

Operating companies income increased \$696 million (10.1%), due primarily to higher pricing, which includes higher promotional investments, lower resolution expenses (due principally to the end of the federal tobacco quota buy-out payments after the third quarter of 2014), higher shipment volume

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(\$68 million) and higher NPM Adjustment Items in 2015 (\$54 million). These factors were partially offset by higher costs (due primarily to higher pension and benefit costs, and marketing, administration and research costs) and higher tobacco and health litigation items (\$100 million).

Marketing, administration and research costs for the smokeable products segment include PM USA's cost of administering and litigating product liability claims. Litigation defense costs are influenced by a number of factors, including the number and types of cases filed, the number of cases tried annually, the results of trials and appeals, the development of the law controlling relevant legal issues, and litigation strategy and tactics. For further discussion on these matters, see Note 18 and Item 3. For the years ended December 31, 2015, 2014 and 2013, product liability defense costs for PM USA were \$228 million, \$230 million and \$247 million, respectively. The factors that have influenced past product liability defense costs are expected to continue to influence future costs. PM USA does not expect future product liability defense costs to be significantly different from product liability defense costs incurred in the last few years.

For 2015, total smokeable products reported shipment volume increased 0.5% versus 2014. PM USA's 2015 reported domestic cigarettes shipment volume increased 0.5%, due to a moderation in the industry's decline rate and retail share gains. When adjusted for trade inventory movements and other factors, PM USA estimates that its 2015 domestic cigarettes shipment volume increased approximately 0.5%, and that total industry cigarette volumes declined approximately 0.5%.

PM USA's shipments of premium cigarettes accounted for 91.2% of its reported domestic cigarettes shipment volume for 2015, versus 91.8% for 2014.

Middleton's reported cigars shipment volume for 2015 increased 4.2%, driven primarily by Black & Mild in the tipped cigars segment.

Marlboro's retail share for 2015 increased 0.2 share points versus 2014.

PM USA grew its total retail share for 2015 by 0.4 share points versus 2014, due to gains by Marlboro and L&M in Discount, partially offset by share losses on other portfolio brands.

In the machine-made large cigars category, while Black & Mild's retail share for 2015 declined 1.0 share point, Black & Mild gained retail share in the more profitable tipped cigars segment.

The following discussion compares operating results for the smokeable products segment for the year ended December 31, 2014 with the year ended December 31, 2013.

Net revenues, which include excise taxes billed to customers, increased \$71 million (0.3%), due primarily to higher pricing, partially offset by lower shipment volume (\$724 million).

Operating companies income decreased \$190 million (2.7%), due primarily to higher NPM Adjustment Items in 2013 (\$621 million), lower shipment volume (\$360 million) and higher

marketing, administration and research costs, partially offset by higher pricing.

For 2014, total smokeable products reported shipment volume decreased 2.9% versus 2013. PM USA's 2014 reported domestic cigarettes shipment volume decreased 3.0%, due primarily to the industry's decline, partially offset by retail share gains. When adjusted for trade inventory changes and other factors, PM USA estimates that its 2014 domestic cigarettes shipment volume decreased approximately 3%, and that total industry cigarette volumes declined approximately 3.5%.

PM USA's shipments of premium cigarettes accounted for 91.8% of its reported domestic cigarettes shipment volume for 2014, versus 92.1% for 2013.

Middleton's reported cigars shipment volume for 2014 increased 6.1%, driven by Black & Mild's performance in the tipped cigars segment, including Black & Mild Jazz.

Marlboro's retail share for 2014 increased 0.1 share point versus 2013.

PM USA grew its total retail share for 2014 by 0.2 share points versus 2013, driven by Marlboro, and L&M in Discount, partially offset by share losses on other portfolio brands. In the fourth quarter of 2014, PM USA expanded distribution of Marlboro Menthol Rich Blue to 28 states, primarily in the eastern U.S., to enhance Marlboro's position in the menthol segment.

In the machine-made large cigars category, Black & Mild's retail share for 2014 declined 0.5 share points. In December 2014, Middleton announced the national expansion of Black & Mild Casino, a dark tobacco blend, in the tipped segment.

Smokeless Products Segment

During 2015, the smokeless products segment grew net revenues and operating companies income, primarily through higher pricing. USSTC increased Copenhagen and Skoal's combined retail share versus 2014.

The following table summarizes smokeless products segment shipment volume performance:

(cans and packs in millions)	Shipment Volume		
	For the Years Ended December 31,		
	2015	2014	2013
Copenhagen	474.7	448.6	426.1
Skoal	267.9	269.6	283.8
Copenhagen and Skoal	742.6	718.2	709.9
Other	70.9	75.1	77.6
Total smokeless products	813.5	793.3	787.5

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

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

	Retail Share			
	For the Years Ended December 31,			
	2015	2014	2013	
Copenhagen	31.6	% 30.7	% 29.4	%
Skoal	19.7	20.3	21.3	
Copenhagen and Skoal	51.3	51.0	50.7	
Other	3.6	4.0	4.2	
Total smokeless products	54.9	% 55.0	% 54.9	%

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

USSTC executed the following pricing actions during 2015, 2014 and 2013:

Effective December 8, 2015, USSTC increased the list price on Copenhagen and Skoal popular price products by \$0.12 per can. In addition, USSTC increased the list price on all its brands, except for Copenhagen and Skoal popular price products, by \$0.07 per can.

Effective May 5, 2015, USSTC increased the list price on all its brands by \$0.07 per can.

Effective November 25, 2014, USSTC increased the list price on all its brands by \$0.07 per can.

Effective May 11, 2014, USSTC increased the list price on all of its brands by \$0.06 per can.

Effective December 8, 2013, USSTC increased the list price on all of its brands by \$0.06 per can.

Effective May 12, 2013, USSTC increased the list price on all of its brands by \$0.05 per can.

The following discussion compares operating results for the smokeless products segment for the year ended December 31, 2015 with the year ended December 31, 2014.

Net revenues, which include excise taxes billed to customers, increased \$70 million (3.9%), due primarily to higher pricing, which includes higher promotional investments.

Operating companies income increased \$47 million (4.4%), due primarily to higher pricing, which includes higher promotional investments, partially offset by higher costs.

The smokeless products segment's reported domestic shipment volume for 2015 increased 2.5% as volume growth in Copenhagen was partially offset by declines in Skoal and Other portfolio brands. Copenhagen and Skoal's combined reported domestic shipment volume increased 3.4% for 2015.

After adjusting for trade inventory movements and other factors, USSTC estimates that its domestic smokeless products shipment volume grew approximately 2.5% for 2015. USSTC estimates that the smokeless products category volume grew approximately 2.5% over the six months ended December 31, 2015 as compared with approximately 2.0% for the six months ended December 31, 2014.

Copenhagen and Skoal's combined retail share increased 0.3 share points to 51.3% for 2015. Copenhagen's retail share increased 0.9 share points and Skoal's retail share declined 0.6 share points.

Total smokeless products retail share declined 0.1 share point to 54.9%.

The following discussion compares operating results for the smokeless products segment for the year ended December 31, 2014 with the year ended December 31, 2013.

Net revenues, which include excise taxes billed to customers, increased \$31 million (1.7%), due primarily to higher pricing, which includes higher promotional investments, and higher volume, partially offset by mix due to growth in popular priced products.

Operating companies income increased \$38 million (3.7%), due primarily to higher pricing (\$43 million), which includes higher promotional investments, and higher volume (\$9 million), partially offset by product mix.

Reported domestic smokeless products shipment volume for 2014 increased 0.7% as volume growth for Copenhagen was mostly offset by volume declines in Skoal and Other portfolio brands. Copenhagen and Skoal's combined reported shipment volume increased 1.2% for 2014.

After adjusting for trade inventory changes and other factors, USSTC estimates that domestic smokeless products shipment volume grew approximately 2.5% for 2014. USSTC estimates that the smokeless products category volume grew approximately 2.0% over the six months ended December 31, 2014 as compared with approximately 6.0% for the six months ended December 31, 2013.

Copenhagen and Skoal's combined retail share increased 0.3 share points to 51.0% for 2014. Copenhagen's retail share increased 1.3 share points, while Skoal's retail share declined 1.0 share point.

Retail share for the smokeless products segment increased 0.1 share point to 55.0%, as retail share gains for Copenhagen were mostly offset by share losses for Skoal and Other portfolio brands.

Wine Segment

Business Environment

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

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

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

Operating Results

Ste. Michelle's net revenues and operating companies income increased in 2015, due primarily to higher shipment volume and improved premium mix. Ste. Michelle expanded its operating companies income margin in 2015. The following table summarizes operating results for the wine segment:

(in millions)	For the Years Ended December 31,		
	2015	2014	2013
Net revenues	\$692	\$643	\$609
Operating companies income	\$152	\$134	\$118

The following table summarizes wine segment case shipment volume performance:

(cases in thousands)	Shipment Volume		
	For the Years Ended December 31,		
	2015	2014	2013
Chateau Ste. Michelle	3,253	3,035	2,753
Columbia Crest	1,062	1,032	1,031
14 Hands	1,848	1,662	1,374
Other	2,703	2,622	2,814
Total wine	8,866	8,351	7,972

The following discussion compares operating results for the wine segment for the year ended December 31, 2015 with the year ended December 31, 2014.

Net revenues, which include excise taxes billed to customers, increased \$49 million (7.6%), due primarily to higher shipment volume and improved premium mix. Operating companies income increased \$18 million (13.4%), due primarily to higher shipment volume and improved premium mix, partially offset by higher costs.

For 2015, Ste. Michelle's reported wine shipment volume increased 6.2%.

The following discussion compares operating results for the wine segment for the year ended December 31, 2014 with the year ended December 31, 2013.

Net revenues, which include excise taxes billed to customers, and operating companies income increased \$34 million (5.6%) and \$16 million (13.6%), respectively, due primarily to higher shipment volume.

For 2014, Ste. Michelle's reported wine shipment volume increased 4.8% driven by increased volume of 14 Hands and Chateau Ste. Michelle, partially offset by declines in Other brands.

Financial Review

Net Cash Provided by Operating Activities

During 2015, net cash provided by operating activities was \$5.8 billion compared with \$4.7 billion during 2014. This increase was due primarily to the following:

higher net revenues in the smokeable products segment in 2015; and

the end of the federal tobacco quota buy-out payments after the third quarter of 2014;

partially offset by:

higher settlement payments during 2015, driven by the impact of NPM Adjustment Items in 2014.

During 2014, net cash provided by operating activities was \$4.7 billion compared with \$4.4 billion during 2013. This increase was due primarily to the following:

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a voluntary \$350 million contribution to Altria Group, Inc.'s pension plans during 2013;
lower interest payments in 2014, resulting from debt maturities in 2013 and 2014, as well as debt refinancing activities in 2013; and

higher earnings in 2014;

partially offset by:

higher income tax payments in 2014, resulting primarily from the loss on early extinguishment of debt in 2013; and
higher settlement payments during 2014, driven primarily by the impact of higher NPM Adjustment Items in 2013.

Altria Group, Inc. had a working capital deficit at December 31, 2015 and 2014. Altria Group, Inc.'s management believes that it has the ability to fund these working capital deficits with cash provided by operating activities and/or short-term borrowings under its commercial paper program as discussed in the Debt and Liquidity section below.

Net Cash Used in/Provided by Investing Activities

During 2015, net cash used in investing activities was \$15 million compared with net cash provided by investing activities of \$177 million during 2014. This change was due primarily to the following:

\$132 million payment for a derivative financial instrument during 2015;

the sale of PM USA's Cabarrus, North Carolina manufacturing facility during 2014; and

higher capital expenditures during 2015, due primarily to a new USSTC manufacturing facility in Hopkinsville, Kentucky that is expected to be completed in 2016;

partially offset by:

Nu Mark's acquisition of the e-vapor business of Green Smoke during 2014.

During 2014, net cash provided by investing activities was \$177 million compared with \$602 million during 2013.

This decrease was due primarily to the following:

lower proceeds from asset sales in the financial services business during 2014; and

Nu Mark's acquisition of the e-vapor business of Green Smoke during 2014.

Capital expenditures for 2015 increased 40.5% to \$229 million, due primarily to the new USSTC manufacturing facility noted above. Capital expenditures for 2016 are expected to be in the range of \$140 million to \$180 million, and are expected to be funded from operating cash flows. The decrease in expected capital expenditures in 2016 compared with 2015 is due primarily

to higher capital expenditures during 2015 for the new USSTC manufacturing facility expected to be completed in 2016.

Net Cash Used in Financing Activities

During 2015, net cash used in financing activities was \$6.7 billion compared with \$4.7 billion during 2014. This increase was due primarily to the following:

debt tender offer completed during 2015, which resulted in the repurchase of \$793 million of senior unsecured long-term notes and a \$226 million payment of premiums and fees, as more fully described in Note 9;

\$1.0 billion repayment of Altria Group, Inc. senior unsecured notes at scheduled maturity in 2015;

debt issuance of \$1.0 billion in 2014; and

higher dividends paid during 2015;

partially offset by:

\$525 million repayment of Altria Group, Inc. senior unsecured notes at scheduled maturity in 2014;

lower share repurchases during 2015; and

full redemption of UST senior notes of \$300 million in 2014.

During 2014, net cash used in financing activities was \$4.7 billion, essentially unchanged compared to 2013, which primarily reflected the following:

higher repayments of debt in 2013 driven primarily by the repurchase of senior unsecured notes in connection with the 2013 debt tender offer; and

higher premiums and fees in 2013 in connection with the 2013 debt tender offer;

offset by:

debt issuances of \$3.2 billion in 2013 used to repurchase senior unsecured notes in connection with the 2013 debt tender offer;
higher share repurchases during 2014; and
higher dividends paid during 2014.

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Debt and Liquidity

Credit Ratings - Altria Group, Inc.'s cost and terms of financing and its access to commercial paper markets may be impacted by applicable credit ratings. Under the terms of certain of Altria Group, Inc.'s existing debt instruments, a change in a credit rating could result in an increase or a decrease of the cost of borrowings. For instance, as discussed in Note 9, the interest rate payable on certain of Altria Group, Inc.'s outstanding 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. ("Moody's") or Standard & Poor's Ratings Services ("Standard & Poor's") is downgraded (or subsequently upgraded) as and to the extent set forth in the notes. The impact of credit ratings on the cost of borrowings under Altria Group, Inc.'s credit agreement is discussed below.

At December 31, 2015, the credit ratings and outlook for Altria Group, Inc.'s indebtedness by major credit rating agencies were:

	Short-term Debt	Long-term Debt	Outlook
Moody's	P-2	Baa1	Stable
Standard & Poor's	A-2	BBB+	Stable
Fitch Ratings Ltd.	F2	BBB+	Stable

Credit Lines - From time to time, Altria Group, Inc. has short-term borrowing needs to meet its working capital requirements and generally uses its commercial paper program to meet those needs. At December 31, 2015, 2014 and 2013, Altria Group, Inc. had no short-term borrowings.

During the third quarter of 2015, Altria Group, Inc. entered into an extension agreement (the "Extension Agreement") to amend its \$3.0 billion senior unsecured 5-year revolving credit agreement, dated as of August 19, 2013 (the "Credit Agreement"). The Extension Agreement extends the expiration date of the Credit Agreement from August 19, 2019 to August 19, 2020 pursuant to the terms of the Credit Agreement. All other terms and conditions of the Credit Agreement remain in full force and effect. The Credit Agreement was previously amended in 2014 to extend the expiration date from August 19, 2018 to August 19, 2019.

Pricing for interest and fees under the Credit Agreement may be modified in the event of a change in the rating of Altria Group, Inc.'s long-term senior unsecured debt. Interest rates on borrowings under the Credit Agreement are expected to be based on the London Interbank Offered Rate ("LIBOR") plus a percentage based on the higher of the ratings of Altria Group, Inc.'s long-term senior unsecured debt from Moody's and Standard & Poor's. The applicable percentage based on Altria Group, Inc.'s long-term senior unsecured debt ratings at December 31, 2015 for borrowings under the Credit Agreement was 1.25%. The Credit Agreement does not include any other rating triggers, nor does it contain any provisions that could require the posting of collateral. At December 31, 2015, credit available to Altria Group, Inc. under the Credit Agreement was \$3.0 billion.

The Credit Agreement is used for general corporate purposes and to support Altria Group, Inc.'s commercial paper issuances. The Credit Agreement requires that Altria Group, Inc. maintain (i) a ratio of debt to consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA") of not more than 3.0 to 1.0 and (ii) a ratio of consolidated EBITDA to consolidated interest expense of not less than 4.0 to 1.0, each calculated as of the end of the applicable quarter on a rolling four quarters basis. At December 31, 2015, the ratios of debt to consolidated EBITDA and consolidated EBITDA to consolidated interest expense, calculated in accordance with the Credit Agreement, were 1.4 to 1.0 and 11.7 to 1.0, respectively. Altria Group, Inc. expects to continue to meet its covenants associated with the Credit Agreement. The terms "consolidated EBITDA," "debt" and "consolidated interest expense," as defined in the Credit Agreement, include certain adjustments. Exhibit 99.3 to Altria Group, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2013 sets forth the definitions of these terms as they appear in the Credit Agreement and is incorporated herein by reference.

Any commercial paper issued by Altria Group, Inc. and borrowings under the Credit Agreement are guaranteed by PM USA as further discussed in Note 19. Condensed Consolidating Financial Information to the consolidated financial statements in Item 8 ("Note 19").

Financial Market Environment - Altria Group, Inc. believes it has adequate liquidity and access to financial resources to meet its anticipated obligations and ongoing business needs in the foreseeable future. Altria Group, Inc. continues to monitor the credit quality of its bank group and is not aware of any potential non-performing credit provider in that group. Altria Group, Inc. believes the lenders in its bank group will be willing and able to advance funds in accordance with their legal obligations. See Item 1A for certain risk factors associated with the foregoing discussion.

Debt - At December 31, 2015 and 2014, Altria Group, Inc.'s total debt was \$12.9 billion and \$14.7 billion, respectively.

As discussed in Note 9, during 2015, Altria Group, Inc. repaid in full at maturity senior unsecured notes in the aggregate principal amount of \$1.0 billion. Additionally, during 2015, Altria Group, Inc. completed a debt tender offer to purchase for cash \$793 million aggregate principal amount of its senior unsecured 9.700% notes due 2018.

All of Altria Group, Inc.'s debt was fixed-rate debt at December 31, 2015 and 2014. The weighted-average coupon interest rate on total debt was approximately 5.5% and

5.7% at December 31, 2015 and 2014, respectively. For further details on long-term debt, see Note 9.

In October 2014, Altria Group, Inc. filed a registration statement on Form S-3 with the SEC, under which Altria Group, Inc. may offer debt securities or warrants to purchase debt securities from time to time over a three-year period from the date of filing.

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Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

Altria Group, Inc. has no off-balance sheet arrangements, including special purpose entities, other than guarantees and contractual obligations that are discussed below.

Guarantees and Other Similar Matters - As discussed in Note 18, Altria Group, Inc. and certain of its subsidiaries had unused letters of credit obtained in the ordinary course of business, guarantees (including third-party guarantees) and a redeemable noncontrolling interest outstanding at December 31, 2015. From time to time, subsidiaries of Altria Group, Inc. also issue lines of credit to affiliated entities. In addition, as discussed in Note 19, PM USA has issued guarantees relating to Altria Group, Inc.'s obligations under its outstanding debt securities, borrowings under its Credit Agreement and amounts outstanding under its commercial paper program. These items have not had, and are not expected to have, a significant impact on Altria Group, Inc.'s liquidity.

Aggregate Contractual Obligations - The following table summarizes Altria Group, Inc.'s contractual obligations at December 31, 2015:

(in millions)	Payments Due				
	Total	2016	2017 - 2018	2019 - 2020	2021 and Thereafter
Long-term debt ⁽¹⁾	\$12,965	\$4	\$871	\$2,148	\$9,942
Interest on borrowings ⁽²⁾	10,031	716	1,432	1,146	6,737
Operating leases ⁽³⁾	309	58	97	60	94
Purchase obligations: ⁽⁴⁾					
Inventory and production costs	3,218	989	1,336	565	328
Other	729	555	142	32	—
	3,947	1,544	1,478	597	328
Other long-term liabilities ⁽⁵⁾	2,443	152	325	311	1,655
	\$29,695	\$2,474	\$4,203	\$4,262	\$18,756

⁽¹⁾ Amounts represent the expected cash payments of Altria Group, Inc.'s long-term debt.

⁽²⁾ Amounts represent the expected cash payments of Altria Group, Inc.'s interest expense on its long-term debt. Interest on Altria Group, Inc.'s debt, which was all fixed-rate debt at December 31, 2015, is presented using the stated coupon interest rate. Amounts exclude the amortization of debt discounts and premiums, the amortization of loan fees and fees for lines of credit that would be included in interest and other debt expense, net on the consolidated statements of earnings.

⁽³⁾ Amounts represent the minimum rental commitments under non-cancelable operating leases.

⁽⁴⁾ Purchase obligations for inventory and production costs (such as raw materials, indirect materials and supplies, packaging, storage and distribution) are commitments for projected needs to be used in the normal course of business. Other purchase obligations include commitments for marketing, capital expenditures, information technology and professional services. Arrangements are considered purchase obligations if a contract specifies all significant terms, including fixed or minimum quantities to be purchased, a pricing structure and approximate timing of the transaction. Most arrangements are cancelable without a significant penalty, and with short notice (usually 30 days). Any amounts reflected on the consolidated balance sheet as accounts payable and accrued liabilities are excluded from the table above.

⁽⁵⁾ Other long-term liabilities consist of accrued postretirement health care costs and certain accrued pension costs. The amounts included in the table above for accrued pension costs consist of the actuarially determined anticipated minimum funding requirements for each year from 2016 through 2020. Contributions beyond 2020 cannot be reasonably estimated and, therefore, are not included in the table above. In addition, the following long-term liabilities included on the consolidated balance sheet are excluded from the table above: accrued postemployment costs, income taxes and tax contingencies, and other accruals. Altria Group, Inc. is unable to estimate the timing of payments for these items.

The State Settlement Agreements and related legal fee payments, and payments for FDA user fees, as discussed below and in Note 18 and Item 3, are excluded from the table above, as the payments are subject to adjustment for several

factors, including inflation, operating income, market share and industry volume. Litigation escrow deposits, as discussed below and in Note 18, are also excluded from the table above since these deposits will be returned to PM USA should it prevail on appeal.

Payments Under State Settlement and Other Tobacco Agreements, and FDA Regulation - As discussed previously and in Note 18 and Item 3, PM USA has entered into State Settlement

Agreements with the states and territories of the United States that call for certain payments. PM USA, Middleton and USSTC were also subject to payment obligations imposed by FETRA. The FETRA payment obligations expired after the third quarter of 2014. In addition, in June 2009, PM USA and USSTC became subject to quarterly user fees imposed by the FDA as a result of the FSPTCA. Payments under the State Settlement Agreements and the FDA user fees are based on variable factors, such as volume, operating income, market share and inflation, depending on the subject payment. Altria Group, Inc.'s subsidiaries account for the cost of the State Settlement Agreements, FETRA and FDA

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user fees as a component of cost of sales. As a result of the State Settlement Agreements, FETRA and FDA user fees, Altria Group, Inc.'s subsidiaries recorded approximately \$4.8 billion, \$4.9 billion and \$4.4 billion of charges to cost of sales for the years ended December 31, 2015, 2014 and 2013, respectively. The 2015, 2014 and 2013 amounts included reductions to cost of sales of \$97 million, \$43 million and \$664 million, respectively, for the NPM Adjustment Items. In addition, the 2015 and 2014 amounts reflected decreases in the charge to cost of sales of approximately \$300 million and \$100 million, respectively, for the expiration of the obligations imposed by FETRA after the third quarter of 2014.

In connection with the settlement with the 24 signatory states of certain NPM Adjustment disputes under the MSA, the formula for allocating the revised NPM Adjustments applicable to the signatory states for 2013 and subsequent years among the tobacco product manufacturers that are original signatories to the MSA ("OPMs") has been modified in a manner favorable to PM USA, although the extent to which it remains favorable to PM USA will depend upon future developments. Similarly, in connection with the settlement with New York of certain NPM Adjustment disputes under the MSA, the formula for allocating among the OPMs the revised NPM Adjustments applicable to New York for years after 2014 has been modified in a manner favorable to PM USA, although the extent to which it remains favorable to PM USA will depend upon future developments. For a detailed discussion of settlements of, and determinations made in connection with, disputes with certain states and territories related to the NPM Adjustment provision under the MSA for the years 2003-2012, see Health Care Cost Recovery Litigation - NPM Adjustment Disputes in Note 18.

Based on current agreements, 2015 market share and historical annual industry volume decline rates, the estimated amounts that Altria Group, Inc.'s subsidiaries may charge to cost of sales for payments related to State Settlement Agreements and FDA user fees approximate \$4.9 billion in 2016 and each year thereafter. The increase in these amounts compared with approximately \$4.8 billion charged to cost of sales in 2015 reflects the impact of the NPM Adjustments recorded in 2015. These amounts exclude the potential impact of the NPM Adjustment provision applicable under the MSA and the revised NPM Adjustment provisions applicable under the settlements of the NPM Adjustment disputes with the 24 signatory states and with New York, respectively, for years after 2014 discussed above.

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

Litigation-Related Deposits and Payments - With respect to certain adverse verdicts currently on appeal, to obtain stays of judgments pending appeals, as of December 31, 2015, PM USA had posted various forms of security totaling approximately \$77 million, the majority of which have been collateralized with cash deposits. These cash deposits are included in other assets on the consolidated balance sheet.

Although litigation is subject to uncertainty and an adverse outcome or settlement of litigation could have a material adverse effect on the financial position, cash flows or results of operations of PM USA, UST or Altria Group, Inc. in a particular fiscal quarter or fiscal year, as more fully disclosed in Note 18, Item 3 and Item 1A, management expects cash flow from operations, together with Altria Group, Inc.'s access to capital markets, to provide sufficient liquidity to meet ongoing business needs.

Equity and Dividends

As discussed in Note 11. Stock Plans to the consolidated financial statements in Item 8 ("Note 11"), during 2015 Altria Group, Inc. granted an aggregate of 1.2 million shares of restricted stock units (also known as deferred stock) to eligible employees.

At December 31, 2015, the number of shares to be issued upon vesting of restricted stock units was not significant.

Dividends paid in 2015 and 2014 were approximately \$4.2 billion and \$3.9 billion, respectively, an increase of 7.4%, reflecting a higher dividend rate, partially offset by fewer shares outstanding as a result of shares repurchased by Altria Group, Inc. under its share repurchase programs.

During the third quarter of 2015, the Board of Directors approved an 8.7% increase in the quarterly dividend rate to \$0.565 per common share versus the previous rate of \$0.52 per common share. Altria Group, Inc. expects to continue to maintain a dividend payout ratio target of approximately 80% of its adjusted diluted EPS. The current annualized dividend rate is \$2.26 per Altria Group, Inc. common share. Future dividend payments remain subject to the discretion of the Board of Directors.

During 2015, 2014 and 2013 the Board of Directors authorized Altria Group, Inc. to repurchase shares of its outstanding common stock under several share repurchase programs.

At December 31, 2015, Altria Group, Inc. had approximately \$965 million remaining in the July 2015 share repurchase program, which it expects to complete by the end of 2016. For further discussion of Altria Group, Inc.'s share repurchase programs, see Note 10. Capital Stock to the consolidated financial statements in Item 8 and Part II, Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities of this Annual Report on Form 10-K.

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Recent Accounting Guidance Not Yet Adopted

See Note 2 for a discussion of recent accounting guidance issued but not yet adopted.

Contingencies

See Note 18 and Item 3 for a discussion of contingencies.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

At December 31, 2015 and 2014, the fair value of Altria Group, Inc.'s total debt was \$14.5 billion and \$17.0 billion, respectively. The fair value of Altria Group, Inc.'s debt is subject to fluctuations resulting from changes in market interest rates. A 1% increase in market interest rates at December 31, 2015 and 2014 would decrease the fair value of Altria Group, Inc.'s total debt by approximately \$1.1 billion and \$1.3 billion, respectively. A 1% decrease in market interest rates at December 31, 2015 and 2014 would increase the fair value of Altria Group, Inc.'s total debt by approximately \$1.3 billion and \$1.5 billion, respectively.

Interest rates on borrowings under the Credit Agreement are expected to be based on LIBOR plus a percentage based on the higher of the ratings of Altria Group, Inc.'s long-term senior unsecured debt from Moody's and Standard & Poor's. The applicable percentage based on Altria Group, Inc.'s long-term senior unsecured debt ratings at December 31, 2015 for borrowings under the Credit Agreement was 1.25%. At December 31, 2015, Altria Group, Inc. had no borrowings under the Credit Agreement.

At December 31, 2015, the fair value of Altria Group, Inc.'s derivative financial instrument in the form of a put option (the "option") included in other current assets was \$152 million. A 10% devaluation of the United States dollar against the British pound would decrease the fair value of the option by approximately \$97 million, with a corresponding decrease to Altria Group, Inc.'s pre-tax earnings. A 10% appreciation of the United States dollar against the British pound would increase the fair value of the option by approximately \$172 million, with a corresponding increase to Altria Group, Inc.'s pre-tax earnings.

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Item 8. Financial Statements and Supplementary Data.

Altria Group, Inc. and Subsidiaries
 Consolidated Balance Sheets
 (in millions of dollars)

at December 31,	2015	2014
Assets		
Cash and cash equivalents	\$2,369	\$3,321
Receivables	124	124
Inventories:		
Leaf tobacco	957	991
Other raw materials	181	200
Work in process	444	429
Finished product	449	420
	2,031	2,040
Deferred income taxes	1,175	1,143
Other current assets	387	250
Total current assets	6,086	6,878
Property, plant and equipment, at cost:		
Land and land improvements	295	293
Buildings and building equipment	1,406	1,323
Machinery and equipment	2,969	2,986
Construction in progress	207	153
	4,877	4,755
Less accumulated depreciation	2,895	2,772
	1,982	1,983
Goodwill	5,285	5,285
Other intangible assets, net	12,028	12,049
Investment in SABMiller	5,483	6,183
Finance assets, net	1,239	1,614
Other assets	432	483
Total Assets	\$32,535	\$34,475

See notes to consolidated financial statements.

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

at December 31,	2015	2014
Liabilities		
Current portion of long-term debt	\$4	\$1,000
Accounts payable	400	416
Accrued liabilities:		
Marketing	695	618
Employment costs	198	186
Settlement charges	3,590	3,500
Other	1,081	925
Dividends payable	1,110	1,028
Total current liabilities	7,078	7,673
Long-term debt	12,915	13,693
Deferred income taxes	5,663	6,088
Accrued pension costs	1,277	1,012
Accrued postretirement health care costs	2,245	2,461
Other liabilities	447	503
Total liabilities	29,625	31,430
Contingencies (Note 18)		
Redeemable noncontrolling interest	37	35
Stockholders' Equity		
Common stock, par value \$0.33 1/3 per share (2,805,961,317 shares issued)	935	935
Additional paid-in capital	5,813	5,735
Earnings reinvested in the business	27,257	26,277
Accumulated other comprehensive losses	(3,280)	(2,682)
Cost of repurchased stock (845,901,836 shares at December 31, 2015 and 834,486,794 shares at December 31, 2014)	(27,845)	(27,251)
Total stockholders' equity attributable to Altria Group, Inc.	2,880	3,014
Noncontrolling interests	(7)	(4)
Total stockholders' equity	2,873	3,010
Total Liabilities and Stockholders' Equity	\$32,535	\$34,475

See notes to consolidated financial statements.

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

for the years ended December 31,	2015	2014	2013
Net revenues	\$25,434	\$24,522	\$24,466
Cost of sales	7,740	7,785	7,206
Excise taxes on products	6,580	6,577	6,803
Gross profit	11,114	10,160	10,457
Marketing, administration and research costs	2,708	2,539	2,340
Changes to Mondelēz and PMI tax-related receivables/payables	41	2	22
Asset impairment and exit costs	4	(1)	11
Operating income	8,361	7,620	8,084
Interest and other debt expense, net	817	808	1,049
Loss on early extinguishment of debt	228	44	1,084
Earnings from equity investment in SABMiller	(757)	(1,006)	(991)
Other income, net	(5)	—	—
Earnings before income taxes	8,078	7,774	6,942
Provision for income taxes	2,835	2,704	2,407
Net earnings	5,243	5,070	4,535
Net earnings attributable to noncontrolling interests	(2)	—	—
Net earnings attributable to Altria Group, Inc.	\$5,241	\$5,070	\$4,535
Per share data:			
Basic and diluted earnings per share attributable to Altria Group, Inc.	\$2.67	\$2.56	\$2.26

See notes to consolidated financial statements.

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

for the years ended December 31,	2015	2014	2013
Net earnings	\$5,243	\$5,070	\$4,535
Other comprehensive earnings (losses), net of deferred income taxes:			
Currency translation adjustments	(3)	(2)	(2)
Benefit plans	30	(767)	1,141
SABMiller	(625)	(535)	(477)
Other comprehensive (losses) earnings, net of deferred income taxes	(598)	(1,304)	662
Comprehensive earnings	4,645	3,766	5,197
Comprehensive earnings attributable to noncontrolling interests	(2)	—	—
Comprehensive earnings attributable to Altria Group, Inc.	\$4,643	\$3,766	\$5,197

See notes to consolidated financial statements.

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

for the years ended December 31,	2015	2014	2013
Cash Provided by (Used in) Operating Activities			
Net earnings	\$5,243	\$5,070	\$4,535
Adjustments to reconcile net earnings to operating cash flows:			
Depreciation and amortization	225	208	212
Deferred income tax benefit	(132)	(129)	(86)
Earnings from equity investment in SABMiller	(757)	(1,006)	(991)
Dividends from SABMiller	495	456	439
Loss on early extinguishment of debt	228	44	1,084
Cash effects of changes, net of the effects from acquisition of Green Smoke:			
Receivables, net	3	(8)	78
Inventories	(33)	(184)	(133)
Accounts payable	(7)	(5)	(76)
Income taxes	(12)	1	(95)
Accrued liabilities and other current assets	199	(107)	(107)
Accrued settlement charges	90	109	(225)
Pension plan contributions	(28)	(15)	(393)
Pension provisions and postretirement, net	114	21	177
Other	182	208	(44)
Net cash provided by operating activities	5,810	4,663	4,375
Cash Provided by (Used in) Investing Activities			
Capital expenditures	(229)	(163)	(131)
Acquisition of Green Smoke, net of acquired cash	—	(102)	—
Proceeds from finance assets	354	369	716
Payment for derivative financial instrument	(132)	—	—
Other	(8)	73	17
Net cash (used in) provided by investing activities	(15)	177	602
Cash Provided by (Used in) Financing Activities			
Long-term debt issued	—	999	4,179
Long-term debt repaid	(1,793)	(825)	(3,559)
Repurchases of common stock	(554)	(939)	(634)
Dividends paid on common stock	(4,179)	(3,892)	(3,612)
Premiums and fees related to early extinguishment of debt	(226)	(44)	(1,054)
Other	5	7	(22)
Net cash used in financing activities	(6,747)	(4,694)	(4,702)
Cash and cash equivalents:			
(Decrease) increase	(952)	146	275
Balance at beginning of year	3,321	3,175	2,900
Balance at end of year	\$2,369	\$3,321	\$3,175
Cash paid: Interest	\$776	\$820	\$1,099
Income taxes	\$3,029	\$2,765	\$2,448

See notes to consolidated financial statements.

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Altria Group, Inc. and Subsidiaries
 Consolidated Statements of Stockholders' Equity
 (in millions of dollars, except per share data)

	Attributable to Altria Group, Inc.						
	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, 2012	\$935	\$ 5,688	\$ 24,316	\$ (2,040)	\$ (25,731)	\$ 2	\$ 3,170
Net earnings (losses) ⁽¹⁾	—	—	4,535	—	—	(3)	4,532
Other comprehensive earnings, net of deferred income taxes	—	—	—	662	—	—	662
Stock award activity	—	26	—	—	11	—	37
Cash dividends declared (\$1.84 per share)	—	—	(3,683)	—	—	—	(3,683)
Repurchases of common stock	—	—	—	—	(600)	—	(600)
Balances, December 31, 2013	935	5,714	25,168	(1,378)	(26,320)	(1)	4,118
Net earnings (losses) ⁽¹⁾	—	—	5,070	—	—	(3)	5,067
Other comprehensive losses, net of deferred income taxes	—	—	—	(1,304)	—	—	(1,304)
Stock award activity	—	21	—	—	8	—	29
Cash dividends declared (\$2.00 per share)	—	—	(3,961)	—	—	—	(3,961)
Repurchases of common stock	—	—	—	—	(939)	—	(939)
Balances, December 31, 2014	935	5,735	26,277	(2,682)	(27,251)	(4)	3,010
Net earnings (losses) ⁽¹⁾	—	—	5,241	—	—	(3)	5,238
Other comprehensive losses, net of deferred income taxes	—	—	—	(598)	—	—	(598)
Stock award activity	—	78	—	—	(40)	—	38
Cash dividends declared (\$2.17 per share)	—	—	(4,261)	—	—	—	(4,261)
Repurchases of common stock	—	—	—	—	(554)	—	(554)
Balances, December 31, 2015	\$935	\$ 5,813	\$ 27,257	\$ (3,280)	\$ (27,845)	\$ (7)	\$ 2,873

⁽¹⁾ Net losses attributable to noncontrolling interests for the years ended December 31, 2015, 2014 and 2013 exclude net earnings of \$5 million, \$3 million and \$3 million, respectively, due to the redeemable noncontrolling interest related to Stag's Leap Wine Cellars, which is reported in the mezzanine equity section in the consolidated balance sheets at December 31, 2015, 2014 and 2013, respectively. See Note 18.

See notes to consolidated financial statements.

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Altria Group, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

Note 1. Background and Basis of Presentation

Background: At December 31, 2015, Altria Group, Inc.'s wholly-owned subsidiaries included Philip Morris USA Inc. ("PM USA"), which is engaged predominantly 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; 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 Group, Inc.'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 Group, Inc. wholly-owned subsidiaries included Altria Group Distribution Company, which provides sales, distribution and consumer engagement services to certain Altria Group, Inc. operating subsidiaries, and Altria Client Services LLC, which provides various support services in areas such as legal, regulatory, finance, human resources and external affairs to Altria Group, Inc. and its subsidiaries. Altria Group, Inc.'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 December 31, 2015, Altria Group, Inc.'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 December 31, 2015, Altria Group, Inc. also held approximately 27% of the economic and voting interest of SABMiller plc ("SABMiller"), which Altria Group, Inc. accounts for under the equity method of accounting. Altria Group, Inc. receives cash dividends on its interest in SABMiller if and when SABMiller pays such dividends. On November 11, 2015, Anheuser-Busch InBev SA/NV ("AB InBev") announced its firm offer to effect a business combination with SABMiller in a cash and stock transaction. For further discussion, see Note 6. Investment in SABMiller.

Basis of Presentation: The consolidated financial statements include Altria Group, Inc., as well as its wholly-owned and majority-owned subsidiaries. Investments in which Altria Group, Inc. has the ability to exercise significant influence are accounted for under the equity method of accounting. All intercompany transactions and balances have been eliminated.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the dates of the financial statements and the reported amounts of net revenues

and expenses during the reporting periods. Significant estimates and assumptions include, among other things, pension and benefit plan assumptions, lives and valuation assumptions for goodwill and other intangible assets, marketing programs, income taxes, and the allowance for losses and estimated residual values of finance leases. Actual results could differ from those estimates.

Note 2. Summary of Significant Accounting Policies

Cash and Cash Equivalents: Cash equivalents include demand deposits with banks and all highly liquid investments with original maturities of three months or less. Cash equivalents are stated at cost plus accrued interest, which approximates fair value.

Depreciation, Amortization, Impairment Testing and Asset Valuation: Property, plant and equipment are stated at historical costs and depreciated by the straight-line method over the estimated useful lives of the assets. Machinery and equipment are depreciated over periods up to 25 years, and buildings and building improvements over periods up to 50 years. Definite-lived intangible assets are amortized over their estimated useful lives up to 25 years.

Altria Group, Inc. reviews long-lived assets, including definite-lived intangible assets, for impairment whenever events or changes in business circumstances indicate that the carrying value of the assets may not be fully recoverable. Altria Group, Inc. performs undiscounted operating cash flow analyses to determine if an impairment exists. For purposes of recognition and measurement of an impairment for assets held for use, Altria Group, Inc. groups assets and liabilities at the lowest level for which cash flows are separately identifiable. If an impairment is determined to exist, any related impairment loss is calculated based on fair value. Impairment losses on assets to be disposed of, if any, are based on the estimated proceeds to be received, less costs of disposal. Altria Group, Inc. also reviews the estimated remaining useful lives of long-lived assets whenever events or changes in business circumstances indicate the lives may have changed.

Altria Group, Inc. conducts a required annual review of goodwill and indefinite-lived intangible assets for potential impairment, and more frequently if an event occurs or circumstances change that would require Altria Group, Inc. to perform an interim review. If the carrying value of goodwill exceeds its fair value, which is determined using discounted cash flows, goodwill is considered impaired. The amount of impairment loss is measured as the difference between the carrying value and the implied fair value. If the carrying value of an indefinite-lived intangible asset exceeds its fair value, which is determined using discounted cash flows, the intangible asset is considered impaired and is reduced to fair value.

Derivative Financial Instruments: Derivative financial instruments are recorded at fair value on the consolidated balance sheets as either assets or liabilities. Changes in the fair value of derivatives are recorded each period either in accumulated other comprehensive earnings (losses) or in earnings, depending on the

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type of derivative and whether the derivative qualifies for hedge accounting treatment. Gains and losses on derivative instruments reported in accumulated other comprehensive earnings (losses) are reclassified to the consolidated statements of earnings in the periods in which operating results are affected by the respective hedged item. Cash flows from hedging instruments are classified in the same manner as the respective hedged item in the consolidated statements of cash flows. Altria Group, Inc. does not enter into or hold derivative financial instruments for trading or speculative purposes.

Employee Benefit Plans: Altria Group, Inc. provides a range of benefits to its employees and retired employees, including pension, postretirement health care and postemployment benefits. Altria Group, Inc. records annual amounts relating to these plans based on calculations specified by U.S. GAAP, which include various actuarial assumptions as to discount rates, assumed rates of return on plan assets, mortality, compensation increases, turnover rates and health care cost trend rates.

Altria Group, Inc. recognizes the funded status of its defined benefit pension and other postretirement plans on the consolidated balance sheet and records as a component of other comprehensive earnings (losses), net of deferred income taxes, the gains or losses and prior service costs or credits that have not been recognized as components of net periodic benefit cost. The gains or losses and prior service costs or credits recorded as components of other comprehensive earnings (losses) are subsequently amortized into net periodic benefit cost in future years.

Environmental Costs: Altria Group, Inc. is subject to laws and regulations relating to the protection of the environment. Altria Group, Inc. provides for expenses associated with environmental remediation obligations on an undiscounted basis when such amounts are probable and can be reasonably estimated. Such accruals are adjusted as new information develops or circumstances change.

Compliance with environmental laws and regulations, including the payment of any remediation and compliance costs or damages and the making of related expenditures, has not had, and is not expected to have, a material adverse effect on Altria Group, Inc.'s consolidated results of operations, capital expenditures, financial position or cash flows (see Note 18. Contingencies - Environmental Regulation).

Fair Value Measurements: Altria Group, Inc. measures certain assets and liabilities at fair value. Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Altria Group, Inc. uses a fair value hierarchy, which gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of inputs used to measure fair value are:

Level 1 Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Finance Leases: Income attributable to leveraged leases is initially recorded as unearned income and subsequently recognized as revenue over the terms of the respective leases at constant after-tax rates of return on the positive net investment balances. Investments in leveraged leases are stated net of related nonrecourse debt obligations.

Finance leases include unguaranteed residual values that represent PMCC's estimates at lease inception as to the fair values of assets under lease at the end of the non-cancelable lease terms. The estimated residual values are reviewed at least annually by PMCC's management. This review includes analysis of a number of factors, including activity in the relevant industry. If necessary, revisions are recorded to reduce the residual values.

PMCC considers rents receivable past due when they are beyond the grace period of their contractual due date. PMCC stops recording income ("non-accrual status") on rents receivable when contractual payments become 90 days past due

or earlier if management believes there is significant uncertainty of collectability of rent payments, and resumes recording income when collectability of rent payments is reasonably certain. Payments received on rents receivable that are on non-accrual status are used to reduce the rents receivable balance. Write-offs to the allowance for losses are recorded when amounts are deemed to be uncollectible.

Guarantees: Altria Group, Inc. recognizes a liability for the fair value of the obligation of qualifying guarantee activities. See Note 18. Contingencies for a further discussion of guarantees.

Income Taxes: Significant judgment is required in determining income tax provisions and in evaluating tax positions. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse. Altria Group, Inc. records a valuation allowance when it is more-likely-than-not that some portion or all of a deferred tax asset will not be realized.

Altria Group, Inc. recognizes a benefit for uncertain tax positions when a tax position taken or expected to be taken in a tax return is more-likely-than-not to be sustained upon examination by taxing authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement.

Altria Group, Inc. recognizes accrued interest and penalties associated with uncertain tax positions as part of the provision for income taxes on its consolidated statements of earnings.

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Inventories: Inventories are stated at the lower of cost or market. The last-in, first-out (“LIFO”) method is used to determine the cost of substantially all tobacco inventories. The cost of the remaining inventories is determined using the first-in, first-out and average cost methods. It is a generally recognized industry practice to classify leaf tobacco and wine inventories as current assets although part of such inventory, because of the duration of the curing and aging process, ordinarily would not be used within one year.

Litigation Contingencies and Costs: Altria Group, Inc. and its subsidiaries record provisions in the consolidated financial statements for pending litigation when it is determined that an unfavorable outcome is probable and the amount of the loss can be reasonably estimated. Litigation defense costs are expensed as incurred and included in marketing, administration and research costs on the consolidated statements of earnings.

Marketing Costs: Altria Group, Inc.’s businesses promote their products with consumer engagement programs, consumer incentives and trade promotions. Such programs include discounts, coupons, rebates, in-store display incentives, event marketing and volume-based incentives. Consumer engagement programs are expensed as incurred. Consumer incentive and trade promotion activities are recorded as a reduction of 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. For interim reporting purposes, consumer engagement programs and certain consumer incentive expenses are charged to operations as a percentage of sales, based on estimated sales and related expenses for the full year.

Revenue Recognition: Altria Group, Inc.’s businesses recognize revenues, net of sales incentives and sales returns, and including shipping and handling charges billed to customers, upon shipment of goods when title and risk of loss pass to customers. Payments received in advance of revenue recognition are deferred and recorded in other accrued liabilities until revenue is recognized. Altria Group, Inc.’s businesses also include excise taxes billed to customers in net revenues. Shipping and handling costs are classified as part of cost of sales.

Stock-Based Compensation: Altria Group, Inc. measures compensation cost for all stock-based awards at fair value on date of grant and recognizes compensation expense over the service periods for awards expected to vest. The fair value of restricted stock and restricted stock units (also known as deferred stock) is determined based on the number of shares granted and the market value at date of grant.

New Accounting Standards: In May 2014, the Financial Accounting Standards Board (“FASB”) issued authoritative guidance for recognizing revenue from contracts with customers. The objective of this guidance is to establish principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity’s contracts with customers. As a result of an August 2015 FASB

update, the new guidance will be effective for Altria Group, Inc. for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. Altria Group, Inc. is in the process of evaluating the impact of this guidance on its consolidated financial statements and related disclosures.

In April 2015, the FASB issued authoritative guidance to simplify the presentation of debt issuance costs by requiring that debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts, rather than as a deferred charge (an asset). For Altria Group, Inc., the new guidance will be effective for annual reporting periods beginning after December 15, 2015, including interim periods within that reporting period. The guidance requires all prior period balance sheets to be adjusted retrospectively and early adoption is permitted. Altria Group, Inc. will adopt the new guidance in the first quarter of 2016. At December 31, 2015 and 2014, Altria Group, Inc. had \$72 million and \$83 million, respectively, of debt issuance costs included in other assets on its consolidated balance sheets.

In November 2015, the FASB issued authoritative guidance to simplify the presentation of deferred income taxes by requiring that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial

position. This guidance does not change the current requirement that deferred tax liabilities and assets for each tax-paying jurisdiction be offset and presented as a single amount. For Altria Group, Inc., the new guidance will be effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is permitted. The guidance may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. Altria Group, Inc. will adopt the new guidance by the first quarter of 2017. Under the new guidance, at December 31, 2015, current deferred income tax assets of approximately \$1.2 billion would have been reclassified to noncurrent deferred income tax liabilities (\$1.0 billion) and noncurrent deferred income tax assets (\$0.2 billion).

On January 5, 2016, the FASB issued authoritative guidance to address certain aspects of recognition, measurement, presentation and disclosure of financial instruments. For Altria Group, Inc., the new guidance will be effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption of the guidance is not permitted, except for a certain provision of the guidance. Altria Group, Inc. is in the process of evaluating the impact of this guidance on its consolidated financial statements and related disclosures.

Note 3. Acquisition of Green Smoke

In April 2014, Nu Mark acquired the e-vapor business of Green Smoke, Inc. and its affiliates (“Green Smoke”) for a total purchase price of approximately \$130 million. The acquisition

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complements Nu Mark's capabilities and enhances its competitive position by adding e-vapor experience, broadening product offerings and strengthening supply chain capabilities.

Green Smoke's financial position and results of operations have been consolidated with Altria Group, Inc. as of April 1, 2014.

Pro forma results, as well as net revenues and net earnings for Green Smoke subsequent to the acquisition, have not been presented because the acquisition of Green Smoke is not material to Altria Group, Inc.'s consolidated results of operations.

The purchase price allocation has been completed, and there were no changes subsequent to the acquisition date. Costs incurred to effect the acquisition, as well as integration costs, were recognized as expenses in the periods in which the costs were incurred. For the years ended December 31, 2015 and 2014, Altria Group, Inc. incurred \$7 million and \$28 million, respectively, of pre-tax integration and acquisition-related costs, consisting primarily of contract termination costs, transaction costs and inventory adjustments, which were included in Altria Group, Inc.'s consolidated statements of earnings.

Note 4. Goodwill and Other Intangible Assets, net

Goodwill and other intangible assets, net, by segment were as follows:

(in millions)	Goodwill		Other Intangible Assets, net	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
Smokeable products	\$77	\$ 77	\$2,919	\$ 2,937
Smokeless products	5,023	5,023	8,831	8,833
Wine	74	74	267	268
Other	111	111	11	11
Total	\$5,285	\$ 5,285	\$12,028	\$ 12,049

Goodwill relates to Altria Group, Inc.'s 2014 acquisition of Green Smoke, 2009 acquisition of UST and 2007 acquisition of Middleton.

Other intangible assets consisted of the following:

(in millions)	December 31, 2015		December 31, 2014	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Indefinite-lived intangible assets	\$11,711	\$ —	\$11,711	\$ —
Definite-lived intangible assets	465	148	465	127
Total other intangible assets	\$12,176	\$ 148	\$12,176	\$ 127

Indefinite-lived intangible assets consist substantially of trademarks from Altria Group, Inc.'s 2009 acquisition of UST (\$9.1 billion) and 2007 acquisition of Middleton (\$2.6 billion). Definite-lived intangible assets, which consist primarily of customer relationships and certain cigarette trademarks, are amortized over periods up to 25 years.

Pre-tax amortization expense for definite-lived intangible assets during the years ended December 31, 2015, 2014 and 2013, was \$21 million, \$20 million and \$20 million, respectively. Annual amortization expense for each of the next five years is estimated to be approximately \$20 million, assuming no additional transactions occur that require the amortization of intangible assets.

During 2015, 2014 and 2013, Altria Group, Inc. completed its quantitative annual impairment test of goodwill and indefinite-lived intangible assets, and no impairment charges resulted.

For the years ended December 31, 2015, 2014 and 2013, there have been no changes in goodwill and the gross carrying amount of other intangible assets except for the 2014 acquisition of Green Smoke. In addition, there were no

accumulated impairment losses related to goodwill and other intangible assets, net at December 31, 2015 and 2014.

Note 5. Inventories

The cost of approximately 65% and 66% of inventories at December 31, 2015 and 2014, respectively, was determined using the LIFO method. The stated LIFO amounts of inventories were approximately \$0.7 billion lower than the current cost of inventories at December 31, 2015 and 2014.

Note 6. Investment in SABMiller

At December 31, 2015, Altria Group, Inc. held approximately 27% of the economic and voting interest of SABMiller. Altria Group, Inc. accounts for its investment in SABMiller under the equity method of accounting.

Pre-tax earnings from Altria Group, Inc.'s equity investment in SABMiller were \$757 million, \$1,006 million and \$991 million for the years ended December 31, 2015, 2014 and 2013, respectively.

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Summary financial data of SABMiller is as follows:

(in millions)	At December 31,		
	2015	2014	2013
Current assets	\$4,266	\$5,878	
Long-term assets	\$38,425	\$43,812	
Current liabilities	\$6,282	\$10,051	
Long-term liabilities	\$13,960	\$14,731	
Noncontrolling interests	\$1,235	\$1,241	
	For the Years Ended December 31,		
(in millions)	2015	2014	2013
Net revenues	\$20,188	\$22,380	\$22,684
Operating profit	\$3,690	\$4,478	\$4,201
Net earnings	\$2,838	\$3,532	\$3,375

The fair value of Altria Group, Inc.'s equity investment in SABMiller is based on unadjusted quoted prices in active markets and is classified in Level 1 of the fair value hierarchy. The fair value of Altria Group, Inc.'s equity investment in SABMiller at December 31, 2015 and 2014, was \$25.8 billion and \$22.5 billion, respectively, as compared with its carrying value of \$5.5 billion and \$6.2 billion, respectively.

At December 31, 2015, Altria Group, Inc.'s earnings reinvested in the business on its consolidated balance sheet included approximately \$3.2 billion of undistributed earnings from its equity investment in SABMiller.

AB InBev and SABMiller Business Combination: On November 11, 2015, AB InBev announced its firm offer to effect a business combination with SABMiller in a cash and stock transaction valued at approximately \$107 billion. Under the terms of the transaction, SABMiller shareholders will receive 44 British pounds in cash for each SABMiller share, with a partial share alternative ("PSA") available for approximately 41% of the SABMiller shares. Under the terms of the PSA, SABMiller shareholders may elect to receive for each SABMiller share held (i) 0.483969 restricted shares (the "Restricted Shares") in a newly formed Belgian company ("NewCo") that will own the combined SABMiller and AB InBev business plus (ii) 3.7788 British pounds ("GBP") in cash. On November 10, 2015, the Board of Directors of Altria Group, Inc. (the "Board of Directors") authorized Altria Group, Inc. to provide an irrevocable undertaking to vote Altria Group, Inc.'s shares of SABMiller in favor of the proposed transaction and to elect the PSA (the "Irrevocable Undertaking"). Altria Group, Inc. delivered the Irrevocable Undertaking on November 11, 2015. If the transaction is completed, NewCo will acquire SABMiller and, following the closing of that acquisition, AB InBev will merge into NewCo. Altria Group, Inc. expects to exchange its approximate 27% economic and voting interest in SABMiller for an interest that will be converted into Restricted Shares representing an approximate 10.5% economic and voting interest in NewCo plus approximately \$2.5 billion in pre-tax cash (subject to proration as further described below).

The Restricted Shares of NewCo will:

- be unlisted and not admitted to trading on any stock exchange;
- be subject to a five-year lock-up from closing (subject to limited exceptions);
- be convertible into ordinary shares of NewCo on a one-for-one basis after the end of this five-year lock-up period;
- rank equally with ordinary shares of NewCo with regards to dividends and voting rights; and
- have director nomination rights with respect to NewCo.

Altria Group, Inc. expects that its gain on the transaction will be deferred for United States corporate income tax purposes, except to the extent of cash consideration received. Altria Group, Inc. and AB InBev have entered into a tax matters agreement providing for certain covenants, representations and warranties and indemnification obligations of AB InBev and NewCo in connection with the transaction and the provision of information necessary to assist Altria Group, Inc. in connection with its United States federal income tax reporting.

Based on the anticipated structure of the transaction, Altria Group, Inc. expects to account for its investment in NewCo under the equity method of accounting. Altria Group, Inc. and AB InBev have entered into an information rights agreement pursuant to which, following completion of the transaction, NewCo will provide Altria Group, Inc. with certain financial information necessary to assist Altria Group, Inc. in connection with its financial reporting, financial controls and financial planning.

Upon closing of the transaction, Altria Group, Inc. estimates that it will record a one-time pre-tax accounting gain of approximately \$12 billion, or \$8 billion after-tax. This estimate is based on the AB InBev share price, GBP to United States dollar (“USD”) exchange rate and book value of Altria Group, Inc.’s investment in SABMiller at December 31, 2015. The actual gain recorded at closing may vary significantly from this estimate based on changes to these factors and any proration of Restricted Shares as discussed further below.

If the transaction is completed, Altria