

ALTRIA GROUP, INC.
Form 10-K
February 25, 2015

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, 2014

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 ☐

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). "Yes" ☐ No ☒
As of June 30, 2014, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately \$83 billion based on the closing sale price of the common stock as reported on the New York Stock Exchange.

Class

Outstanding at February 13, 2015

Common Stock, \$0.33 ¹/₃ par value

1,969,316,914 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 20, 2015, to be filed with the Securities and Exchange Commission on or about April 9, 2015, 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, 2014, 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 Inc., which provides various support services, such as legal, regulatory, finance, human resources and external affairs, to Altria Group, Inc. and its subsidiaries.

At December 31, 2014, 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.

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, 2014, 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. Financial Statements and Supplementary Data of this Annual Report on Form 10-K ("Item 8"). 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"). The relative percentages of operating companies income (loss) attributable to each reportable segment and the all other category were as follows:

2014	2013	2012
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Smokeable products	87.2	% 84.5	% 83.7	%
Smokeless products	13.4	12.2	12.5	
Wine	1.7	1.4	1.4	
All other	(2.3	) 1.9	2.4	
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. Segment Reporting to the consolidated financial statements in Item 8 ("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, 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

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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 125.4 billion units in 2014, a decrease of 3.0% from 2013. Marlboro, the principal cigarette brand of PM USA, has been the largest-selling cigarette brand in the United States for over 35 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 2014, an increase of 6.1% from 2013. 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 793.3 million units in 2014, an increase of 0.7% from 2013.

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 Indiana and Arizona. During 2014, Nu Mark expanded MarkTen nationally. 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"). Further, 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.

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 and other discounts, including coupons, product promotions and allowances for new products.

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 electronic cigarettes. In April 2014, the FDA issued proposed regulations for other tobacco products, which as proposed would include machine-made large cigars, e-vapor products (such as electronic cigarettes), pipe tobacco and chewable tobacco-derived nicotine products marketed and sold by some of our tobacco subsidiaries. The proposed regulations would impose the FSPTCA regulatory framework, including the foregoing measures, on products manufactured, marketed and sold by Nu Mark and Middleton with potentially wide-ranging impact on their businesses. PM USA and USSTC are subject to quarterly user fees as a result of the FSPTCA, and the cost is being

allocated based on the relative 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.

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

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a result of FETRA, Altria Group, Inc.'s subsidiaries recorded charges to cost of sales of approximately \$0.3 billion during the year ended December 31, 2014 and approximately \$0.4 billion for each of the years ended December 31, 2013 and 2012.

The quota buy-out and the expiration of the quota buy-out did not have a material impact on Altria Group, Inc.'s 2014 consolidated results.

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 of premium varietal and blended table 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 wine regions and foreign countries. Ste. Michelle's total 2014 wine shipment volume of approximately 8.4 million cases increased 4.8% from 2013.

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 through state-licensed distributors.

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. 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.

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 27% of Altria Group, Inc.'s consolidated net revenues for each of the years ended December 31, 2014, 2013 and 2012. Substantially all of these net revenues were reported in the smokeable products and smokeless

products segments.

Sales to three distributors accounted for approximately 67% of net revenues for the wine segment for the year ended December 31, 2014 and 66% for each of the years ended December 31, 2013 and 2012.

Employees: At December 31, 2014, Altria Group, Inc. and its subsidiaries employed approximately 9,000 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 13, 2015 of this Annual Report on Form 10-K.

Research and Development: Research and development expense for the years ended December 31, 2014, 2013 and 2012 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, 2014, the portfolio of over 650 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, 2014. 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.

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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 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 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 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. _____

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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We elaborate on these and other risks we face throughout this document, particularly in the “Business Environment” sections preceding our discussion of 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 46 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 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, other federal, state or local governments or agencies, including those 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

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products or products with claims of reduced risk, 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, require the recall or removal of tobacco products from the marketplace (including without limitation as a result of product contamination), 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.

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 business of Altria Group, Inc.'s tobacco subsidiaries.

Each of Altria Group, Inc.'s tobacco subsidiaries operates in highly competitive tobacco categories. Settlements of certain tobacco litigation in the United States, among other factors, have resulted in substantial cigarette price increases. PM USA faces competition from lowest priced brands sold by certain United States and foreign manufacturers that have cost advantages because they are not parties to these settlements. 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 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 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, 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. 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. 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 innovative tobacco products that may reduce the health risks associated with current tobacco products and that appeal to adult tobacco consumers.

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Altria Group, Inc.'s tobacco subsidiaries continue to develop and commercialize innovative tobacco products, including new product technologies that 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.

Altria Group, Inc. and its subsidiaries' ability to grow new revenue streams may be limited if our operating companies are unable to move successfully into complementary products or processes.

Altria Group, Inc. and its subsidiaries have adjacency growth strategies involving moves and potential moves into complementary products or processes. We cannot guarantee that these strategies, or any products introduced in connection with these strategies, will be successful. See the immediately preceding paragraph for a related discussion concerning new product technologies.

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 other event

could impact our credit ratings or the outlook for those ratings. 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 and/or credit terms 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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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 to function as intended, or the penetration by outside parties intent on disrupting business processes, could result in significant costs, loss of revenue, assets or personal or other sensitive data and reputational harm.

Altria Group, Inc. and its subsidiaries use information systems to help manage business processes, collect and interpret business

data and communicate internally and externally with employees, investors, suppliers, trade customers, adult tobacco consumers and others. Many of these information systems are managed by third-party service providers. We have backup systems and business continuity plans in place and we take care to protect our systems and data from unauthorized access. Nevertheless, failure of our systems to function as intended, or penetration of our systems by outside parties intent on extracting or corrupting information or otherwise disrupting business processes, could result in loss of revenue, assets or personal or other sensitive data, cause damage to the reputation of our companies and their brands and result in 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 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.

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, 2014, 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

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- 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 Inc.

At December 31, 2014, 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.

At December 31, 2014, 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 which 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, 2014 were filed on Form 8-K on January 30, 2015 (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

Tentative Agreement to Resolve Federal Engle Progeny Cases:

On February 25, 2015, PM USA, R.J. Reynolds Tobacco Company and Lorillard Tobacco Company reached a tentative agreement to resolve approximately 415 pending federal Engle progeny cases (the "Agreement"). Under the terms of the Agreement, PM USA will pay \$42.5 million. PM USA will record a pre-tax provision of \$42.5 million in the first quarter of 2015. Federal cases that were in trial as of February 25, 2015 and those that have previously reached final verdict are not included in the Agreement. Engle progeny lawsuits pending in Florida state courts are also not part of the Agreement.

The Agreement is conditioned on approval by all federal-court plaintiffs in the cases resolved by the Agreement or as the parties otherwise agree. On February 25, 2015, the U.S. District Court for the Middle District of Florida issued an order staying all upcoming federal trials pending final approval of the Agreement.

Engle Progeny Trial Results:

In Caprio, on February 24, 2015, a Broward County jury returned a partial verdict in favor of plaintiff and against PM USA, R.J. Reynolds Tobacco Company, Lorillard Tobacco Company and Liggett Group LLC. The jury found against defendants on class membership allocating 25% of the fault to PM USA. The jury also found \$559,172 in economic damages. The jury deadlocked with respect to the intentional torts, certain elements of compensatory damages and punitive damages.

In McKeever, on February 20, 2015, a Broward County jury returned a verdict in favor of plaintiff and against PM USA awarding approximately \$5.78 million in compensatory damages and allocating 60% of the fault to PM USA (an amount of approximately \$3.48 million). The jury also awarded plaintiff approximately \$11.63 million in punitive damages. However, the jury found in favor of PM USA on the statute of repose defense to plaintiff's intentional tort and punitive damages claims. The Florida Supreme Court is currently considering the applicability of the statute of repose defense in Engle progeny cases.

In McMannis, a Charlotte County jury returned a verdict in favor of PM USA on February 19, 2015.

In Landau, on February 19, 2015, a jury in the U.S. District Court for the Middle District of Florida returned a verdict in favor of plaintiff and against PM USA, R.J. Reynolds Tobacco Company and Lorillard Tobacco Company awarding \$100,000 in compensatory damages. One defendant settled the case.

In Sowers, a jury in the U.S. District Court for the Middle District of Florida returned a verdict in favor of PM USA on February 11, 2015.

In Boatright, on February 9, 2015, defendants filed a notice of appeal to the Florida Second District Court of Appeal.

Medical Monitoring Cases

Trial in the Donovan case is scheduled for January 25, 2016.

“Lights/Ultra-Lights” Cases

The re-trial in the Larsen case is scheduled to begin on February 22, 2016.

In the Price case, on February 9, 2015, plaintiffs filed a new motion seeking recusal or disqualification of Justice Karmeier, one of the Illinois Supreme Court justices.

Item 4. Mine Safety Disclosures.

Not applicable.

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Part II

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

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 13, 2015, there were approximately 74,000 holders of record of Altria Group, Inc.'s common stock.

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 Index ⁽¹⁾. The graph assumes the investment of \$100 in common stock and each of the indices as of the market close on December 31, 2009 and the reinvestment of all dividends on a quarterly basis.

Date	Altria Group, Inc.	Altria Group, Inc. Peer Group	S&P 500
December 2009	\$100.00	\$100.00	\$100.00
December 2010	\$133.92	\$113.38	\$115.06
December 2011	\$170.96	\$129.99	\$117.49
December 2012	\$191.08	\$141.36	\$136.27
December 2013	\$245.66	\$176.72	\$180.40
December 2014	\$330.43	\$198.76	\$205.08

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

⁽¹⁾The Altria Group, Inc. Peer Group consists of 13 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, Mondelēz International, Inc., Kraft Foods Group, Inc., Lorillard, 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).

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Issuer Purchases of Equity Securities During the Quarter Ended December 31, 2014

Altria Group, Inc.'s Board of Directors (the "Board of Directors"), authorized a \$1.0 billion share repurchase program in July 2014 (the "July 2014 share repurchase program"), which Altria Group, Inc. expects to complete by the end of 2015. The timing of share repurchases under the July 2014 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, 2014, 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, 2014	543,248	\$45.88	543,000	\$752,882,710
November 1- November 30, 2014	2,112,000	\$49.25	2,112,000	\$648,865,971
December 1- December 31, 2014	2,873,672	\$50.45	2,585,000	\$518,341,843
For the Quarter Ended December 31, 2014	5,528,920	\$49.54		

The total number of shares purchased include (a) shares purchased under the July 2014 share repurchase program (which totaled 543,000 shares in October, 2,112,000 shares in November and 2,585,000 shares in December) and (1) (b) shares withheld by Altria Group, Inc. in an amount equal to the statutory withholding taxes for holders who vested in restricted and deferred stock, and forfeitures of restricted stock for which consideration was paid in connection with termination of employment of certain employees (which totaled 248 shares in October and 288,672 shares in December).

The other information called for by this Item is included in Note 20. Quarterly Financial Data (Unaudited) to the consolidated financial statements in Item 8.

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Item 6. Selected Financial Data.

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

	2014	2013	2012	2011	2010
Summary of Operations:					
Net revenues	\$24,522	\$24,466	\$24,618	\$23,800	\$24,363
Cost of sales	7,785	7,206	7,937	7,680	7,704
Excise taxes on products	6,577	6,803	7,118	7,181	7,471
Operating income	7,620	8,084	7,253	6,068	6,228
Interest and other debt expense, net	808	1,049	1,126	1,216	1,133
Earnings from equity investment in SABMiller	1,006	991	1,224	730	628
Earnings before income taxes	7,774	6,942	6,477	5,582	5,723
Pre-tax profit margin	31.7	% 28.4	% 26.3	% 23.5	% 23.5
Provision for income taxes	2,704	2,407	2,294	2,189	1,816
Net earnings	5,070	4,535	4,183	3,393	3,907
Net earnings attributable to Altria Group, Inc.	5,070	4,535	4,180	3,390	3,905
Basic and Diluted EPS — net earnings attributable to Altria Group, Inc.	2.56	2.26	2.06	1.64	1.87
Dividends declared per share	2.00	1.84	1.70	1.58	1.46
Weighted average shares (millions) — Basic	1,978	1,999	2,024	2,064	2,077
Weighted average shares (millions) — Diluted	1,978	1,999	2,024	2,064	2,079
Capital expenditures	163	131	124	105	168
Depreciation	188	192	205	233	256
Property, plant and equipment, net	1,983	2,028	2,102	2,216	2,380
Inventories	2,040	1,879	1,746	1,779	1,803
Total assets	34,475	34,859	35,329	36,751	37,402
Long-term debt	13,693	13,992	12,419	13,089	12,194
Total debt	14,693	14,517	13,878	13,689	12,194
Total stockholders' equity	3,010	4,118	3,170	3,683	5,195
Common dividends declared as a % of Basic and Diluted EPS	78.1	% 81.4	% 82.5	% 96.3	% 78.1
Book value per common share outstanding	1.53	2.07	1.58	1.80	2.49
Market price per common share — high/low	51.67-33.80	38.58-31.85	36.29-28.00	30.40-23.20	26.22-19.14
Closing price per common share at year end	49.27	38.39	31.44	29.65	24.62
Price/earnings ratio at year end — Basic and Diluted	19	17	15	18	13
Number of common shares outstanding at year end (millions)	1,971	1,993	2,010	2,044	2,089
Approximate number of employees	9,000	9,000	9,100	9,900	10,000

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, 2014, 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 Inc., which provides various support services, 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, 2014, 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, 2014, 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.

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, 2014, from the year ended December 31, 2013, were due primarily to the following:

(in millions, except per share data)	Net Earnings	Diluted EPS
For the year ended December 31, 2013	\$4,535	\$2.26
2013 NPM Adjustment Items	(427)	(0.21)
2013 Asset impairment, exit and implementation costs	7	—
2013 Tobacco and health litigation items	14	0.01
2013 SABMiller special items	20	0.01
2013 Loss on early extinguishment of debt	678	0.34
2013 Tax items	(64)	(0.03)
Subtotal 2013 special items	228	0.12

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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	
Subtotal 2014 special items	(17	)	(0.01	)
Fewer shares outstanding	—		0.03	
Change in tax rate	86		0.04	
Operations	238		0.12	
For the year ended December 31, 2014	\$5,070		\$2.56	

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 2014 compared with 2013 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 a reduction in certain consolidated tax benefits in 2013 resulting from the 2013 debt tender offer, and an increased recognition of foreign tax credits in 2014 primarily associated with SABMiller dividends.

Operations: The increase of \$238 million in operations shown in the table above was due primarily to the following: higher income from the smokeable products segment; and

lower interest and other debt expense, net;
partially offset by:

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higher investment spending in the innovative tobacco products businesses; and

lower income from the financial services business.

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

2015 Forecasted Results

In January 2015, Altria Group, Inc. forecasted that its 2015 full-year adjusted diluted EPS growth rate is expected to be in the range of 7% to 9% over 2014 full-year adjusted diluted EPS. This forecasted growth rate excludes the net expenses in the table below.

The factors described in Item 1A represent continuing risks to this forecast.

Expense (Income), Net Excluded from Adjusted Diluted EPS

	2015	2014
NPM Adjustment Items	\$—	\$(0.03)
Asset impairment, exit, integration and acquisition-related costs	—	0.01
Tobacco and health litigation items ¹	0.02	0.01
SABMiller special items	—	0.01
Loss on early extinguishment of debt	—	0.02
Tax items	—	(0.01)
	\$0.02	\$0.01

¹ The 2015 amount represents a provision that will be recorded by PM USA in the first quarter of 2015 related to the tentative agreement to resolve approximately 415 pending federal Engle progeny cases.

See Item 3.

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 exclude 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 non-participating manufacturer (“NPM”) adjustment provision under the 1998 Master Settlement Agreement (the “MSA”) for the years 2003-2012 (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 believes that these 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 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 excludes 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 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 a reconciliation to, its adjusted diluted EPS guidance.

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:

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. exercises 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

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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, 2014 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, 2014 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 2014, 2013 and 2012, Altria Group, Inc. completed its quantitative annual impairment test of goodwill and indefinite-lived intangible assets, and no impairment charges resulted.

At December 31, 2014, (i) the estimated fair values of the indefinite-lived intangible assets within the smokeless products, cigars and wine reporting units (except for the Skoal trademark in the smokeless products reporting unit and the Columbia Crest trademark in the wine reporting unit) substantially exceeded their carrying values, (ii) the carrying values of the Skoal and Columbia Crest trademarks were \$3.9 billion and \$54 million, respectively, and (iii) the estimated fair value of the smokeless products reporting unit did not substantially exceed its carrying value.

At December 31, 2014, the estimated fair value of the Skoal trademark exceeded its carrying value by approximately 17%, and the estimated fair value of the smokeless products reporting unit exceeded its carrying value by approximately 20%. In the smokeless products reporting unit, 2014 results for Skoal were impacted by strategies to enhance Skoal's equity and targeted investments to narrow price gaps, which are expected to strengthen the brand over the long term. In addition, USSTC estimates that the smokeless products category volume growth rate slowed to

approximately 2% for 2014 as compared to approximately 5.5% for 2013. USSTC continues to believe that the smokeless category's growth rate is best determined over a longer time horizon and will continue to monitor industry volume closely.

In 2014, Altria Group, Inc. used an income approach to estimate the fair values of its reporting units and its 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 2014 discounted cash flow analysis, Altria Group, Inc. made various judgments, estimates and assumptions, the most significant of which were volume, income, growth rates and discount rates. The analysis incorporated assumptions used in Altria Group, Inc.'s long-term financial forecast and also included market participant assumptions regarding the highest and best use of Altria Group, Inc.'s indefinite-lived intangible assets. Assumptions are also

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made for perpetual growth rates for periods beyond the long-term financial forecast. 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 new product introductions; competitive activity; and tobacco-related taxes. 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, but are not limited to, 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 customers and consumers at the end of a period, based principally on historical 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, FETRA and the FDA user fees are based on variable factors, such as volume, 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 \$4.9 billion, \$4.4 billion and \$5.1 billion of charges to cost of sales for the years ended December 31, 2014, 2013 and 2012, respectively. The 2014 and 2013 amounts included reductions to cost of sales of \$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 2014 amount included a decrease in the charge to cost of sales of approximately \$100 million, reflecting 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 16”), Altria Group, Inc. provides a range of benefits to its employees and retired employees, including pensions, postretirement health care and postemployment benefits (primarily severance). 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.

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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.

At December 31, 2014, Altria Group, Inc.'s discount rate assumptions for its pension and postretirement plans decreased to 4.1% and 4.0%, respectively, from 4.9% and 4.8%, respectively, at December 31, 2013. In addition, at December 31, 2014, Altria Group, Inc. updated its mortality assumptions to reflect longer life expectancy for its defined benefit pension plan and postretirement health care plan participants. Altria Group, Inc. presently anticipates an increase of approximately \$100 million in its 2015 pre-tax pension and postretirement expense versus 2014, not including amounts in each year, if any, related to termination, settlement and curtailment. This anticipated increase is due primarily to the impact of the updated mortality assumptions (\$70 million). The impact of the lower discount rate was largely offset by the impact of higher than expected returns on plan assets. A 50 basis point decrease (increase) in Altria Group, Inc.'s discount rates would increase (decrease) Altria Group, Inc.'s pension and postretirement expense by approximately \$52 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 \$34 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 2014, 2013 and 2012 as a result of various tax events.

Leasing: Substantially all of PMCC's net revenues in 2014 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, 2014 and 2013. At December 31, 2014, PMCC's net finance receivables of approximately \$1.7 billion, which are included in finance assets, net, on Altria Group, Inc.'s consolidated balance sheet, consisted of rents receivable (\$3.4 billion) and the residual value of assets under lease (\$0.8 billion), reduced by third-party nonrecourse debt (\$2.1 billion) and unearned income (\$0.4 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. Finance assets, net, of \$1.6 billion at December 31, 2014 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 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 2014 and 2012, PMCC's annual review of estimated residual values resulted in a decrease of \$63 million and \$19 million, respectively, to unguaranteed residual values. These decreases in unguaranteed residual values resulted in a reduction to PMCC's net revenues of \$26 million and \$8 million in 2014 and 2012, 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, 2014.

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

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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

	For the Years Ended December 31,		
(in millions)	2014	2013	2012
Net Revenues:			
Smokeable products	\$21,939	\$21,868	\$22,216
Smokeless products	1,809	1,778	1,691
Wine	643	609	561
All other	131	211	150
Net revenues	\$24,522	\$24,466	\$24,618
Excise Taxes on Products:			
Smokeable products	\$6,416	\$6,651	\$6,984
Smokeless products	138	130	113
Wine	23	22	21
Excise taxes on products	\$6,577	\$6,803	\$7,118
Operating Income:			
Operating companies income (loss):			
Smokeable products	\$6,873	\$7,063	\$6,239
Smokeless products	1,061	1,023	931
Wine	134	118	104
All other	(185)	) 157	176
Amortization of intangibles	(20)	) (20	) (20
General corporate expenses	(241)	) (235	) (229
Changes to Mondelēz and PMI tax-related receivables/payables	(2	) (22	) 52
Operating income	\$7,620	\$8,084	\$7,253

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 2014, 2013 and 2012 affected the comparability of statement of earnings amounts.

NPM Adjustment Items: For the years ended December 31, 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)	2014	2013
Smokeable products segment	\$43	\$664
Interest and other debt expense, net	47	—
Total	\$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 Care Cost Recovery Litigation - NPM Adjustment Disputes in Note 18.

Tobacco and Health Litigation Items: For the years ended December 31, 2014, 2013 and 2012, 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)	2014	2013	2012
Smokeable products segment	\$27	\$18	\$4
General corporate	15	—	—
Interest and other debt expense, net	2	4	1
Total	\$44	\$22	\$5

During the second quarter of 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 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, 2014, 2013 and 2012 were \$21 million, \$11 million and \$61 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 during the second quarter of 2014. For further discussion of the Green Smoke acquisition, see Note 3.

For 2012, these costs were primarily due to Altria Group, Inc.'s cost reduction program announced in 2011 (the "2011 Cost Reduction Program").

For a breakdown of asset impairment and exit costs by segment, see Note 15.

PMCC Leveraged Lease Benefit: During the second quarter of 2012, Altria Group, Inc. entered into a closing agreement (the "Closing Agreement") with the Internal Revenue Service ("IRS") that conclusively resolved the federal income tax treatment for all prior and future tax years of certain leveraged lease transactions entered into by PMCC. As a result of the Closing Agreement, Altria Group, Inc. recorded a one-time net earnings benefit of \$68 million during the second quarter of 2012 due primarily to lower than estimated interest on tax underpayments. See Note 7 and Note 14 for a further discussion of the Closing Agreement.

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Loss on Early Extinguishment of Debt: During the fourth quarter of 2014, UST redeemed in full its \$300 million (aggregate principal amount) 5.75% senior notes due 2018.

In addition, during the fourth quarter of 2013 and the third quarter of 2012, Altria Group, Inc. completed debt tender offers to purchase for cash certain of its senior unsecured notes in aggregate principal amounts of \$2.1 billion and \$2.0 billion, respectively.

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

(in millions)	2014	2013	2012
Premiums and fees	\$44	\$1,054	\$864
Write-off of unamortized debt discounts and debt issuance costs	—	30	10
Total	\$44	\$1,084	\$874

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 2012 included net pre-tax income of \$248 million, consisting of gains resulting from SABMiller’s strategic alliance transactions with Anadolu Efes and Castel, partially offset by costs for SABMiller’s “business capability programme” and costs related to SABMiller’s acquisition of Foster’s Group Limited.

Tax Items: 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. Excluding the tax impact included in the PMCC leveraged lease benefit, tax items for 2012 included the reversal of tax reserves and associated interest due primarily to the closure in 2012 of the IRS audit of Altria Group, Inc. and its consolidated subsidiaries’ 2004 - 2006 tax years. For further discussion, see Note 14.

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.

2013 Compared with 2012

The following discussion compares consolidated operating results for the year ended December 31, 2013, with the year ended December 31, 2012.

Net revenues, which include excise taxes billed to customers, decreased \$152 million (0.6%), due primarily to lower net revenues from the smokeable products segment, partially offset by higher net revenues from the smokeless products and wine segments, and higher gains on asset sales in the financial services business.

Excise taxes on products decreased \$315 million (4.4%), due primarily to lower smokeable products shipment volume.

Cost of sales decreased \$731 million (9.2%), due primarily to NPM Adjustment Items and lower smokeable products shipment volume, partially offset by higher per unit settlement charges.

Marketing, administration and research costs increased \$39 million (1.7%), due primarily to spending related to the innovative tobacco products businesses and a postretirement benefit plan curtailment gain in 2012 related to the 2011 Cost Reduction Program, partially offset by lower spending in the smokeable products segment as a result of cost reduction initiatives.

Operating income increased \$831 million (11.5%), due primarily to higher operating results from the smokeable products segment (which includes NPM Adjustment Items) and higher operating results from the smokeless products segment, partially offset by changes to Mondelēz International, Inc. (“Mondelēz”) and PMI tax-related receivables/payables as discussed further in Note 14.

Interest and other debt expense, net, decreased \$77 million (6.8%) due primarily to lower interest costs on debt as a result of debt refinancing activities related to the debt tender offer in 2012.

Earnings from Altria Group, Inc.’s equity investment in SABMiller decreased \$233 million (19.0%), due primarily to

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SABMiller special items (which included gains of \$342 million resulting from SABMiller's strategic alliance transactions with Anadolu Efes and Castel in 2012).

Altria Group, Inc.'s effective income tax rate decreased 0.7 percentage points to 34.7%, due primarily to an increased recognition of foreign tax credits in 2013 primarily associated with SABMiller dividends, and the resolution of various Mondelēz and PMI tax matters during 2013 and 2012, partially offset by the leveraged lease benefit recorded by PMCC during the second quarter of 2012.

Net earnings attributable to Altria Group, Inc. of \$4,535 million increased \$355 million (8.5%), due primarily to higher operating income, lower interest and other debt expense, net, and a lower income tax rate, 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 \$2.26, each increased by 9.7% 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 under this statute;

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;

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 or use multiple forms of tobacco products and that approximately 50% of adult smokers say they are interested in trying innovative tobacco products. Altria Group, Inc.'s tobacco subsidiaries further believe that nearly all adult smokers are aware of e-vapor products (such as electronic cigarettes) and approximately 60% have tried them. Nu Mark estimates 2014 total consumer expenditures on e-vapor products of

approximately \$2 billion based on annualized sales information.

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 with the introduction of MarkTen e-vapor products into two lead markets. Nu Mark completed the national expansion of MarkTen products in December 2014. In addition, as further discussed in Note 3, in April 2014, Nu Mark completed the acquisition of the e-vapor business of Green Smoke. See the discussions regarding new product technologies, adjacency growth strategy and evolving

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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;

- 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 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 below); and

- 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 (such as electronic cigarettes), pipe tobacco and chewable

tobacco-derived nicotine products marketed and sold by some of our tobacco subsidiaries. The proposed regulations would impose the FSPTCA regulatory framework, including the foregoing measures, on products manufactured, marketed and sold by Nu Mark and Middleton with potentially wide-ranging impact on their businesses. As discussed below in FDA Regulatory Actions - Proposed Deeming Regulations, Nu Mark and Middleton submitted comments on the proposed regulations in August 2014.

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. Such guidance, when finalized, is intended to represent the FDA's current thinking on a particular topic and may be predictive of the FDA's enforcement stance on that topic. Such guidance, even

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when finalized, is not intended to bind the FDA or the public or establish legally enforceable responsibilities. 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 subject to adjustment 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 Tobacco Company (“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 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 filed a notice of appeal to the U.S. Court of Appeals for the District of Columbia Circuit in September 2014.

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 stated that “[m]enthol cigarettes have an adverse impact on public health in the United States.” The TPSAC report recommended, among other things, that the “[r]emoval of

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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. The TPSAC report also recommended that additional research could address gaps in understanding menthol cigarettes. 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, including comments demonstrating that menthol cigarettes do not affect population harm differently than non-menthol cigarettes. PM USA also reiterated that significant restrictions on the use of menthol in cigarettes would have 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. As noted above, the FDA is subject to a July 2014 court order that bars it from relying on the TPSAC report, although the FDA is currently appealing that order. At this time, it is unclear how the FDA plans to proceed while that appeal is pending.

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.

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

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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 these products sold 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 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.

Good Manufacturing Practices: The FSPTCA requires that the FDA promulgate good manufacturing practice regulations for tobacco product manufacturers, but does not specify a timeframe for such regulations. In 2013, the FDA obtained input through a public docket on proposed Good Manufacturing Practice regulations recommended to the FDA by a group of tobacco companies, including PM USA and USSTC.

Proposed Deeming Regulations: As noted above in FSPTCA and FDA Regulation - The Regulatory Framework, the FDA proposed regulations in April 2014 that would impose the FSPTCA regulatory framework on machine-made large cigars, e-vapor products (such as electronic cigarettes), 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 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 20, 2015, the weighted-average state and certain local cigarette excise taxes increased from \$0.36 to \$1.49 per pack. During 2014, Vermont was the only state to enact a cigarette excise tax increase. As of February 20, 2015, no state has increased its cigarette excise tax in 2015. The President's

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2015 Budget 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 20, 2015, 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 20, 2015, 178 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 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, 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.

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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. For example, in January 2014, PM USA, Middleton and a USSTC subsidiary, along with other tobacco product manufacturers and three trade associations representing New York City retailers, filed a lawsuit in the U.S. District Court for the Southern District of New York challenging the coupon/discount ban included in a recently-enacted New York City ordinance on the grounds that it violates the First Amendment and is preempted by federal and state law. In June 2014, the district court upheld the ordinance.

Federal Tobacco Quota Buy-Out: In October 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 FET. The cost was allocated based on the relative market shares of manufacturers and importers of each kind of such tobacco product.

For a discussion of the impact of FETRA 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. Neither the quota buy-out nor the expiration of the quota buy-out had a material impact on our consolidated financial results in 2014.

Health Effects of Tobacco Consumption and Exposure to Environmental Tobacco Smoke ("ETS"): It is the policy of Altria Group, Inc. and its tobacco subsidiaries to defer to the

judgment of public health authorities as to the content of warnings in advertisements and on product packaging regarding the health effects of tobacco consumption, addiction and exposure to 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.

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 might 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

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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:

For the Years Ended December 31,
Net Revenues

Operating Companies Income

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(in millions)	2014	2013	2012	2014	2013	2012
Smokeable products	\$21,939	\$21,868	\$22,216	\$6,873	\$7,063	\$6,239
Smokeless products	1,809	1,778	1,691	1,061	1,023	931
Total smokeable and smokeless products	\$23,748	\$23,646	\$23,907	\$7,934	\$8,086	\$7,170

Smokeable Products Segment

The smokeable products segment's operating companies income decreased during 2014 due primarily to higher NPM Adjustment Items in 2013 and lower reported shipment volume, partially offset by higher pricing. PM USA grew Marlboro's and its total cigarette category retail share versus 2013.

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

(sticks in millions)	Shipment Volume For the Years Ended December 31,		
	2014	2013	2012
Cigarettes:			
Marlboro	108,023	111,421	116,377
Other premium	7,047	7,721	8,629
Discount	10,320	10,170	9,868
Total cigarettes	125,390	129,312	134,874
Cigars:			
Black & Mild	1,246	1,177	1,219
Other	25	21	18
Total cigars	1,271	1,198	1,237
Total smokeable products	126,661	130,510	136,111

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 in Puerto Rico and 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,					
	2014		2013		2012	
Cigarettes:						
Marlboro	43.8	%	43.7	%	43.6	%
Other premium	2.9		3.1		3.3	
Discount	4.2		3.9		3.5	
Total cigarettes	50.9	%	50.7	%	50.4	%
Cigars:						
Black & Mild	28.6	%	28.9	%	29.9	%
Other	0.4		0.2		0.2	
Total cigars	29.0	%	29.1	%	30.1	%

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 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 2014, 2013 and 2012:

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.

Effective December 3, 2012, PM USA increased the list price on all of its cigarette brands by \$0.06 per pack.

Effective June 18, 2012, PM USA increased the list price on all of its cigarette brands by \$0.06 per pack.

Effective March 14, 2012, Middleton reduced the list price on all of its untipped cigarillo brands by \$0.39 per five-pack.

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.

Marketing, administration and research costs for the smokeable products segment include PM USA's cost of

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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, 2014, 2013 and 2012, product liability defense costs for PM USA were \$230 million, \$247 million and \$228 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 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 0.3 share points. In December 2014, Middleton announced the national expansion of Black & Mild Casino, a dark tobacco blend, in the tipped segment.

The following discussion compares operating results for the smokeable products segment for the year ended December 31, 2013 with the year ended December 31, 2012.

Net revenues, which include excise taxes billed to customers, decreased \$348 million (1.6%), due primarily to lower shipment volume (\$1,046 million), partially offset by higher pricing.

Operating companies income increased \$824 million (13.2%), due primarily to higher pricing (\$765 million), NPM Adjustment Items (\$664 million) and lower marketing, administration and research costs, partially offset by lower shipment volume (\$512 million), and higher per unit settlement charges.

For 2013, total smokeable products reported shipment

volume decreased 4.1% versus 2012. PM USA's 2013 reported domestic cigarettes shipment volume decreased 4.1%, due primarily to the industry's rate of decline, changes in trade inventories and other factors, partially offset by retail share gains. When adjusted for trade inventories and other factors, PM USA estimated that its 2013 domestic cigarettes shipment volume was down approximately 4%, which was consistent with the estimated category decline. PM USA's shipments of premium cigarettes accounted for 92.1% of its reported domestic cigarettes shipment volume for 2013, versus 92.7% for 2012.

Middleton's reported cigars shipment volume for 2013 decreased 3.2% due primarily to changes in wholesale inventories and retail share losses.

Marlboro's retail share for 2013 increased 0.1 share point versus 2012 behind investments in the Marlboro architecture. PM USA expanded Marlboro Edge distribution nationally in the fourth quarter of 2013.

PM USA's 2013 retail share increased 0.3 share points versus 2012, due to retail share gains by Marlboro, as well as L&M in Discount, partially offset by share losses on other portfolio brands. In 2013, L&M continued to gain retail share as the total discount segment was flat to declining versus 2012.

In the machine-made large cigars category, Black & Mild's retail share for 2013 decreased 1.0 share point, driven by heightened competitive activity from low-priced cigar brands.

Smokeless Products Segment

During 2014, the smokeless products segment grew operating companies income and expanded operating companies income margins. USSTC also increased Copenhagen and Skoal's combined retail share versus 2013.

The following table summarizes smokeless products segment shipment volume performance:

(cans and packs in millions)	Shipment Volume		
	For the Years Ended December 31,		
	2014	2013	2012
Copenhagen	448.6	426.1	392.5
Skoal	269.6	283.8	288.4
Copenhagen and Skoal	718.2	709.9	680.9
Other	75.1	77.6	82.4
Total smokeless products	793.3	787.5	763.3

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,			
	2014		2013	2012
Copenhagen	30.8	%	29.3	% 27.9
Skoal	20.4		21.4	22.5
Copenhagen and Skoal	51.2		50.7	50.4
Other	4.0		4.3	4.8
Total smokeless products	55.2	%	55.0	% 55.2

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 2014, 2013 and 2012:

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.

Effective December 9, 2012, USSTC increased the list price on all of its brands by \$0.05 per can.

Effective May 25, 2012, 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, 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% for 2014 as compared to approximately 5.5% for 2013. USSTC continues to believe that the smokeless category's growth rate is best determined over a longer time horizon and will continue to monitor industry volume closely.

Copenhagen and Skoal's combined retail share increased 0.5 share points to 51.2% for 2014. Copenhagen's retail share increased 1.5 share points, while Skoal's retail share declined 1.0 share point.

Retail share for the smokeless products segment increased 0.2 share points to 55.2%, as retail share gains for Copenhagen were mostly offset by share losses for Skoal and Other portfolio brands.

The following discussion compares operating results for the smokeless products segment for the year ended December 31, 2013 with the year ended December 31, 2012.

Net revenues, which include excise taxes billed to customers, increased \$87 million (5.1%), due primarily to higher shipment volume and higher pricing, which includes higher promotional investments, partially offset by mix due to growth in popular priced products.

Operating companies income increased \$92 million (9.9%), due primarily to higher shipment volume (\$39 million), higher pricing (\$34 million), which includes higher promotional investments, lower restructuring charges (\$25 million) and effective cost management, partially offset by mix.

Calendar differences affected reported domestic smokeless products shipment volume due to one less shipping day in 2013, representing approximately one full week of volume. Reported domestic smokeless products shipment volume for 2013 increased 3.2% versus 2012 due to volume growth for Copenhagen, partially offset by volume declines in Skoal and Other portfolio brands. Copenhagen and Skoal's combined reported shipment volume increased 4.3% versus 2012.

After adjusting for calendar differences, trade inventory changes and other factors, USSTC estimates that domestic smokeless products shipment volume grew 5% for 2013, while smokeless products category volume grew approximately 5.5%.

Copenhagen and Skoal's combined retail share increased 0.3 share points to 50.7% for 2013. Copenhagen's retail share grew 1.4 share points, as the brand continued to benefit from products introduced over the past several years. Skoal's 2013 retail share

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declined 1.1 share points, due primarily to competitive activity and Copenhagen's performance.

Retail share for the smokeless products segment decreased 0.2 share points versus 2012 as retail share losses for Skoal and Other portfolio brands were mostly offset by retail share gains for Copenhagen.

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 wine regions and foreign countries. 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 through state-licensed distributors.

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. 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 delivered higher net revenues and operating companies income in 2014 due primarily to higher shipment volume.

The following table summarizes operating results for the wine segment:

	For the Years Ended December 31,		
(in millions)	2014	2013	2012
Net revenues	\$643	\$609	\$561
Operating companies income	\$134	\$118	\$104

The following table summarizes wine segment case shipment volume performance:

	Shipment Volume For the Years Ended December 31,		
(cases in thousands)	2014	2013	2012
Chateau Ste. Michelle	3,035	2,753	2,780
Columbia Crest ¹	1,032	1,031	858
14 Hands	1,662	1,374	1,024
Other ¹	2,622	2,814	2,927
Total wine	8,351	7,972	7,589

¹ Two Vines is no longer sold under the Columbia Crest brand. Effective January 1, 2014, shipment volume for Two Vines is included in Other. Prior-period shipment volume for Columbia Crest and Other have been adjusted to reflect this change.

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.

The following discussion compares operating results for the wine segment for the year ended December 31, 2013 with the year ended December 31, 2012.

Net revenues, which include excise taxes billed to customers, increased \$48 million (8.6%), due to higher shipment volume, improved premium mix and higher pricing.

Operating companies income increased \$14 million (13.5%), due to higher shipment volume, higher pricing and improved premium mix, partially offset by higher selling, general and administrative costs and higher manufacturing costs.

For 2013, Ste. Michelle's reported wine shipment volume increased 5.0% due primarily to increased distribution of 14 Hands.

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Financial Review

Net Cash Provided by Operating Activities

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:

- 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.

During 2013, net cash provided by operating activities was \$4.4 billion compared with \$3.9 billion during 2012. This increase was due primarily to the following:

- lower settlement payments, which include the \$483 million credit that PM USA received against its April 2013 MSA payment as a result of the NPM Adjustment Items;
- lower income tax payments, which include the Closing Agreement with the IRS that resulted in a payment for federal income tax and estimated interest of \$456 million in 2012; and
- a lower voluntary contribution to Altria Group, Inc.'s pension plans in 2013 (\$350 million in 2013 versus \$500 million in 2012);

partially offset by:

- timing of spending related to inventory purchases and other working capital requirements.

Altria Group, Inc. had a working capital deficit at December 31, 2014 and 2013. 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 Provided by Investing Activities

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 Green Smoke during 2014.

During 2013, net cash provided by investing activities was \$602 million compared with \$920 million during 2012.

This decrease was due primarily to lower proceeds from asset sales in the financial services business in 2013.

Capital expenditures for 2014 increased 24.4% to \$163 million. Capital expenditures for 2015 are expected to be in the range of \$200 million to \$250 million, and are expected to be funded from operating cash flows. The increase in expected capital expenditures in 2015 compared with 2014 is due primarily to a new USSTC manufacturing facility.

Net Cash Used in Financing Activities

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.

During 2013, net cash used in financing activities was \$4.7 billion compared with \$5.2 billion during 2012. This decrease was due primarily to the following:

- debt issuances of \$1.0 billion in May 2013; and

- lower share repurchases during 2013;

partially offset by:

- higher repayments of debt at scheduled maturities in 2013; and

- higher dividends paid during 2013.

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

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notes. The impact of credit ratings on the cost of borrowings under Altria Group, Inc.'s credit agreements is discussed below.

At December 31, 2014, 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 ¹	A-2	BBB+	Stable
Fitch Ratings Ltd.	F2	BBB+	Stable

¹ On March 12, 2014, Standard & Poor's raised the long-term debt credit rating for Altria Group, Inc. to "BBB+" from "BBB".

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, 2014, 2013 and 2012, Altria Group, Inc. had no short-term borrowings.

Altria Group, Inc.'s average daily short-term borrowings, peak short-term borrowings outstanding and weighted-average interest rate on short-term borrowings were as follows:

	For the Years Ended December 31,					
(in millions)	2014		2013		2012	
Average daily short-term borrowings	\$35		\$37		\$8	
Peak short-term borrowings outstanding	\$650		\$650		\$190	
Weighted-average interest rate on short-term borrowings	0.27	%	0.34	%	0.42	%

Short-term borrowings were repaid with cash provided by operating activities. Peak borrowings were due primarily to payments related to State Settlement Agreements as further discussed in Tobacco Space - Business Environment, Off Balance Sheet Arrangements and Aggregate Contractual Obligations - Payments Under State Settlement and Other Tobacco Agreements, and FDA Regulation, and Note 18.

During the third quarter of 2014, 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, 2018 to August 19, 2019 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 contains an additional option, subject to certain conditions, for Altria Group, Inc. to extend the expiration date for an additional one-year period.

The Credit Agreement provides for borrowings up to an aggregate principal amount of \$3.0 billion. 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 Standard & Poor's and Moody's. The applicable percentage based on Altria Group, Inc.'s long-term senior unsecured debt ratings at December 31, 2014 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, 2014, 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, 2014, the ratios of debt to consolidated EBITDA and consolidated EBITDA to consolidated interest expense, calculated in accordance with the Credit Agreement, were

1.8 to 1.0 and 9.7 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.

Debt - At December 31, 2014 and 2013, Altria Group, Inc.’s total debt was \$14.7 billion and \$14.5 billion, respectively.

As discussed in Note 9, on November 14, 2014, Altria Group, Inc. issued \$1.0 billion aggregate principal amount of 2.625% senior unsecured long-term notes due 2020. Interest on these notes is payable semi-annually. The net proceeds from the issuance of these senior unsecured notes were added to Altria Group, Inc.’s general funds and were used for general corporate purposes. The obligations of Altria Group,

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Inc. under the notes are guaranteed by PM USA. For further discussion, see Note 19.

During the first quarter of 2014, Altria Group, Inc. repaid in full at maturity senior unsecured notes in the aggregate principal amount of \$525 million.

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

All of Altria Group, Inc.'s debt was fixed-rate debt at December 31, 2014 and 2013. The weighted-average coupon

interest rate on total debt was approximately 5.7% and

5.9% at December 31, 2014 and 2013, 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.

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. 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, 2014. 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, 2014:

(in millions)	Payments Due				
	Total	2015	2016 - 2017	2018 - 2019	2020 and Thereafter
Long-term debt ⁽¹⁾	\$14,742	\$1,000	\$—	\$2,800	\$10,942
Interest on borrowings ⁽²⁾	11,091	826	1,586	1,425	7,254
Operating leases ⁽³⁾	322	56	93	55	118
Purchase obligations: ⁽⁴⁾					
Inventory and production costs	2,938	1,001	1,037	517	383
Other	668	529	122	17	—
	3,606	1,530	1,159	534	383
Other long-term liabilities ⁽⁵⁾	2,641	152	327	329	1,833
	\$32,402	\$3,564	\$3,165	\$5,143	\$20,530

⁽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, 2014, 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 2015 through 2019. Contributions beyond 2019 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.

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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, 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, FETRA and the FDA user fees are based on variable factors, such as volume, 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 \$4.9 billion, \$4.4 billion and \$5.1 billion of charges to cost of sales for the years ended December 31, 2014, 2013 and 2012, respectively. The 2014 and 2013 amounts included reductions to cost of sales of \$43 million and \$664 million, respectively, for the NPM Adjustment Items. In addition, the 2014 amount included a decrease in the charge to cost of sales of approximately \$100 million, reflecting the expiration of the obligations imposed by FETRA after the third quarter of 2014.

In connection with the settlement of the NPM Adjustment disputes under the MSA for the years 2003-2012, 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. 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, 2014 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 \$4.6 billion in 2015 and each year thereafter. The decrease in these amounts compared with approximately \$4.9 billion charged to cost of sales in 2014 reflects the expiration of obligations imposed

by FETRA after the third quarter of 2014. These amounts exclude the potential impact of the revised and streamlined NPM Adjustment provision applicable to signatory states 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, 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 Escrow Deposits - With respect to certain adverse verdicts currently on appeal, to obtain stays of judgments pending appeals, as of December 31, 2014, PM USA had posted various forms of security totaling approximately \$61 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, during 2014 Altria Group, Inc. granted an aggregate of 1.4 million shares of restricted and deferred stock to eligible employees.

At December 31, 2014, the number of shares to be issued upon vesting of deferred stock was not significant. In addition, there were no stock options outstanding at December 31, 2014.

Dividends paid in 2014 and 2013 were approximately \$3.9 billion and \$3.6 billion, respectively, an increase of 7.8%, 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 discussed below.

During the third quarter of 2014, the Board of Directors approved an 8.3% increase in the quarterly dividend rate to \$0.52 per common share versus the previous rate of \$0.48 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 \$2.08 per Altria Group, Inc. common share. Future