

ALTRIA GROUP, INC.
Form 10-K
February 26, 2014

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, 2013

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, 2013, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately \$70 billion based on the closing sale price of the common stock as reported on the New York Stock Exchange.

Class

Outstanding at February 14, 2014

Common Stock, \$0.33 ¹/₃ par value

1,992,853,529 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 14, 2014, to be filed with the Securities and Exchange Commission on or about April 3, 2014 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, 2013, Altria Group, Inc.'s direct and indirect wholly-owned subsidiaries included Philip Morris USA Inc. ("PM USA"), which is engaged in the manufacture and sale of cigarettes and certain smokeless tobacco products 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 direct and indirect 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. Nu Mark LLC ("Nu Mark"), an indirect wholly-owned subsidiary of Altria Group, Inc., is engaged in the development and marketing of innovative tobacco products for adult tobacco consumers. Philip Morris Capital Corporation ("PMCC"), another wholly-owned subsidiary of Altria Group, Inc., maintains a portfolio of leveraged and direct finance leases. In addition, Altria Group, Inc. held approximately 26.8% of the economic and voting interest of SABMiller plc ("SABMiller") at December 31, 2013, which Altria Group, Inc. accounts for under the equity method of accounting.

On January 6, 2009, Altria Group, Inc. acquired all of the outstanding common stock of UST. The transaction was valued at approximately \$11.7 billion, which represented a purchase price of \$10.4 billion and approximately \$1.3 billion of UST debt, which together with acquisition-related costs and payments of approximately \$0.6 billion, represented a total cash outlay of approximately \$11 billion. This acquisition was financed with long-term borrowings. As a result of the acquisition, UST became an indirect wholly-owned subsidiary of Altria Group, Inc.

•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, 2013, 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 common stock. In addition, Altria Group, Inc. receives cash dividends on its interest in SABMiller if and when SABMiller pays such dividends.

Financial Information About Segments

Effective January 1, 2013, Altria Group, Inc.'s reportable segments are smokeable products, smokeless products and wine. The financial services and the alternative products businesses have been combined 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 alternative products

businesses to Altria Group, Inc.'s consolidated results. Prior years' amounts have been reclassified to conform with the current year's presentation.

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 excludes general corporate expenses and amortization of intangibles. 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 3. Goodwill and Other Intangible Assets, net to the consolidated financial statements in Item 8 ("Note 3"). The accounting policies of the segments are the same as those described in Note 2. Summary of Significant Accounting Policies to the consolidated financial statements in Item 8 ("Note 2").

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

| | 2013 | 2012 | 2011 | |
|--------------------|-------|---------|---------|---|
| Smokeable products | 84.5 | % 83.7 | % 90.5 | % |
| Smokeless products | 12.2 | 12.5 | 13.6 | |
| Wine | 1.4 | 1.4 | 1.4 | |
| All other | 1.9 | 2.4 | (5.5 |) |
| Total | 100.0 | % 100.0 | % 100.0 | % |

For items affecting the comparability of the relative percentages of operating companies income 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. In addition, Altria Group Distribution Company provides

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centralized sales, distribution and consumer engagement services for Altria Group, Inc.'s tobacco operating companies. The products of Altria Group, Inc.'s tobacco subsidiaries include smokeable tobacco products, comprised of cigarettes manufactured and sold by PM USA and machine-made large cigars and pipe tobacco manufactured and sold by Middleton; smokeless tobacco products manufactured and sold primarily by USSTC; and innovative tobacco products, including electronic cigarettes developed and marketed by Nu Mark. Altria Group, Inc.'s 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.

Cigarettes: PM USA is the largest cigarette company in the United States, with total cigarette shipment volume in the United States of approximately 129.3 billion units in 2013, a decrease of 4.1% from 2012. 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 the production of a portion of its cigars overseas. Total shipment volume for cigars was approximately 1.2 billion units in 2013, a decrease of 3.2% from 2012. 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 787.5 million units in 2013, an increase of 3.2% from 2012.

In addition, Altria Group, Inc.'s tobacco subsidiaries have entered the e-vapor category. In 2013, Nu Mark introduced MarkTen electronic cigarettes in Indiana and Arizona. Nu Mark plans to expand MarkTen nationally beginning in the second quarter of 2014. On February 3, 2014, Altria Group, Inc. announced Nu Mark's entry into an agreement to acquire the e-vapor business of Green Smoke, Inc. and its affiliates, which have been selling e-vapor products since 2009. Further, in December 2013, Altria entered into a series of agreements with Philip Morris International Inc. ("PMI") pursuant to which Altria Group, Inc. subsidiaries provide an exclusive license to PMI to sell Altria Group, Inc.'s e-vapor products outside the United States and PMI subsidiaries provide an exclusive license to Altria Group, Inc. 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 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 law also grants the FDA authority to extend its application, by regulation, to all other tobacco products, including cigars, pipe tobacco and electronic cigarettes. The FSPTCA imposes restrictions on the advertising, promotion, sale and distribution of tobacco products, including at retail. The FDA has indicated that it intends to regulate cigars, electronic cigarettes and other tobacco products, but it has not indicated a timeline for the issuance of final regulations. PM USA and a subsidiary of USSTC are subject to quarterly user fees as a result of this legislation, 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. In 2003, PM USA and certain other defendants reached an agreement with plaintiffs to settle a suit filed on behalf of a purported class of tobacco growers and quota-holders. The agreement includes a commitment by each settling manufacturer defendant, including PM USA, to purchase a certain percentage of its leaf requirements from U.S. tobacco growers over a period of at least 10 years. These quantities are subject to adjustment in accordance with the terms of the settlement agreement.

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") was signed into law. PM USA, USSTC, and Middleton are all subject to obligations imposed by FETRA. FETRA eliminated the federal

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tobacco quota and price support program through an industry-funded buy-out of tobacco growers and quota holders. The cost of the buy-out is approximately \$9.5 billion and is being paid over 10 years by manufacturers and importers of each kind of tobacco product. The cost is being allocated based on the relative market shares of manufacturers and importers of each kind of tobacco product. As a result of FETRA, Altria Group, Inc.'s subsidiaries recorded approximately \$0.4 billion of charges to cost of sales during each of the years ended December 31, 2013, 2012 and 2011. Obligations imposed by FETRA expire after the third quarter of 2014.

In February 2011, PM USA filed a lawsuit in federal court challenging the USDA's method for calculating the 2011 and future tobacco product class shares that are used to allocate liability for the industry payments that fund the FETRA buy-out described above and used by the FDA to calculate the industry's FDA user fees. PM USA asserts in this litigation that the USDA violated FETRA and its own regulations by failing to apply the most current federal excise tax ("FET") rates enacted by Congress which became effective in April 2009, in calculating the class share allocations. PM USA has filed administrative appeals of its FETRA assessments beginning in fiscal year 2011 (all of which have been denied by the USDA) and has submitted a petition for rulemaking with the USDA (which petition was denied by the USDA in November 2011), in each case asserting that the USDA erroneously failed to base the FETRA class share allocations on the current FET rates. PM USA is appealing the USDA's calculations methodology as well as the denial of the petition for rulemaking and the denial of its quarterly assessment challenges. The Cigar Association of America has joined the litigation as a defendant intervenor. In October 2012, the district court dismissed the case over PM USA's objection and PM USA appealed. On November 20, 2013, the appellate court affirmed the district court's decision.

The quota buy-out did not have a material impact on Altria Group, Inc.'s 2013 consolidated results, and Altria Group, Inc. does not currently anticipate that the quota buy-out will have a material adverse impact on its consolidated results in 2014, when the obligations imposed by FETRA will expire.

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.

Wine

Altria Group, Inc. acquired UST and its premium wine business, Ste. Michelle, in January 2009. 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 2013 wine shipment volume of approximately 8.0 million cases increased 5.0% from 2012.

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 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, 2013, 2012 and 2011. These net revenues were reported in the smokeable products and smokeless products segments.

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Sales to three distributors accounted for approximately 66% of net revenues for the wine segment for each of the years ended December 31, 2013, 2012 and 2011.

Employees: At December 31, 2013, 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 14, 2014 of this Annual Report on Form 10-K.

Research and Development: Research and development expense for the years ended December 31, 2013, 2012 and 2011 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, 2013, the portfolio of over 600 United States patents owned by Altria Group, Inc.'s businesses, as a whole, was material to Altria Group, Inc. and its tobacco businesses. However, no one patent or group of related patents was material to Altria Group, Inc.'s business or its tobacco businesses as of December 31, 2013. Altria Group, Inc.'s businesses also have proprietary secrets, technology, know-how, processes and other intellectual property rights that are protected by appropriate confidentiality measures. Certain trade secrets are material to Altria Group, Inc. and its tobacco and wine businesses.

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

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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statements contained in filings with the SEC, in reports to security holders and in 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 of similar meaning. You can also identify them by the fact that they do not relate strictly to historical or current facts. We cannot guarantee that any forward-looking statement will be realized, although we believe we have been prudent in our plans and assumptions. Achievement of future results is subject to risks, uncertainties and assumptions that may prove to be inaccurate. Should known or unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. You should bear this in mind as you consider forward-looking statements and whether to invest in or remain invested in Altria Group, Inc.’s securities. In connection with the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995, we are identifying important factors that, individually or in the aggregate, could cause actual results and outcomes to differ materially from those contained in any forward-looking statements made by us; any such statement is qualified by reference to the following cautionary statements. We elaborate on these and other risks we face throughout this document, particularly in the “Business Environment” sections preceding our discussion of 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.

Tobacco-Related Litigation

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 45 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 one or more of its subsidiaries, could be materially 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 one or more of its subsidiaries, could be materially 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

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Annual Report on Form 10-K for a discussion of pending tobacco-related litigation.

Tobacco Regulation and Control Action in the Public and Private Sectors

Our tobacco subsidiaries face significant governmental and private sector action, including efforts aimed at reducing the incidence of tobacco use, restricting marketing and advertising, imposing regulations on packaging, requiring warnings and disclosure of flavors or other ingredients, prohibiting the sale of tobacco products with certain characterizing flavors or other characteristics, requiring premarket authorization of certain tobacco products, limiting or prohibiting the sale of tobacco products by certain retail establishments and the sale of tobacco products in certain package sizes, and seeking to hold them responsible for the adverse health effects associated with both smoking and exposure to environmental tobacco smoke.

PM USA, USSTC and other Altria Group, Inc. subsidiaries are subject to regulation, and may become subject to additional regulation, by the FDA, as discussed in detail in Tobacco Space - Business Environment - FSPTCA and FDA Regulation in Item 7. We cannot predict how the FDA will implement and enforce its statutory authority, including by promulgating additional regulations, taking other regulatory actions and pursuing possible investigatory or enforcement actions.

Governmental actions, combined with the diminishing social acceptance of smoking and private actions to restrict 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 and private sector entities, such as those which impact the consumer acceptability of tobacco products, limit adult consumer choices, delay or prevent the launch of new or modified tobacco products, restrict communications to adult 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 the use of specified tobacco products in certain locations or the sale of tobacco products by certain retail establishments, 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.

Excise Taxes

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.

Increased Competition in the United States Tobacco Categories

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.

New Product Technologies

Altria Group, Inc.'s subsidiaries continue to seek ways to develop and to commercialize 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. Potential solutions 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 subsidiaries may not succeed in their efforts. If they do not succeed, but one or more of their competitors does, our subsidiaries may be at a competitive disadvantage. Further, we cannot predict whether regulators, including the FDA, will permit the marketing or sale of such products with claims of reduced risk to consumers or whether consumers' purchase decisions would be affected by such claims. Nor can we predict whether regulators will impose an unduly burdensome regulatory framework on such products. Any of these developments could adversely affect the commercial viability of any such new products.

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Adjacency Growth Strategy

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. For a related discussion, see New Product Technologies above.

Tobacco Price, Availability and Quality

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

Tobacco Key Facilities; Supply Security

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 Altria Group, Inc. subsidiaries or significant suppliers could have a material adverse effect on the business, the consolidated results of operations, cash flows and financial position of Altria Group, Inc.

Attracting and Retaining Talent

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.

Competition, Evolving Adult Consumer Preferences and Economic Conditions

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

- promote brand equity successfully;
- anticipate and respond to new and evolving adult consumer preferences;
- develop, manufacture, market and distribute products that appeal to adult consumers (including, where appropriate, through arrangements with, or investments in, third parties);
- improve productivity; and
- protect or enhance margins through cost savings and price increases.

See Tobacco Space - Business Environment - Summary in Item 7 for additional discussion concerning evolving adult tobacco consumer preferences, including increased consumer awareness of, and expenditures on, electronic cigarettes. 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 can have a material adverse effect on the business, consolidated results of operations, cash flows and financial position of Altria Group, Inc. 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.

Acquisitions

Altria Group, Inc. from time to time considers acquisitions. From time to time, we 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.

Capital Markets

Access to the capital markets is important for us to satisfy our liquidity and financing needs. Disruption and uncertainty in the capital markets and any resulting tightening of 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.

Exchange Rates

For purposes of financial reporting, the earnings of SABMiller are translated into U.S. dollars from various local currencies based on average exchange rates prevailing during a reporting

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period. During times of a strengthening U.S. dollar against these currencies, our reported equity earnings in SABMiller will be reduced because the local currencies will translate into fewer U.S. dollars.

Asset Impairment

We periodically calculate the fair value of our goodwill and other 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.

Wine - Competition; Grape Supply; Regulation and Excise Taxes

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.

Information Systems

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, customers 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.

Governmental Investigations

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 affected by an unfavorable outcome of future investigations.

International Business Operations

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, 2013, the smokeable products segment used four manufacturing and processing facilities. PM USA owns and operates two tobacco manufacturing and processing facilities located in the Richmond, Virginia area that are

used in the manufacturing and processing of cigarettes. Middleton owns and operates two manufacturing and processing facilities - one in King of Prussia, Pennsylvania and one in Limerick, Pennsylvania - that are used in the manufacturing and processing of cigars and pipe tobacco. In addition, PM USA owns a research and technology center in Richmond, Virginia that is leased to an affiliate, Altria Client Services Inc.

At December 31, 2013, 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 a wholly-owned subsidiary of USSTC.

At December 31, 2013, 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.

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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, 2013 were filed on Form 8-K on January 30, 2014 (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. Certain terms used below that are not defined in this Item have the meanings given to them in Note 18.

Recent Developments

Smoking and Health Litigation

Non-Engle Progeny Trial Results:

In Schwarz, on February 10, 2014, PM USA opposed plaintiff's motion to certify PM USA's appeal to the Oregon Supreme Court.

Engle Progeny Trial Results:

In Reider, on February 25, 2014, a jury in the U.S. District Court for the Middle District of Florida (Jacksonville) returned a verdict in the amount of zero damages and allocated 5% of the fault to PM USA.

In R. Cohen, on February 24, 2014, the Florida Supreme Court stayed the appeal pending the outcome of the Hess case.

On February 20, 2014, the Florida Supreme Court scheduled oral argument of the Hess and Russo (formerly Frazier) cases for April 30, 2014 on the question of whether the statute of repose applies in Engle progeny cases.

In Goveia, an Orange County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds Tobacco Company ("R.J. Reynolds"). On February 17, 2014, the jury awarded \$850,000 in compensatory damages. On February 18, 2014, the jury awarded \$2.25 million in punitive damages against each defendant.

In Gonzalez, a Miami-Dade County jury returned a verdict in favor of PM USA on February 6, 2014.

In Allen, on February 14, 2014, the Florida Supreme Court denied plaintiff's notice to invoke the discretionary jurisdiction of the Florida Supreme Court.

In Naugle, on February 13, 2014, the Florida Supreme Court denied each of PM USA's and plaintiff's notices to invoke the discretionary jurisdiction of the Florida Supreme Court for review of the original verdict.

In Barbanell, on February 13, 2014, the Florida Supreme Court denied PM USA's notice to invoke the discretionary jurisdiction of the Florida Supreme Court. PM USA will record a provision of approximately \$3.6 million for the judgment plus interest and associated costs in the first quarter of 2014.

Health Care Cost Recovery Litigation

Possible Adjustments in MSA Payments for 2003 - 2012: On February 11, 2014, the Colorado state court denied Colorado's motion to vacate the Stipulated Award issued by the arbitration panel in connection with the settlement of the 2003 - 2012 NPM Adjustments with certain signatory states.

"Lights/Ultra-Lights" Cases

In the Cabbat case, on February 3, 2014, PM USA filed its opposition to plaintiffs' petition for review by the U.S. Court of Appeals for the Ninth Circuit of the trial court's denial of class certification.

In the Aspinall case, on February 7, 2014, the Massachusetts Superior Court denied plaintiffs' motion for partial summary judgment on the remedies available and concluded that plaintiffs cannot obtain disgorgement of profits as an equitable remedy and their recovery is limited to actual damages or \$25 per class member if they cannot prove actual damages greater than \$25. On February 24, 2014, plaintiffs filed a motion asking the trial court to report the February 7, 2014 ruling to the Massachusetts Appeals Court for review.

In the Brown case, on February 14, 2014, the trial court awarded PM USA \$764,553 in costs and declined to issue sanctions against PM USA for alleged discovery violations. On February 24, 2014, plaintiffs appealed the costs award.

The re-trial in the Larsen case is scheduled to begin on January 12, 2015.

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 14, 2014, there were approximately 78,000 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, 2008 and the reinvestment of all dividends on a quarterly basis.

| Date | Altria Group, Inc. | Altria Group, Inc. Peer Group | S&P 500 |
|---------------|--------------------|-------------------------------|----------|
| December 2008 | \$100.00 | \$100.00 | \$100.00 |
| December 2009 | \$140.31 | \$123.32 | \$126.45 |
| December 2010 | \$187.90 | \$140.08 | \$145.49 |
| December 2011 | \$239.88 | \$160.54 | \$148.56 |
| December 2012 | \$268.11 | \$177.76 | \$172.32 |
| December 2013 | \$344.68 | \$222.32 | \$228.12 |

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 14 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., H. J. Heinz Company, 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). H. J. Heinz Company's (HNZ) performance was tracked from December 31, 2008 through June 7, 2013, when it was acquired by Berkshire Hathaway Inc. and 3G Special Situations Fund III, L.P.

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Issuer Purchases of Equity Securities During the Quarter Ended December 31, 2013

Altria Group, Inc.'s Board of Directors (the "Board of Directors"), authorized a \$300 million share repurchase program in April 2013 and expanded it to \$1.0 billion in August 2013 (as expanded, the "April 2013 share repurchase program"). Altria Group, Inc. expects to complete this program by the end of the third quarter of 2014. The timing of share repurchases under the April 2013 share repurchase program depends upon marketplace conditions and other factors. The April 2013 share repurchase 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, 2013, 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 ⁽²⁾ | Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs |
|---|---|------------------------------|---|--|
| October 1- October 31, 2013 | 267,431 | \$34.66 | 8,467,100 | \$700,143,797 |
| November 1- November 30, 2013 | 3,832,583 | \$37.50 | 12,297,100 | \$556,516,997 |
| December 1- December 31, 2013 | 2,688,135 | \$37.24 | 14,978,100 | \$456,685,481 |
| For the Quarter Ended December 31, 2013 | 6,788,149 | \$37.28 | | |

The total number of shares purchased include (a) shares purchased under the April 2013 share repurchase program (which totaled 264,000 shares in October, 3,830,000 shares in November and 2,681,000 shares in December) and

(1) (b) shares withheld by Altria Group, Inc. in an amount equal to the statutory withholding for holders who vested in restricted and deferred stock and used shares to pay all or a portion of the related taxes, and forfeitures of restricted stock for which consideration was paid in connection with termination of employment of certain employees (which totaled 3,431 shares in October, 2,583 shares in November and 7,135 shares in December).

(2) Aggregate number of shares purchased under the April 2013 share repurchase program as of the end of the period presented.

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)

| | 2013 | 2012 | 2011 | 2010 | 2009 | | |
|---|-------------|-------------|-------------|-------------|-------------|---|---|
| Summary of Operations: | | | | | | | |
| Net revenues | \$24,466 | \$24,618 | \$23,800 | \$24,363 | \$23,556 | | |
| Cost of sales | 7,206 | 7,937 | 7,680 | 7,704 | 7,990 | | |
| Excise taxes on products | 6,803 | 7,118 | 7,181 | 7,471 | 6,732 | | |
| Operating income | 8,084 | 7,253 | 6,068 | 6,228 | 5,462 | | |
| Interest and other debt expense, net | 1,049 | 1,126 | 1,216 | 1,133 | 1,185 | | |
| Earnings from equity investment in SABMiller | 991 | 1,224 | 730 | 628 | 600 | | |
| Earnings before income taxes | 6,942 | 6,477 | 5,582 | 5,723 | 4,877 | | |
| Pre-tax profit margin | 28.4 | % 26.3 | % 23.5 | % 23.5 | % 20.7 | % | % |
| Provision for income taxes | 2,407 | 2,294 | 2,189 | 1,816 | 1,669 | | |
| Net earnings | 4,535 | 4,183 | 3,393 | 3,907 | 3,208 | | |
| Net earnings attributable to Altria Group, Inc. | 4,535 | 4,180 | 3,390 | 3,905 | 3,206 | | |
| Basic EPS — net earnings attributable to Altria Group, Inc. | 2.26 | 2.06 | 1.64 | 1.87 | 1.55 | | |
| Diluted EPS — net earnings attributable to Altria Group, Inc. | 2.26 | 2.06 | 1.64 | 1.87 | 1.54 | | |
| Dividends declared per share | 1.84 | 1.70 | 1.58 | 1.46 | 1.32 | | |
| Weighted average shares (millions) — Basic | 1,999 | 2,024 | 2,064 | 2,077 | 2,066 | | |
| Weighted average shares (millions) — Diluted | 1,999 | 2,024 | 2,064 | 2,079 | 2,071 | | |
| Capital expenditures | 131 | 124 | 105 | 168 | 273 | | |
| Depreciation | 192 | 205 | 233 | 256 | 271 | | |
| Property, plant and equipment, net | 2,028 | 2,102 | 2,216 | 2,380 | 2,684 | | |
| Inventories | 1,879 | 1,746 | 1,779 | 1,803 | 1,810 | | |
| Total assets | 34,859 | 35,329 | 36,751 | 37,402 | 36,677 | | |
| Long-term debt | 13,992 | 12,419 | 13,089 | 12,194 | 11,185 | | |
| Total debt | 14,517 | 13,878 | 13,689 | 12,194 | 11,960 | | |
| Total stockholders' equity | 4,118 | 3,170 | 3,683 | 5,195 | 4,072 | | |
| Common dividends declared as a % of Basic EPS | 81.4 | % 82.5 | % 96.3 | % 78.1 | % 85.2 | % | % |
| Common dividends declared as a % of Diluted EPS | 81.4 | % 82.5 | % 96.3 | % 78.1 | % 85.7 | % | % |
| Book value per common share outstanding | 2.07 | 1.58 | 1.80 | 2.49 | 1.96 | | |
| Market price per common share — high/low | 38.58-31.85 | 36.29-28.00 | 30.40-23.20 | 26.22-19.14 | 20.47-14.50 | | |
| Closing price per common share at year end | 38.39 | 31.44 | 29.65 | 24.62 | 19.63 | | |
| Price/earnings ratio at year end — Basic and Diluted | 17 | 15 | 18 | 13 | 13 | | |
| Number of common shares outstanding at year end (millions) | 1,993 | 2,010 | 2,044 | 2,089 | 2,076 | | |
| Approximate number of employees | 9,000 | 9,100 | 9,900 | 10,000 | 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. Risk Factors of this Annual Report on Form 10-K ("Item 1A").

Description of the Company

At December 31, 2013, Altria Group, Inc.'s direct and indirect wholly-owned subsidiaries included PM USA, which is engaged in the manufacture and sale of cigarettes and certain smokeless tobacco products 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 direct and indirect wholly-owned subsidiaries, including USSTC and Ste. Michelle, is engaged in the manufacture and sale of smokeless tobacco products and wine. Nu Mark, an indirect wholly-owned subsidiary of Altria Group, Inc., is engaged in the development and marketing of innovative tobacco products for adult tobacco consumers. PMCC, another wholly-owned subsidiary of Altria Group, Inc., maintains a portfolio of leveraged and direct finance leases. In addition, Altria Group, Inc. held approximately 26.8% of the economic and voting interest of SABMiller at December 31, 2013, which Altria Group, Inc. accounts for under the equity method of accounting. 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, 2013, 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 common stock. In addition, Altria Group, Inc. receives cash dividends on its interest in SABMiller if and when SABMiller pays such dividends.

Effective January 1, 2013, Altria Group, Inc.'s reportable segments are smokeable products, smokeless products and wine. The financial services and the alternative products businesses have been combined 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 alternative products businesses to Altria Group Inc.'s consolidated results. In addition, due to the continued reduction of the lease portfolio of PMCC, Altria Group, Inc.'s balance sheet accounts are no longer segregated by consumer products and financial services, and all balance sheet accounts are classified as either current or non-current. Prior years' amounts have been reclassified to conform with the current year's presentation.

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, 2013, from the year ended December 31, 2012, were due primarily to the following:

| (in millions, except per share data) | Net Earnings | Diluted EPS |
|--|-----------------|----------------|
| For the year ended December 31, 2012 | \$4,180 | \$2.06 |
| 2012 Asset impairment, exit and implementation costs | 35 | 0.01 |
| 2012 Tobacco and health judgments | 4 | — |
| 2012 SABMiller special items | (161 |) (0.08 |
| 2012 Loss on early extinguishment of debt | 559 | 0.28 |
| 2012 PMCC leveraged lease benefit | (68 |) (0.03 |
| 2012 Tax items ¹ | (66 |) (0.03 |
| Subtotal 2012 special items | 303 | 0.15 |
| 2013 NPM Adjustment Items ² | 427 | 0.21 |
| | (7 |) — |

| | | | |
|--|---------|---|---------|
| 2013 Asset impairment, exit and implementation costs | | | |
| 2013 Tobacco and health judgments | (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) |
| Fewer shares outstanding | — | | 0.03 |
| Change in tax rate | 69 | | 0.03 |
| Operations | 211 | | 0.11 |
| For the year ended December 31, 2013 | \$4,535 | | \$2.26 |

¹ Excludes the tax impact included in the PMCC leveraged lease benefit.

² Reflects the impact of the NPM Adjustment Settlement (\$0.16) and the NPM Arbitration Panel Decision (\$0.05).

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 2013 compared with 2012 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 an increased recognition of foreign tax credits in 2013, primarily associated with SABMiller dividends.

Operations: The increase of \$211 million in operations shown in the table above was due primarily to the following: higher income from the smokeable products and smokeless products segments;

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lower interest and other debt expense, net; and

higher earnings from Altria Group, Inc.'s equity investment in SABMiller (excluding special items).

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

2014 Forecasted Results

In January 2014, Altria Group, Inc. forecasted that its 2014 full-year reported diluted EPS is expected to be in the range of \$2.51 to \$2.58. This forecast includes estimated expenses of \$0.01 per share as detailed in the table below, as compared with 2013 full-year reported diluted EPS of \$2.26, which included \$0.12 per share of net expenses, as detailed in the table below. Expected 2014 full-year adjusted diluted EPS, which excludes the expenses in the table below, represents a growth rate of 6% to 9% over 2013 full-year adjusted diluted EPS, which excludes the net expenses in the table below.

Altria Group, Inc.'s core tobacco businesses are positioned to deliver income growth through their leading premium brands. Altria Group, Inc. also expects its 2014 earnings to benefit from lower interest expense, a lower effective tax rate and a reduction in shares from the April 2013 share repurchase program. However, Altria Group, Inc. plans to continue making disciplined and incremental investments to build its alternative products businesses and expects continued variability in gains from asset sales at PMCC. Finally, although some economic indicators are improving, adult tobacco consumers continue to face challenges.

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

Expense (Income), Net Included in Reported Diluted EPS

| | 2014 | 2013 | |
|--------------------------------------|--------|---------|---|
| NPM Adjustment Items ¹ | \$— | \$(0.21 |) |
| Tobacco and health judgments | — | 0.01 | |
| SABMiller special items | 0.01 | 0.01 | |
| Loss on early extinguishment of debt | — | 0.34 | |
| Tax items | — | (0.03 |) |
| | \$0.01 | \$0.12 | |

¹ Reflects the impact of the NPM Adjustment Settlement (\$0.16) and the NPM Arbitration Panel Decision (\$0.05).

Adjusted diluted EPS is a financial measure that is not consistent with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Altria Group, Inc.'s management reviews diluted EPS on an adjusted basis, which excludes certain income and expense items that management believes are not part of underlying operations.

These items may include, for example, loss on early extinguishment of debt, restructuring charges, SABMiller special items, certain PMCC leveraged lease items, certain tax items, tobacco and health judgments, and settlements of, and determinations made in, disputes with certain states related to the Non-Participating Manufacturer ("NPM") adjustment provision ("NPM

Adjustment") under the 1998 Master Settlement Agreement (the "MSA"). Altria Group, Inc.'s management does not view any of these special items to be part of its sustainable results as they may be highly variable and difficult to predict and can distort underlying business trends and results. Altria Group, Inc.'s management believes it is appropriate to disclose this non-GAAP financial measure to provide useful insight into underlying business trends and results, and to provide a more meaningful comparison of year-over-year results. Adjusted 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. This information should 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.

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 customers, upon shipment or delivery 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

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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, 2013 relate primarily to the acquisitions of 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, 2013 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 |
| Total | \$5,174 | \$11,701 |

During 2013, 2012 and 2011, Altria Group, Inc. completed its quantitative annual impairment test of goodwill and indefinite-lived intangible assets, and no impairment charges resulted.

At December 31, 2013, the estimated fair value of the smokeless products reporting unit, as well as the estimated fair values of the indefinite-lived intangible assets within the smokeless products and wine reporting units, substantially exceeded their carrying values. In addition, at December 31, 2013, the estimated fair values of the cigars trademarks (primarily Black & Mild) exceeded their carrying values by approximately 18%. Middleton continues to observe significant competitive activity, including higher levels of imported, low-priced machine-made large cigars. As a result, management concluded after the 2013 review that while the fair values for the cigars trademarks exceeded their carrying values, they did not substantially exceed their carrying values.

In 2013, 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 10%.

In performing the 2013 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 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

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forecasted performance, which could result in impairment charges in future periods.

For additional information on goodwill and other intangible assets, see Note 3.

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 settled 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 also entered into a trust agreement to provide certain aid to U.S. tobacco growers and quota holders, but PM USA's obligations under this trust expired on December 15, 2010 (these obligations had been offset by the obligations imposed on PM USA by FETRA, which expires after the third quarter of 2014). USSTC and Middleton are also subject to obligations imposed by FETRA. In addition, in June 2009, PM USA and a subsidiary of USSTC became subject to quarterly user fees imposed by the FDA as a result of the FSPTCA. The State Settlement Agreements, FETRA and the FDA user fees call for payments that 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 \$4.4 billion, \$5.1 billion and \$5.0 billion of charges to cost of sales for the years ended December 31, 2013, 2012 and 2011, respectively. The 2013

amount included reductions to cost of sales of \$664 million related to certain NPM Adjustment items discussed further below and in Health Care Cost Recovery Litigation - Possible Adjustments in MSA Payments for 2003 - 2012 in Note 18.

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. Except to the extent discussed in Note 18 and Item 3, at the present time, while it is reasonably possible that an unfavorable outcome in a case may occur, (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 are 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, such as discount rates, assumed rates of return on plan assets, compensation increases, turnover rates and health care cost trend rates. Altria Group, Inc. reviews its actuarial assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is deemed appropriate to do so. Any effect

of the modifications is generally amortized over future periods.

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

At December 31, 2013, Altria Group, Inc.'s discount rate assumptions for its pension and postretirement plans increased to 4.9% and 4.8%, respectively, from 4.0% and 3.9%, respectively, at December 31, 2012. Altria Group, Inc. presently anticipates a decrease of approximately \$146 million in its 2014 pre-tax pension and postretirement expense versus 2013, not including amounts in each year related to termination, settlement and curtailment. This anticipated decrease is due primarily to lower amortization of unrecognized losses, which includes the impact of the higher discount rate and higher return on plan assets in 2013. 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

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approximately \$45 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 \$32 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 2013, 2012 and 2011 as a result of various tax events.

Leasing: Substantially all of PMCC's net revenues in 2013 related to income on leveraged leases and related gains on asset sales. Income relating to leveraged leases is recorded initially as unearned income, which is included in the line item finance assets, net, on Altria Group, Inc.'s consolidated balance sheets, and is 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, 2013 and 2012. At December 31, 2013, PMCC's net finance receivables of approximately \$1.9 billion in leveraged leases, which are included in finance assets, net, on

Altria Group, Inc.'s consolidated balance sheet, consisted of rents receivable (\$4.2 billion) and the residual value of assets under lease (\$1.1 billion), reduced by third-party nonrecourse debt (\$2.8 billion) and unearned income (\$0.6 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 \$2.0 billion at December 31, 2013 also included net finance receivables for direct finance leases and 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. Such reviews resulted in a decrease of \$8 million in 2012 to PMCC's net revenues and results of operations. There were no adjustments in 2013 and 2011.

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, 2013.

To the extent that rents receivable due to PMCC may be uncollectible, PMCC records an allowance for losses against its finance assets. Losses on such leases are recorded when probable and estimable. PMCC regularly performs a systematic assessment of each individual lease in its portfolio to determine potential credit or collection issues that might indicate impairment. Impairment takes into consideration both the probability of default and the likelihood of

recovery if default were to occur. PMCC considers both quantitative and qualitative factors of each investment when performing its assessment of the allowance for losses. For further discussion, see Note 7.

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Consolidated Operating Results

| (in millions) | For the Years Ended December 31, | | |
|--|----------------------------------|----------|----------|
| | 2013 | 2012 | 2011 |
| Net Revenues: | | | |
| Smokeable products | \$21,868 | \$22,216 | \$21,970 |
| Smokeless products | 1,778 | 1,691 | 1,627 |
| Wine | 609 | 561 | 516 |
| All other | 211 | 150 | (313) |
| Net revenues | \$24,466 | \$24,618 | \$23,800 |
| Excise Taxes on Products: | | | |
| Smokeable products | \$6,651 | \$6,984 | \$7,053 |
| Smokeless products | 130 | 113 | 108 |
| Wine | 22 | 21 | 20 |
| Excise taxes on products | \$6,803 | \$7,118 | \$7,181 |
| Operating Income: | | | |
| Operating companies income (loss): | | | |
| Smokeable products | \$7,063 | \$6,239 | \$5,737 |
| Smokeless products | 1,023 | 931 | 859 |
| Wine | 118 | 104 | 91 |
| All other | 157 | 176 | (349) |
| Amortization of intangibles | (20) | (20) | (20) |
| General corporate expenses | (235) | (229) | (264) |
| Changes to Mondelēz and PMI tax-related receivables/payables | (22) | 52 | 14 |
| Operating income | \$8,084 | \$7,253 | \$6,068 |

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 2013, 2012 and 2011 affected the comparability of statement of earnings amounts.

- NPM Adjustment Items: For the year ended December 31, 2013, PM USA recorded pre-tax income of \$664 million, which increased operating companies income in the smokeable products segment. This recording of pre-tax income resulted from the following:

- a reduction to cost of sales of \$519 million for the settlement of disputes with certain states and territories related to the NPM Adjustment under the MSA for the years 2003 - 2012 ("NPM Adjustment Settlement"); and

- a reduction to cost of sales of \$145 million for the September 11, 2013 diligent enforcement rulings of the arbitration panel presiding over the NPM Adjustment dispute for 2003 ("NPM Arbitration Panel Decision").

For further discussion of these items (which are referred to collectively as the "NPM Adjustment Items"), see Health Care Cost Recovery Litigation - Possible Adjustments in MSA Payments for 2003 - 2012 in Note 18.

Asset Impairment, Exit, Implementation and Integration Costs: Altria Group, Inc.'s pre-tax asset impairment, exit and implementation costs were primarily related to Altria Group, Inc.'s cost reduction program announced in October 2011 (the "2011 Cost Reduction Program"), which was substantially completed as of December 31, 2012. As of December 31, 2013, Altria Group, Inc. achieved its goal of delivering \$400 million in annualized savings versus previously planned spending.

For a breakdown of these costs by segment, see Note 4. Asset Impairment, Exit, Implementation and Integration Costs in Item 8.

Tobacco and Health Judgments: See Note 18 for pre-tax charges related to tobacco and health judgments recorded in operating companies income in the smokeable products segment and related interest costs.

SABMiller Special Items: Altria Group, Inc.'s earnings from its equity investment in SABMiller for 2013 included net pre-tax charges of \$31 million, consisting of costs for SABMiller's "business capability programme," costs related to SABMiller's economic and social development program in South Africa and asset impairment charges, partially offset by gains related to divestitures. 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 ("Foster's"). Altria Group, Inc.'s earnings from its equity investment in SABMiller for 2011 included net pre-tax charges of \$82 million, consisting of costs for SABMiller's "business capability programme," acquisition-related costs for SABMiller's acquisition of Foster's and asset impairment charges, partially offset by gains resulting from SABMiller's hotel and gaming transaction and the disposal of a business in Kenya.

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PMCC Leveraged Lease Benefit/Charge: 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. During the second quarter of 2011, Altria Group, Inc. recorded a charge of \$627 million related to the federal income tax treatment of these transactions (the “2011 PMCC Leveraged Lease Charge”). Approximately 50% of the charge (\$315 million) represented a reduction in cumulative lease earnings recorded as of the date of the charge that will be recaptured over the remainder of the terms of the affected leases. The remaining portion of the charge (\$312 million) primarily represented a permanent charge for interest on tax underpayments. For the years ended December 31, 2012 and 2011, the benefit/charge associated with PMCC’s leveraged lease transactions was recorded in Altria Group, Inc.’s consolidated statements of earnings as follows:

| (in millions) | For the Year Ended December 31, 2012 | | | For the Year Ended December 31, 2011 | | |
|--|---|--------------------------------|----------|---|---|---------|
| | Net Revenues | Benefit for Income Taxes | Total | Net Revenues | (Benefit) Provision for Income Taxes | Total |
| Reduction to cumulative lease earnings | \$7 | \$(2) |) \$5 | \$490 | \$(175) |) \$315 |
| Interest on tax underpayments | — | (73) |) (73) | — | 312 |) 312 |
| Total | \$7 | \$(75) |) \$(68) | \$490 | \$137 |) \$627 |

See Note 14 for a further discussion of the Closing Agreement.

Loss on Early Extinguishment of Debt: During the fourth quarter of 2013 and the third quarter of 2012, Altria Group, Inc. completed debt tender offers to purchase for cash aggregate principal amounts of \$2.1 billion and \$2.0 billion, respectively, of certain of its senior unsecured notes. As a result of these debt tender offers, Altria Group, Inc. recorded pre-tax losses on early extinguishment of debt as follows:

| (in millions) | 2013 | 2012 |
|--|---------|-------|
| Debt tender premiums and fees | \$1,054 | \$864 |
| Write-off of unamortized debt discounts and debt issuance costs | 30 | 10 |
| Total | \$1,084 | \$874 |

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

Tax Items: 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. Tax items for 2011, excluding the tax impact included in the 2011 PMCC Leveraged Lease Charge, included the reversal of tax reserves and associated interest related to the expiration of statutes of limitations, closure of tax audits and the reversal of tax accruals no longer required. For further discussion, see Note 14.

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 the 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 alternative 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 the NPM Adjustment Items) and higher operating results from the smokeless products segment, partially offset by changes to Kraft Foods Inc. (now known as 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

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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 SABMiller special items (which included gains of \$342 million resulting from SABMiller's strategic alliance transactions with Anadolu Efes and Castel in 2012), partially offset by higher gains resulting from issuances of common stock by SABMiller in 2013.

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 PMCC leveraged lease benefit recorded 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.

2012 Compared With 2011

The following discussion compares consolidated operating results for the year ended December 31, 2012, with the year ended December 31, 2011.

Net revenues, which include excise taxes billed to customers, increased \$818 million (3.4%), due to higher net revenues from the financial services business (which included the 2011 PMCC Leveraged Lease Charge), and the smokeable products, smokeless products and wine segments.

Excise taxes on products decreased \$63 million (0.9%), due primarily to lower excise taxes for Middleton and lower smokeable products shipment volume.

Cost of sales increased \$257 million (3.3%), due primarily to higher per unit settlement charges and higher manufacturing costs.

Marketing, administration and research costs decreased \$362 million (13.7%), primarily reflecting cost reduction initiatives, lower charges related to tobacco and health judgments, recoveries related to the American Airlines, Inc. bankruptcy filing in November 2011 and a decrease to the allowance for losses in the financial services business.

Operating income increased \$1,185 million (19.5%), due primarily to: (i) higher operating results from the financial services business, which in 2011 included the 2011 PMCC Leveraged Lease Charge; (ii) higher operating results from the smokeable products and smokeless products segments, which included lower charges in 2012 related to the 2011 Cost Reduction Program and lower charges in the smokeable products segment related to tobacco and health judgments; and (iii) changes to Mondelēz and PMI tax-related receivables/payables as discussed further in Note 14.

Interest and other debt expense, net, decreased \$90 million (7.4%) due primarily to lower interest costs in 2012 related to tobacco and health judgments, and lower interest costs on debt as a result of debt refinancing activities in 2012.

Earnings from Altria Group, Inc.'s equity investment in SABMiller increased \$494 million (67.7%), due primarily to higher net gains in 2012 for SABMiller special items (which included gains resulting from SABMiller's strategic alliance transactions with Anadolu Efes and Castel in 2012) and higher ongoing equity earnings.

Altria Group, Inc.'s effective income tax rate decreased 3.8 percentage points to 35.4% due primarily to a \$312 million charge in 2011 that primarily represents interest on tax underpayments associated with the 2011 PMCC Leveraged Lease Charge, and a \$73 million interest benefit recorded during 2012, resulting primarily from lower than estimated interest on tax underpayments related to the Closing Agreement with the IRS, partially offset by a reduction in certain consolidated tax benefits resulting from the 2012 debt tender offer and a higher tax provision in 2012 related to the Mondelēz and PMI tax matters.

Net earnings attributable to Altria Group, Inc. of \$4,180 million increased \$790 million (23.3%), due primarily to higher operating income, higher earnings from Altria Group, Inc.'s equity investment in SABMiller, a lower income tax rate and lower interest and other debt expense, net, partially offset by the loss on early extinguishment of debt related to the 2012 debt tender offer. Diluted and basic EPS attributable to Altria Group, Inc. of \$2.06, each increased by 25.6% 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 and 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 enacted in June 2009, and restrictions and requirements that have been, and in the future may be, imposed by the FDA under this statute;

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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) to further restrict tobacco use;

price gaps and changes in price gaps between premium and lowest price brands;

competitive disadvantages related to cigarette price increases attributable to the settlement of certain litigation;

illicit trade practices, including the sale of counterfeit tobacco products by third parties; the sale of tobacco products by third parties over the Internet and by other means designed to avoid the collection of applicable taxes; diversion into one market of products intended for sale in another; the potential assertion of claims and other issues relating to contraband shipments of tobacco products; and the imposition of additional legislative or regulatory requirements related to illicit trade practices; 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 adult tobacco consumer awareness of electronic cigarettes is high and

growing and estimate that consumer expenditures for e-vapor products reached approximately \$1 billion in the United States in 2013. 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 with the introduction of MarkTen electronic cigarettes into a lead market in Indiana in August 2013 and expanded distribution of MarkTen electronic cigarettes to Arizona in December 2013. Nu Mark plans to expand MarkTen electronic cigarettes nationally beginning in the second quarter of 2014. In addition, on February 3, 2014, Altria Group, Inc. announced Nu Mark's entry into an agreement to acquire the e-vapor business of Green Smoke, Inc. and its affiliates. See the discussions regarding new product technologies, adjacency growth strategy and evolving consumer preferences in Item 1A for certain risks associated with the foregoing discussion.

We have provided additional detail on the following topics below:

- FSPTCA and FDA Regulation;
- Excise Taxes;
- International Treaty on Tobacco Control;
- State Settlement Agreements;
- Other Federal, State and Local Regulation and Activity;
- Illicit Trade;
- Tobacco Price, Availability and Quality; 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 (1) to regulate the design, manufacture, packaging, advertising, promotion, sale and distribution of

cigarettes, cigarette tobacco and smokeless tobacco products; (2) to require disclosures of related information; and (3) to enforce the FSPTCA and related regulations. The law also grants the FDA authority to extend the FSPTCA's application, by regulation, to all other tobacco products, including cigars, pipe tobacco and electronic cigarettes. The FDA has indicated that it intends to regulate cigars, electronic cigarettes and other tobacco products, but it has not indicated a timeline for the issuance of final regulations.

Among other measures, the FSPTCA:

imposes restrictions on the advertising, promotion, sale and distribution of tobacco products, including at retail;

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prohibits cigarettes with characterizing flavors other than menthol and tobacco;
bans descriptors such as “light,” “mild” or “low” or similar descriptors unless expressly authorized by the FDA;
requires extensive ingredient disclosure to the FDA and may require more limited public ingredient disclosure;
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:
to impose tobacco product standards that are appropriate for the protection of the public health through a regulatory process, including, among other possibilities, restrictions on ingredients, constituents or other properties, performance or design criteria, as well as to impose testing, measurement, reporting and disclosure requirements;
to subject tobacco products that are modified or first introduced into the market after March 22, 2011 to application and premarket review and authorization requirements (the “New Product Application Process”) if the FDA does not find them to be “substantially equivalent” to products commercially marketed as of February 15, 2007, and to deny any such new product application, thus preventing the distribution and sale of any product affected by such denial;
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);
to restrict or otherwise regulate menthol cigarettes, as well as other tobacco products with characterizing flavors (see TPSAC below);

to regulate nicotine yields and to reduce or eliminate harmful constituents or harmful ingredients or other components of tobacco products; and
to impose manufacturing standards for tobacco products; and
equips the FDA with a variety of investigatory and enforcement tools, including the authority to inspect tobacco product manufacturing and other facilities.

Implementation Timing, Rulemaking and Guidance:
The implementation of the FSPTCA began in 2009 and will continue over time. Some provisions took effect immediately, some provisions have taken effect since the enactment of the FSPTCA and other provisions will not take effect for some time. Those provisions that require the FDA to take action through rulemaking generally involve consideration of public comment and, for some issues, scientific review. 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.
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 when finalized, is not intended to bind the FDA or the public or establish legally enforceable responsibilities. Examples of current draft guidance include:

Draft Guidance for Industry and FDA Staff: Demonstrating the Substantial Equivalence of a New Tobacco Product:
Responses to Frequently Asked Questions;
Draft Guidance for Industry: Modified Risk Tobacco Product Applications; and
Draft Guidance for Industry: Applications for Premarket Review of New Tobacco Products.

A complete set of guidance documents issued by the FDA can be found on the FDA's website at www.fda.gov/TobaccoProductsGuidanceComplianceRegulatoryInformation. The information on this website is not, and shall not be deemed to be, part of this report or incorporated into any other filings Altria Group, Inc. makes with the SEC.

PM USA and USSTC submit comments to the FDA on draft or final guidance when appropriate. In some cases, PM USA and USSTC may disagree with a particular interpretation by the FDA as expressed in draft or final guidance and may communicate their position in writing to the FDA. For example, PM USA and USSTC communicated disagreement with FDA interpretations of the statute set forth in the "Draft Guidance for Industry and FDA Staff: Demonstrating the Substantial Equivalence of a New Tobacco Product: Responses to Frequently Asked Questions"

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regarding when a manufacturer must submit substantial equivalence reports. While PM USA and USSTC believe that all of their current products meet the statutory requirements of the FSPTCA, they cannot currently predict whether, when or how the FDA ultimately will apply its guidance or seek to enforce the law and regulations consistent with its guidance. As discussed below in Investigations and Enforcement, FDA enforcement actions could have a material adverse effect on the business, financial position, cash flows and results of operations of Altria Group, Inc. and its tobacco subsidiaries.

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: Regulations imposed and other regulatory actions taken by the FDA under the FSPTCA could have a material adverse effect on the business, financial position, cash flows and results of operations 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 consumer choices;
- restrict communications to adult 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 activities; 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, financial position, cash flows and results of operations 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 according to a process set out in the statute, which relies, in part, on the allocation methodology set forth in FETRA, and then among manufacturers and importers within each respective category

based on their relative market shares. In May 2013, the FDA issued proposed regulations to govern the allocation of the FDA user fee after the FETRA program concludes in 2014. An Altria Group, Inc. subsidiary filed comments on behalf of PM USA and USSTC objecting to certain aspects of the proposed regulations. For a discussion of the impact of the State Settlement Agreements, the FETRA and FDA user fee payments on Altria Group, Inc., see Financial Review - Debt and Liquidity - 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 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, money 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, financial position, cash flows and results of operations of Altria Group, Inc. and its tobacco subsidiaries.

For example, in June 2010, the FDA issued a document request regarding changes to Marlboro Gold Pack cigarette packaging in connection with the FSPTCA's ban of certain descriptors. PM USA submitted documents in response to the FDA's request.

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. For example, the TPSAC advises the FDA about modified risk products (products marketed with reduced risk claims), good manufacturing practices, the effects of the alteration of nicotine yields from tobacco products and nicotine dependence thresholds. The TPSAC previously made reports and recommendations to the FDA on menthol cigarettes, including the impact of the use of menthol in cigarettes on the public health, and the nature and impact of dissolvable tobacco products on the public health. The FDA may seek advice from the TPSAC about other safety, dependence or health issues relating to tobacco products, including tobacco product standards and applications to market new tobacco products.

TPSAC Membership: Beginning in March 2010, PM USA and USSTC raised with the FDA their concerns that four of

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the voting members of the TPSAC have financial and other conflicts (including services as paid experts for plaintiffs in tobacco litigation) that could hamper the full and fair consideration of issues by the TPSAC and requested that their appointments be withdrawn. PM USA and USSTC raised similar concerns related to the engagement of two TPSAC subcommittee consultants. The FDA declined PM USA's and USSTC's requests, stating that the FDA had satisfied itself, after inquiry, that the individuals in question did not have disqualifying conflicts of interest. In February 2011, Lorillard Tobacco Company ("Lorillard") and R.J. Reynolds filed suit in the U.S. District Court for the District of Columbia against the United States Department of Health and Human Services and individual defendants (sued in their official capacities) asserting that the composition of the TPSAC and the composition of the Constituents Subcommittee of the TPSAC violates several federal laws, including the Federal Advisory Committee Act. In August 2012, the district court denied the government's motion to dismiss the plaintiffs' complaint. The government defendants filed their motion for summary judgment as to all claims in June 2013. Lorillard and R.J. Reynolds filed a cross-motion for summary judgment in July 2013.

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 that the "[r]emoval of menthol cigarettes from the marketplace would benefit public health in the United States." The TPSAC report noted the potential that any ban on menthol cigarettes could lead to an increase in contraband cigarettes and other potential unintended consequences and suggested that the FDA consult with appropriate experts on this matter. 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.

In July 2011, the TPSAC revised and approved its March 2011 report. The revisions were editorial in nature and did not change the substantive conclusions and recommendations of the TPSAC.

The FSPTCA does not set a deadline or required timeline for the FDA to act on the TPSAC's report. The FDA has stated that the TPSAC's report is only a recommendation and that the FDA's receipt of the TPSAC's report will not have an immediate effect on the availability of menthol cigarettes. In January 2012, the FDA announced that it had evaluated scientific information on menthol and had drafted a report related to the impact of menthol

in cigarettes on public health. The FDA indicated that it had sent its report to external scientists for peer review. In July 2013, the FDA released its preliminary scientific evaluation, 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. On November 22, 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.

Final Tobacco Marketing Rule: As required by the FSPTCA, the FDA re-promulgated in March 2010 certain 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

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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. In January 2010, in one such challenge (Commonwealth Brands), the U.S. District Court for the Western District of Kentucky struck down as unconstitutional, and enjoined enforcement of, the portion of the Final Tobacco Marketing Rule that bans the use of color and graphics in labeling and advertising and claims implying that a tobacco product is safer because of FDA regulation. The parties appealed and in March 2012, the U.S. Court of Appeals for the Sixth Circuit affirmed in part and reversed in part the district court’s decision. The Sixth Circuit affirmed the district court’s injunction against enforcement of the portion of the Final Tobacco Marketing Rule that bans the use of color and graphics in labeling and advertising. The Sixth Circuit reversed the injunction against enforcement of the prohibition on claims implying that a tobacco product is safer because of FDA regulation. The Sixth Circuit also held that the Final Tobacco Marketing Rule’s ban on consumer continuity programs violates the First Amendment and reversed the district court’s decision upholding the ban. The Sixth Circuit upheld the FSPTCA’s statutory requirements for enlarged textual and graphic warnings on cigarette packages and advertising, but did not rule upon the constitutionality of the nine graphic warnings actually selected by the FDA in its June 2011 final rule. In May 2012, the plaintiffs in Commonwealth Brands filed a petition for rehearing and rehearing en banc, which the Sixth Circuit denied. In October 2012, the plaintiffs filed a petition for writ of certiorari in the United States Supreme Court seeking further review of the Sixth Circuit’s decision upholding the FSPTCA’s new enlarged and expanded warning requirements that include graphic warnings, the FSPTCA’s restrictions on modified risk tobacco product claims and certain other provisions of the Final Tobacco Marketing Rule. The FDA did not file a petition for writ of certiorari with the United States Supreme Court seeking further review of the Sixth Circuit’s decision. The FDA filed its opposition to the plaintiffs’ petition for writ of certiorari in March 2013. In April 2013, the United States Supreme Court denied plaintiffs’ petition for writ of certiorari. As a result of this litigation, 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 - Graphics Warnings below.

In a separate challenge to the Final Tobacco Marketing Rule in the U.S. District Court for the Eastern District of Virginia, Renegade Tobacco Company, Inc. and others have 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. In May 2010, the district court issued a stay in the Renegade case pending the FDA’s consideration of amendments to the trade or brand name rule. In November 2011, the FDA proposed an amended rule, but continues to exercise its discretion to enforce the original trade or brand name provisions of the Final Tobacco Marketing Rule according to FDA guidance issued in May 2010. It is not possible to predict the outcome of any such litigation or its effect on the extent of the FDA’s authority to regulate tobacco products.

Contraband: The FSPTCA imposes on manufacturers reporting obligations relating to knowledge of suspected contraband activity involving their brands and also grants the FDA the authority to impose certain recordkeeping and other obligations to address illicit trade in tobacco products. The FSPTCA also empowers the FDA to assess whether additional tools should be employed to track and trace tobacco products through the distribution chain.

FDA Regulatory Actions

Graphic Warnings: In June 2011, as required by the FSPTCA, the FDA issued its final rule to modify the required warnings that appear on cigarette packages and in cigarette advertisements. The FSPTCA requires the warnings to consist of nine new textual warning statements accompanied by color graphics depicting the negative health consequences of smoking. The graphic health warnings will (i) be located beneath the cellophane, and comprise the top 50% of the front and rear panels of cigarette packages, and (ii) occupy 20% of a cigarette advertisement and be located at the top of the advertisement. After a legal challenge to the rule initiated by R.J. Reynolds, Lorillard and

several other plaintiffs, in which plaintiffs prevailed both at the trial and federal 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.

New Product Marketing Authorization Processes: 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 agency 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

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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. PM USA and USSTC believe all of their current products meet the statute's requirements, but cannot predict when or how the FDA will respond to their substantial equivalence reports. 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 agency 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 agency reviews of either substantial equivalence reports or new product applications will take.

The FDA also published a final regulation in July 2011, establishing a process for requesting an exemption from the substantial equivalence requirements for certain minor modifications to tobacco additives. The final rule became effective in August 2011.

Good Manufacturing Practices: In March 2013, the FDA published a notice announcing that it had established a public docket to obtain input by May 20, 2013 on the proposed Good Manufacturing Practice Regulations recommended to the FDA in January 2012 by a group of tobacco companies, including PM USA and USSTC. The FSPTCA requires that the FDA promulgate good manufacturing practice regulations for tobacco product manufacturers, but does not specify a timeframe for such regulations.

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. For example, in 2009, the FET on cigarettes increased from \$0.39 per pack to approximately \$1.01 per pack and on July 1, 2010, the New York state excise tax increased by \$1.60 to \$4.35 per pack. Between the end of 1998 and February 21, 2014, the weighted-average state and certain local cigarette excise taxes increased from \$0.36 to \$1.47 per pack. During 2013, Massachusetts, Minnesota, Oregon and Puerto Rico enacted

legislation to increase their cigarette taxes. As of February 21, 2014, no state has increased its cigarette excise tax in 2014. The President's fiscal year 2014 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 impact on the 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 21, 2014, the federal government, 22 states, Puerto Rico, Washington, D.C., 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 21, 2014, 177 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; and adopt measures intended to combat tobacco product smuggling and counterfeit tobacco products, including tracking and tracing of tobacco products

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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 directly 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, FETRA and FDA user fee payments on Altria Group, Inc., see Financial Review - Debt and Liquidity - Payments Under State Settlement and Other Tobacco Agreements, and FDA Regulation below. The State Settlement Agreements also place numerous requirements and restrictions on participating manufacturers’ business operations, including prohibitions and restrictions on the advertising and marketing of cigarettes and smokeless tobacco products. Among these are prohibitions of outdoor and transit brand advertising, payments for product placement and free sampling (except in adult-only facilities).

Restrictions are also placed on the use of brand name sponsorships and brand name non-tobacco products. The State Settlement Agreements also place prohibitions on targeting youth and the use of cartoon characters. In addition, the State Settlement Agreements require companies to affirm corporate principles directed at reducing underage use of cigarettes; impose requirements regarding lobbying activities; mandate public disclosure of certain industry documents; limit the industry’s ability to challenge certain tobacco control and underage use laws; and provide for the dissolution of certain tobacco-related organizations and place restrictions on the establishment of any replacement organizations.

In November 1998, USSTC entered into the Smokeless Tobacco Master Settlement Agreement (the “STMSA”) with the attorneys general of various states and United States territories to resolve the remaining health care cost reimbursement cases initiated against USSTC. The STMSA required USSTC to adopt

various marketing and advertising restrictions. USSTC is the only smokeless tobacco manufacturer to sign the STMSA.

Other Federal, State and Local Regulation and Activity

Federal, State and Local Laws

State and Local Laws Addressing Certain Characterizing Flavors: In a number of states and localities, legislation has been enacted or proposed that prohibits or would prohibit the sale of certain tobacco products with certain characterizing flavors. The legislation varies in terms of the type of tobacco products subject to prohibition, the conditions under which the sale of such products is or would be prohibited, and exceptions to the prohibitions. For example, a number of proposals would prohibit characterizing flavors in smokeless tobacco products, with no exception for mint- or wintergreen-flavored products.

Jurisdictions that have enacted restrictions on certain tobacco products with certain characterizing flavors include Providence, RI, New York City, NY, Maine and New Jersey. Whether other states or localities will enact legislation in this area, and the precise nature of such legislation if enacted, cannot be predicted. See FSPTCA and FDA Regulation above for a summary of the FSPTCA’s regulation of certain tobacco products with characterizing flavors.

State and Local Laws Imposing Certain Speech Requirements or Other Restrictions: In several jurisdictions, legislation or regulations have been enacted or proposed that would require the disclosure of health information

separate from or in addition to federally-mandated health warnings or that would restrict commercial speech in certain respects or that would impose additional restrictions on the marketing or sale of tobacco products (including proposals to ban all tobacco product sales). For example, in 2012, New York City attempted to require retailers selling tobacco products to display a sign depicting graphic images of the potential health consequences of smoking and urging smokers to quit. In litigation now concluded, a federal appeals court ruled that the ordinance was preempted by federal law.

In addition, on November 19, 2013, New York City enacted an ordinance prohibiting retailers from (1) honoring or accepting any “price reduction instrument” (including coupons), (2) offering a discount off the listed sales price of a tobacco product to a consumer or (3) offering consumers multi-pack or multi-product discounts on the sale of any tobacco product. The ordinance also bans sampling of tobacco products in adult-only facilities. It also imposes a minimum retail sales price for cigarettes and little cigars and a minimum pack size for certain cigars. On January 30, 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 on the

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grounds that it violates the First Amendment and is preempted by federal and state law.

New York City also enacted an ordinance on November 19, 2013 increasing the legal age to purchase tobacco products (including electronic cigarettes) from 18 to 21. The current federal minimum age requirement for the purchase of tobacco products is 18; four states have increased their state minimum age laws to 19 (Alabama, Alaska, New Jersey and Utah) and a number of localities have increased their minimum age laws above 18. In addition, a number of states have recently proposed increasing the legal age to 21.

Federal Tobacco Quota Buy-Out: In October 2004, FETRA was signed into law. PM USA, Middleton and USSTC are subject to the requirements of FETRA. 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 will end in 2014, is approximately \$9.5 billion and is being paid by manufacturers and importers of each kind of tobacco product subject to FET. The cost is being allocated based on the relative market shares of manufacturers and importers of each kind of such tobacco product.

In February 2011, PM USA filed a lawsuit in the U.S. District Court for the Eastern District of Virginia challenging the USDA's method for calculating the 2011 and future tobacco product class shares that are used to allocate liability for the industry payments that fund the FETRA buy-out described above. PM USA asserted in this litigation that the USDA violated FETRA, and imposed excessive FETRA assessments on PM USA, by failing to apply the most current FET rates enacted by Congress, which became effective in April 2009, in calculating the class share allocations. The Cigar Association of America has joined the litigation as a defendant intervenor. In October 2012, the district court denied PM USA's motion for summary judgment, granted the defendants' motion for summary judgment and dismissed the case. In December 2012, PM USA filed a notice of appeal to the U.S. Court of Appeals for the Fourth Circuit. Oral argument was held on September 19, 2013. On November 20, 2013, the Fourth Circuit affirmed the district court's decision granting summary judgment.

For a discussion of the impact of the State Settlement Agreements, FETRA and FDA user fee payments on Altria Group, Inc., see Financial Review - Debt and Liquidity - Payments Under State Settlement and Other Tobacco Agreements, and FDA Regulation below. We do not anticipate that the quota buy-out will have a material adverse impact on our consolidated results in 2013 or 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."

Many jurisdictions within the United States have restricted smoking in public places. The pace and scope of public smoking bans have increased significantly. 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

Altria Group, Inc. and its tobacco subsidiaries support appropriate regulations and enforcement measures to prevent illicit trade in tobacco products. For example, Altria Group, Inc.'s tobacco subsidiaries are engaged in a number of initiatives to help prevent trade in contraband tobacco products, including: enforcement of wholesale and retail trade programs and policies on trade in contraband 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 trade in contraband 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. For example, in March 2010, the President signed into law the Prevent All Cigarette Trafficking ("PACT") Act, which addresses illegal Internet sales by, among other things, imposing a series of restrictions and requirements on the delivery-sale of cigarettes and smokeless tobacco products and makes such products non-mailable to consumers through the United States Postal Service, subject to limited exceptions. The PACT Act has been the subject of ongoing lawsuits brought by certain Internet cigarette sellers. In one of these lawsuits, pending in the U.S. District Court for the District of Columbia, a preliminary injunction is currently in effect that prevents the implementation of certain portions of the PACT Act. On June 28, 2013, the U.S. Court of Appeals for the D.C. Circuit upheld the preliminary injunction and remanded the case to the trial court for further proceedings.

Tobacco Price, Availability and Quality

Shifts in crops driven by economic conditions and adverse weather patterns, government mandated prices and production control programs may increase or decrease the cost or reduce the 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 tobacco leaf prices, quality or availability could affect our tobacco subsidiaries' profitability and business.

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, | | | Operating Companies Income | | |
|--|----------------------------------|----------|----------|----------------------------|---------|---------|
| | Net Revenues | | | 2013 | 2012 | 2011 |
| (in millions) | 2013 | 2012 | 2011 | 2013 | 2012 | 2011 |
| Smokeable products | \$21,868 | \$22,216 | \$21,970 | \$7,063 | \$6,239 | \$5,737 |
| Smokeless products | 1,778 | 1,691 | 1,627 | 1,023 | 931 | 859 |
| Total smokeable and smokeless products | \$23,646 | \$23,907 | \$23,597 | | | |