ALTRIA GROUP, INC.
Form 10-K
February 27, 2017
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, 2016
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. þ 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 þ 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 þ 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) þ 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 þ
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if smaller reporting company)	Smaller operating company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ¨Yes þ No
As of June 30, 2016, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was approximately $135 billion based on the closing sale price of the common stock as reported on the New

York Stock Exchange.

Class	Outstanding at February 13, 2017
Common Stock, \$0.33 $^{1}/3$ par value	1,939,420,437 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 18, 2017, to be filed with the Securities and Exchange Commission on or about April 6, 2017, 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, 2016, Altria Group, Inc.'s wholly-owned subsidiaries included Philip Morris USA Inc. ("PM USA"), which is engaged in the manufacture and sale of cigarettes in the United States; John Middleton Co. ("Middleton"), which is engaged in the manufacture and sale of machine-made large cigars and pipe tobacco and is a wholly-owned subsidiary of PM USA; and UST LLC ("UST"), which through its wholly-owned subsidiaries, including U.S. Smokeless Tobacco Company LLC ("USSTC") and Ste. Michelle Wine Estates Ltd. ("Ste. Michelle"), is engaged in the manufacture and sale of smokeless tobacco products and wine. Altria Group, Inc.'s other operating companies included Nu Mark LLC ("Nu Mark"), a wholly-owned subsidiary that is engaged in the manufacture and sale of innovative tobacco products, and Philip Morris Capital Corporation ("PMCC"), a wholly-owned subsidiary that maintains a portfolio of finance assets, substantially all of which are leveraged leases. Other Altria Group, Inc. wholly-owned subsidiaries included Altria Group Distribution Company, which provides sales, distribution and consumer engagement services to certain Altria Group, Inc. operating subsidiaries, and Altria Client Services LLC, which provides various support services in areas, such as legal, regulatory, finance, human resources and external affairs, to Altria Group, Inc. and its subsidiaries.

At September 30, 2016, Altria Group, Inc. had an approximate 27% ownership of SABMiller plc ("SABMiller"), which Altria Group, Inc. accounted for under the equity method of accounting. On October 10, 2016, Anheuser-Busch InBev SA/NV ("Legacy AB InBev") completed a business combination with SABMiller in a cash and stock transaction (the "Transaction"). A newly formed Belgian company, which retained the name Anheuser-Busch InBev SA/NV ("AB InBev"), became the holding company for the combined SABMiller and Legacy AB InBev businesses. Upon completion of the Transaction, Altria Group, Inc. had a 9.6% ownership of AB InBev based on AB InBev's shares outstanding at October 10, 2016. Following completion of the Transaction, Altria Group, Inc. purchased 12,341,937 ordinary shares of AB InBev for a total cost of approximately $1.6 billion, thereby increasing Altria Group, Inc.'s ownership to approximately 10.2%. At December 31, 2016, Altria Group, Inc. had an approximate 10.2% ownership of AB InBev, which Altria Group, Inc. accounts for under the equity method of accounting using a one-quarter lag. As a result of the one-quarter lag and the timing of the completion of the Transaction, no earnings from Altria Group, Inc.'s equity investment in AB InBev were recorded for the year ended December 31, 2016. For further discussion, see Note 7. Investment in AB InBev/SABMiller to the consolidated financial statements in Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K ("Item 8").

In January 2017, Altria Group, Inc. acquired the privately-held Sherman Group Holdings, LLC and its subsidiaries ("Nat Sherman"). Nat Sherman sells super-premium cigarettes and premium cigars and joins PM USA and Middleton as part of Altria Group, Inc.'s smokeable products segment.

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, 2016, Altria Group, Inc.'s principal wholly-owned subsidiaries were not limited by long-term debt or other agreements in their ability to pay cash dividends or make other distributions with respect to their equity interests. In addition, Altria Group, Inc. receives cash dividends on its interest in AB InBev if and when AB InBev pays such dividends.

Financial Information About Segments

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

Altria Group, Inc.'s chief operating decision maker (the "CODM") 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 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 the CODM. 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 16. Segment Reporting to the consolidated financial statements in Item 8 ("Note 16"). Information about total assets by segment is not disclosed because such information is not reported to or used by the CODM. Segment goodwill and other intangible assets, net, are disclosed in Note 4. Goodwill and Other Intangible Assets, net to the consolidated financial statements in Item 8 ("Note 4"). The accounting policies of the segments are the same as those described in Note 2. Summary of Significant Accounting Policies to the consolidated financial statements in Item 8 ("Note 2").

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

	2016	2015	2014
Smokeable products	86.2 %	87.4 %	87.2 %
Smokeless products	13.1	12.8	13.4
Wine	1.8	1.8	1.7
All other	(1.1)	(2.0)	(2.3)
Total	100.0 %	100.0 %	100.0 %

For items affecting the comparability of the relative percentages of operating companies income (loss) attributable to each reportable segment, see Note 16.

Narrative Description of Business

Portions of the information called for by this Item are included in Operating Results by Business Segment 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").

Tobacco Space

Altria Group, Inc.'s tobacco operating companies include PM USA, USSTC and other subsidiaries of UST, Middleton, Nu Mark and Nat Sherman. Altria Group Distribution Company provides sales, distribution and consumer engagement services to Altria Group, Inc.'s tobacco operating companies.

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

Cigarettes: PM USA is the largest cigarette company in the United States, with total cigarette shipment volume in the United States of approximately 122.9 billion units in 2016, a decrease of 2.5% from 2015. Marlboro, the principal cigarette brand of PM USA, has been the largest-selling cigarette brand in the United States for over 40 years. Nat Sherman sells substantially all of its super-premium cigarettes in the United States.

Cigars: Middleton is engaged in the manufacture and sale of machine-made large cigars and pipe tobacco to customers, substantially all of which are located in the United States. Middleton sources a portion of its cigars from an importer through a third-party contract manufacturing arrangement. Total shipment volume for cigars was approximately 1.4 billion units in 2016, an increase of 5.9% from 2015. Black & Mild is the principal cigar brand of Middleton. Nat Sherman sources its premium cigars from importers through third-party contract manufacturing arrangements and sells substantially all of its cigars in the United States.

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, and value brands, Red Seal and Husky. Substantially all of the smokeless tobacco products are manufactured and sold to customers in the United States. Total smokeless products shipment volume was 853.5 million units in 2016, an increase of 4.9% from 2015.

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

In December 2013, Altria Group, Inc.'s subsidiaries entered into a series of agreements with Philip Morris International Inc. ("PMI") pursuant to which Altria Group, Inc.'s subsidiaries provide an exclusive license to PMI to sell Nu Mark's e-vapor products outside the United States, and PMI's subsidiaries provide an exclusive license to Altria Group, Inc.'s subsidiaries to sell two of PMI's heated tobacco product platforms in the United States. Further, in July

2015, Altria Group, Inc. announced the expansion of its strategic framework with PMI to include a joint research, development and technology-sharing agreement. Under this agreement, Altria Group, Inc.'s subsidiaries and PMI will collaborate to develop e-vapor products for commercialization in the United States by Altria Group, Inc.'s subsidiaries and in markets outside the United States by PMI. This agreement also provides for exclusive technology cross licenses, technical information sharing and cooperation on scientific assessment, regulatory engagement and approval related to e-vapor products.

In the fourth quarter of 2016, PMI submitted a Modified Risk Tobacco Product ("MRTP") application for an electronically heated tobacco product with the United States Food and Drug Administration's ("FDA") Center for Tobacco Products and announced that it plans to file its corresponding pre-market tobacco product application during the first quarter of 2017. The FDA must determine whether to accept the applications for substantive review. Upon regulatory authorization by the FDA, Altria Group, Inc.'s subsidiaries will have an exclusive license to sell this heated tobacco product 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

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permitted by law, allowances, the distribution of incentive items, price promotions, product promotions, coupons and other discounts.

In June 2009, the President of the United States of America signed into law the Family Smoking Prevention and Tobacco Control Act ("FSPTCA"), which provides the FDA with broad authority to regulate the design, manufacture, packaging, advertising, promotion, sale and distribution of tobacco products; the authority to require disclosures of related information; and the authority to enforce the FSPTCA and related regulations. The FSPTCA went into effect in 2009 for cigarettes, cigarette tobacco and smokeless tobacco products and in August 2016 for all other tobacco products, including cigars, e-vapor products, pipe tobacco and oral tobacco-derived nicotine products ("Other Tobacco Products"). The FSPTCA imposes restrictions on the advertising, promotion, sale and distribution of tobacco products, including at retail. PM USA and USSTC are subject to quarterly user fees as a result of the FSPTCA. Their respective FDA user fee amounts are determined by an allocation formula administered by the FDA that is based on the respective market shares of manufacturers and importers of each kind of tobacco product. PM USA, USSTC and other U.S. tobacco manufacturers have agreed to other marketing restrictions in the United States as part of the settlements of state health care cost recovery actions.

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

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, dark air-cured and flue-cured tobaccos of various grades and styles through leaf merchants. Middleton does not have a contract growing program.

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

Wine

Ste. Michelle is a producer and supplier of premium varietal and blended table wines and of sparkling wines. Ste. Michelle is a leading producer of Washington state wines, primarily Chateau Ste. Michelle, Columbia Crest and 14 Hands, and owns wineries in or distributes wines from several other domestic and foreign wine regions. Ste. Michelle's total 2016 wine shipment volume of approximately 9.3 million cases increased 5.3% from 2015.

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, Patz & Hall in Sonoma and Erath in Oregon. In addition, Ste. Michelle imports and markets Antinori, Torres and Villa Maria Estate wines and Champagne Nicolas Feuillatte in the United States.

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

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

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

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

Financial Services Business

In 2003, PMCC ceased making new investments and began focusing exclusively on managing its portfolio of finance assets in order to maximize its operating results and cash flows from its existing lease portfolio activities and asset sales. For further information on PMCC’s finance assets, see Note 8. Finance Assets, net to the consolidated financial statements in Item 8 (“Note 8”).

Other Matters

Customers: The largest customer of PM USA, USSTC and Middleton, McLane Company, Inc., accounted for approximately 25%, 26% and 27% of Altria Group, Inc.’s consolidated net revenues for the years ended December 31, 2016, 2015 and 2014, respectively. In addition, Core-Mark Holding Company, Inc.

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accounted for approximately 14% and 10% of Altria Group, Inc.'s consolidated net revenues for the years ended December 31, 2016 and 2015, respectively. Substantially all of these net revenues were reported in the smokeable products and smokeless products segments.
Sales to three distributors accounted for approximately 69%, 66% and 67% of net revenues for the wine segment for the years ended December 31, 2016, 2015 and 2014, respectively.

Employees: At December 31, 2016, Altria Group, Inc. and its subsidiaries employed approximately 8,300 people.

Executive Officers of Altria Group, Inc.: The disclosure regarding executive officers is included in Item 10. Directors, Executive Officers and Corporate Governance - Executive Officers as of February 13, 2017 of this Annual Report on Form 10-K.

Research and Development: Research and development expense for the years ended December 31, 2016, 2015 and 2014 is set forth in Note 18. 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, 2016, the portfolio of over 700 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, 2016. Altria Group, Inc.'s businesses also have proprietary secrets, technology, know-how, processes and other intellectual property rights that are protected by appropriate confidentiality measures. Certain trade secrets are material to Altria Group, Inc. and its tobacco and wine businesses.

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

that subsidiaries of Altria Group, Inc. may undertake in the future. In the opinion of management, however, compliance with environmental laws and regulations, including the payment of any remediation and compliance costs or damages and the making of related expenditures, has not had, and is not expected to have, a material adverse effect on Altria Group, Inc.'s consolidated results of operations, capital expenditures, financial position or cash flows.

Financial Information About Geographic Areas

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

Available Information

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

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

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

Item 1A. Risk Factors

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

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We [(1)] may from time to time make written or oral forward-looking statements, including earnings guidance and other statements contained in filings with the SEC, reports to security holders, press releases and investor webcasts. You can identify these forward-looking statements by use of words such as “strategy,” “expects,” “continues,” “plans,” “anticipates, believes,” “will,” “estimates,” “forecasts,” “intends,” “projects,” “goals,” “objectives,” “guidance,” “targets” and other words c 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 the operating results of our subsidiaries’ businesses in Item 7. You should understand that it is not possible to predict or identify all risk factors. Consequently, you should not consider the following to be a complete discussion of all potential risks or uncertainties. We do not undertake to update any forward-looking statement that we may make from time to time except as required by applicable law.
Unfavorable litigation outcomes could materially adversely affect the consolidated results of operations, cash flows or financial position of Altria Group, Inc., or the businesses of one or more of its subsidiaries.
Legal proceedings covering a wide range of matters are pending or threatened in various United States and foreign jurisdictions against Altria Group, Inc. and its subsidiaries, including PM USA and UST and its subsidiaries, as well as their respective indemnitees. Various types of claims may be raised in these proceedings, including product liability, consumer protection, antitrust, tax, contraband-related claims, patent infringement, employment matters, claims for contribution and claims of competitors and distributors.
Litigation is subject to uncertainty and it is possible that there

[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.

could be adverse developments in pending or future cases. An unfavorable outcome or settlement of pending tobacco-related or
other litigation could encourage the commencement of additional litigation. Damages claimed in some tobacco-related or other
litigation are significant and, in certain cases, range in the billions of dollars. The variability in pleadings in multiple jurisdictions, together with the actual experience of management in litigating claims, demonstrate that the monetary relief that may be specified in a lawsuit bears little relevance to the ultimate outcome. In certain cases, plaintiffs claim that defendants’ liability is joint and several. In such cases, Altria Group, Inc. or its subsidiaries may face the risk that one or more co-defendants decline or otherwise fail to participate in the bonding required for an appeal or to pay their proportionate or jury-allocated share of a judgment. As a result, Altria Group, Inc. or its subsidiaries under certain circumstances may have to pay more than their proportionate share of any bonding- or judgment-related amounts. Furthermore, in those cases where plaintiffs are successful, Altria Group, Inc. or its subsidiaries may also be required to pay interest and attorneys’ fees.
Although PM USA has historically been able to obtain required bonds or relief from bonding requirements in order to prevent plaintiffs from seeking to collect judgments while adverse verdicts have been appealed, there remains a risk that such relief may not be obtainable in all cases. This risk has been substantially reduced given that 47 states and Puerto Rico now limit the dollar amount of bonds or require no bond at all. As discussed in Note 19. Contingencies to the consolidated financial statements in Item 8 (“Note 19”), tobacco litigation plaintiffs have challenged the

constitutionality of Florida's bond cap statute in several cases and plaintiffs may challenge state bond cap statutes in other jurisdictions as well. Such challenges may include the applicability of state bond caps in federal court. Although we cannot predict the outcome of such challenges, it is possible that the consolidated results of operations, cash flows or financial position of Altria Group, Inc., or the businesses of one or more of its subsidiaries, could be materially adversely affected in a particular fiscal quarter or fiscal year by an unfavorable outcome of one or more such challenges.

In certain litigation, Altria Group, Inc. and its subsidiaries may face potentially significant non-monetary remedies. For example, in the lawsuit brought by the United States Department of Justice, discussed in Note 19, the district court did not impose monetary penalties but ordered significant non-monetary remedies, including the issuance of "corrective statements" in various media.

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

It is possible that the consolidated results of operations, cash flows or financial position of Altria Group, Inc., or the businesses of one or more of its subsidiaries, could be materially adversely affected in a particular fiscal quarter or fiscal year by an unfavorable outcome or settlement of certain pending litigation. Altria Group, Inc. and each of its subsidiaries named as a

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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 19 and Exhibits 99.1 and 99.2 to this Annual Report on Form 10-K for a discussion of pending tobacco-related litigation.

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

As described in Tobacco Space - Business Environment in Item 7, our cigarette subsidiaries face significant governmental and private sector actions, including efforts aimed at reducing the incidence of tobacco use and efforts seeking to hold these subsidiaries responsible for the adverse health effects associated with both smoking and exposure to environmental tobacco smoke. These actions, combined with the diminishing social acceptance of smoking, have resulted in reduced cigarette industry volume, and we expect that these factors will continue to reduce cigarette consumption levels.

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

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

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

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

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

PM USA also faces competition from lowest priced brands sold by certain United States and foreign manufacturers that have cost advantages because they are not parties to settlements of certain tobacco litigation in the United States.

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

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

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

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

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

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

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

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

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

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

Quality of Agricultural Products in Item 7.

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

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

Altria Group, Inc.’s subsidiaries could decide or be required to recall products, which could have a material adverse effect on the business, the consolidated results of operations, cash flows or financial position of Altria Group, Inc. and its subsidiaries.

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In addition to a recall required by the FDA, as referenced above, our subsidiaries could decide, or laws or regulations could require them, to recall products due to the failure to meet quality standards or specifications, suspected or confirmed and deliberate or unintentional product contamination, or other adulteration, product misbranding or product tampering. In January 2017, USSTC announced that it was voluntarily recalling certain of its smokeless tobacco products manufactured at a USSTC facility due to product tampering. USSTC will record a charge during the first quarter of 2017 related to this recall. While this charge is not expected to be material to Altria Group, Inc.'s financial statements, future recalls (if any) could have a material adverse effect on the business, consolidated results of operations, cash flows or financial position of Altria Group, Inc. and its subsidiaries.

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

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

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

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

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 or that we will realize any of the anticipated benefits from an acquisition.

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

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

may also increase our costs and adversely affect our earnings or our dividend rate.

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

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

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

Ste. Michelle's business is subject to significant competition, including from many large, well-established domestic and international companies. The adequacy of Ste. Michelle's grape supply is influenced by consumer demand for wine in relation to industry-wide production levels as well as by weather and crop conditions, particularly in eastern Washington. Supply shortages related to any one or more of these factors could increase production costs and wine prices, which ultimately may have a negative impact on Ste. Michelle's sales. In addition, federal, state and local governmental agencies regulate the alcohol beverage industry through various means, including licensing requirements, pricing, labeling and advertising restrictions, and distribution and production policies. New regulations or revisions to existing regulations, resulting in further restrictions or taxes on the manufacture and sale of alcoholic beverages, may have an adverse effect on Ste. Michelle’s wine business. For further discussion, see Wine Segment - Business Environment in Item 7.

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

Altria Group, Inc. and its subsidiaries rely on information systems to help manage business processes, collect and interpret business data, comply with regulatory, financial reporting and tax requirements, engage in marketing and e-commerce activities, collect and store sensitive data and confidential information, and communicate internally and externally with employees, investors, suppliers, trade customers, adult consumers and others. Many of these information systems are managed by third-party service providers. We have implemented administrative, technical and physical safeguards, including testing and auditing protocols,

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backup systems and business continuity plans, intended to protect our systems and data. However, because the techniques used in cyberattacks and security breaches change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. To date, interruptions of our information systems have been infrequent and have not had a material impact on our operations. Failure of our systems or service providers' systems to function as intended or cyberattacks or security breaches by parties intent on extracting or corrupting information or otherwise disrupting business processes could result in loss of revenue, assets, personal data, intellectual property, trade secrets or other sensitive and confidential data, violation of applicable privacy and data security laws, damage to the reputation of our companies and their brands, legal challenges and significant remediation and other costs to Altria Group, Inc. and its subsidiaries.

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

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

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

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

Altria Group, Inc.'s reported earnings from and carrying value of its equity investment in AB InBev and the dividends paid by AB InBev on shares owned by Altria Group, Inc. may be adversely affected by unfavorable foreign currency exchange rates and other factors.

For purposes of financial reporting, the earnings from and carrying value of our equity investment in AB InBev are translated into U.S. dollars from various local currencies. In addition, AB InBev pays dividends in euros, which we convert into U.S. dollars. During times of a strengthening U.S. dollar

against these currencies, our reported earnings from and carrying value of our equity investment in AB InBev will be reduced because these currencies will translate into fewer U.S. dollars and the dividends that we receive from AB InBev will convert into fewer U.S. dollars. Dividends and earnings from and carrying value of our equity investment in AB InBev are also subject to the risks encountered by AB InBev in its business.

AB InBev may not achieve the intended benefits of the Transaction, which could have a negative effect on our reported earnings from and carrying value of our equity investment in AB InBev.

There can be no assurance that AB InBev will be able to successfully integrate SABMiller's business or otherwise realize the expected benefits of the Transaction. Any of these outcomes could result in increased costs to AB InBev, and could adversely affect AB InBev's financial condition, results of operations or cash flows and Altria Group, Inc.'s reported earnings from and carrying value of our equity investment in AB InBev.

We received a substantial portion of our consideration from the Transaction in the form of restricted shares subject to a five-year lock-up. Furthermore, if our percentage ownership in AB InBev were to be decreased below certain levels, we may be subject to additional tax liabilities, suffer a reduction in the number of directors that we can have appointed to the AB InBev Board of Directors, and be unable to account for our investment under the equity method of accounting.

Upon completion of the Transaction, we received a substantial portion of our consideration in the form of restricted shares that cannot be sold or transferred for a period of five years following the Transaction, subject to limited exceptions. These transfer restrictions will require us to bear the risks associated with our investment in AB InBev for a five-year period that expires on October 10, 2021. Further, in the event that our ownership percentage in AB InBev were to be decreased below certain levels, we may be subject to additional tax liabilities, the number of directors that we have the right to have appointed to the AB InBev Board of Directors could be reduced from two to one or zero, and our use of the equity method of accounting for investment in AB InBev could be challenged.

Our tax treatment of the Transaction consideration may be challenged and the tax treatment of AB InBev dividends is not expected to be as favorable as prior SABMiller dividends.

While we expect the equity consideration that we received from the Transaction to qualify for tax-deferred treatment, we cannot provide any assurance that federal and state tax authorities will not challenge the expected tax treatment and, if they do, what the outcome of any such challenge will be. We also anticipate that the tax treatment of the dividends Altria Group, Inc. expects to receive from AB InBev will not be as favorable as that associated with the dividends we received from SABMiller.

Item 1B. Unresolved Staff Comments.

None.

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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, 2016, the smokeable products segment used four manufacturing and processing facilities. PM USA owns and operates two tobacco manufacturing and processing facilities located in the Richmond, Virginia area that are used in the manufacturing and processing of cigarettes. Middleton owns and operates two manufacturing and processing facilities - one in King of Prussia, Pennsylvania and one in Limerick, Pennsylvania - that are used in the manufacturing and processing of cigars and pipe tobacco. In addition, PM USA owns a research and technology center in Richmond, Virginia that is leased to an affiliate, Altria Client Services LLC.

At December 31, 2016, the smokeless products segment used four smokeless tobacco manufacturing and processing facilities located in Franklin Park, Illinois; Nashville, Tennessee; and two facilities in Hopkinsville, Kentucky, all of which are owned and operated by USSTC.

As disclosed in Note 5. Asset Impairment, Exit and Implementation Costs to the consolidated financial statements in Item 8 (“Note 5”), in October 2016, Altria Group, Inc. announced the consolidation of certain of its operating companies’ manufacturing facilities to streamline operations and achieve greater efficiencies. Middleton will transfer its Limerick, Pennsylvania operations to the Manufacturing Center site in Richmond, Virginia (“Richmond Manufacturing Center”). USSTC will transfer its Franklin Park, Illinois operations to its Nashville, Tennessee facility and the Richmond Manufacturing Center. The consolidation is expected to be completed by the first quarter of 2018.

At December 31, 2016, the wine segment used 12 wine-making facilities - seven in Washington, four in California and one in Oregon. All of these facilities are owned and operated by Ste. Michelle, with the exception of a facility that is leased by Ste. Michelle in Washington. In addition, in order to support the production of its wines, the wine segment used vineyards in Washington, California and Oregon that are leased or owned by Ste. Michelle.

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

Item 3. Legal Proceedings.

The information required by this Item is included in Note 19 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, 2016 were filed on Form 8-K on February 1, 2017 (such consolidated financial statements and accompanying notes are also included in Item 8). The following summarizes certain developments in Altria Group, Inc.’s litigation since the filing of such Form 8-K.

Recent Developments

Smoking and Health Litigation

Engle Progeny Trial Results:

In McKeever, in February 2017, PM USA filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court.

In Pardue, in February 2017, the trial court granted PM USA’s and R.J. Reynolds Tobacco Company’s (“R.J. Reynolds”) motion for a remittitur, reducing the compensatory damages award from approximately $5.9 million to approximately $5.2 million.

In Varner, in February 2017, PM USA paid plaintiff approximately $600,000 to satisfy the judgment, interest and related costs. PM USA will record a pre-tax provision of approximately $600,000 in the first quarter of 2017.

In J. Brown, in February 2017, a Pinellas County jury returned verdict in favor of plaintiff and against PM USA and R.J. Reynolds awarding $5.4 million in compensatory damages and allocating 35% of the fault to PM USA. The jury also awarded plaintiff $200,000 in punitive damages against PM USA. The court ruled that it will not apply the comparative fault reduction to the compensatory damages.

In Martin, in February 2017, PM USA and R.J. Reynolds filed a notice of appeal to the Florida Fourth District Court of Appeal.

In Allen, in February 2017, the Florida First District Court of Appeal affirmed the trial court’s verdict.

Health Care Cost Recovery Litigation

NPM Adjustment Disputes: As discussed in Note 19, in 1998, PM USA and certain other U.S. tobacco product manufacturers entered into the 1998 Master Settlement Agreement (the "MSA"). PM USA is participating in proceedings regarding potential downward adjustments (the "NPM Adjustment") to MSA payments made by manufacturers that are signatories to the MSA (the "Participating Manufacturers") for 2003-2015. In February 2017, the Supreme Court of Missouri denied Missouri's motion to order the Participating Manufacturers to arbitrate the question of its diligent enforcement in a single-state arbitration for 2004, but granted Missouri's motion to modify, with respect to Missouri, the pro rata judgment reduction related to the 2003 NPM Adjustment. As a result of the judgment reduction decision, PM USA will be required to return approximately $12 million of the 2003 NPM Adjustment and $7 million of the interest it received (in each case subject to confirmation by the independent auditor), plus applicable interest. In addition, PM USA will record a corresponding reduction to its pre-tax earnings in the first quarter of 2017.

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.

Performance Graph

The graph below compares the cumulative total shareholder return of Altria Group, Inc.'s common stock for the last five years with the cumulative total return for the same period of the S&P 500 Index and the Altria Group, Inc. Peer Group [1]. The graph assumes the investment of $100 in common stock and each of the indices as of the market close on December 31, 2011 and the reinvestment of all dividends on a quarterly basis.

Date	Altria Group, Inc.	Altria Group, Inc. Peer Group	S&P 500
December 2011	$100.00	$100.00	$100.00
December 2012	$111.77	$108.78	$115.99
December 2013	$143.69	$135.61	$153.55
December 2014	$193.28	$151.74	$174.55
December 2015	$237.92	$177.04	$176.94
December 2016	$286.61	$192.56	$198.09

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

[1]In 2016, the Altria Group, Inc. Peer Group consisted of U.S.-headquartered consumer product companies that are competitors to Altria Group, Inc.'s tobacco operating companies subsidiaries or that have been selected on the basis of revenue or market capitalization: Campbell Soup Company, The Coca-Cola Company, Colgate-Palmolive Company, Conagra Brands, Inc., General Mills, Inc., The Hershey Company, Kellogg Company, Kimberly-Clark Corporation, The Kraft Heinz Company, Mondelēz International, Inc., PepsiCo, Inc. and Reynolds American Inc.

Note - On October 1, 2012, Kraft Foods Inc. (KFT) spun off Kraft Foods Group, Inc. (KRFT) to its shareholders and then changed its name from Kraft Foods Inc. to Mondelēz International, Inc. (MDLZ). On July 2, 2015, Kraft Foods Group, Inc. merged with and into a wholly owned subsidiary of H.J. Heinz Holding Corporation, which was renamed The Kraft Heinz Company (KHC). On June 12, 2015, Reynolds American Inc. (RAI) acquired Lorillard, Inc. (LO). On November 9, 2016, ConAgra Foods, Inc. (CAG) spun off Lamb Weston Holdings, Inc. (LW) to its shareholders and then changed its name from ConAgra Foods, Inc. to Conagra Brands, Inc. (CAG).

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Market and Dividend Information

The principal stock exchange on which Altria Group, Inc.'s common stock (par value $0.33 1/3 per share) is listed is the New York Stock Exchange. At February 13, 2017, there were approximately 68,000 holders of record of Altria Group, Inc.'s common stock.

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

	Price Per Share High	Low	Cash Dividends Declared Per Share
2016:			
Fourth Quarter	$68.03	$60.82	$ 0.61
Third Quarter	$70.15	$62.46	$ 0.61
Second Quarter	$69.26	$59.48	$ 0.565
First Quarter	$63.15	$56.15	$ 0.565
2015:			
Fourth Quarter	$61.74	$53.68	$ 0.565
Third Quarter	$56.39	$47.41	$ 0.565
Second Quarter	$52.99	$47.31	$ 0.52
First Quarter	$56.70	$48.52	$ 0.52

Issuer Purchases of Equity Securities During the Quarter Ended December 31, 2016

In July 2015, Altria Group, Inc.'s Board of Directors (the "Board of Directors") authorized a $1.0 billion share repurchase program that it expanded to $3.0 billion in October 2016 (as expanded, the "July 2015 share repurchase program"). Altria Group, Inc. expects to complete the July 2015 share repurchase program by the end of the second quarter of 2018. The timing of share repurchases under the July 2015 share repurchase program depends upon marketplace conditions and other factors, and the program remains subject to the discretion of the Board of Directors.

Altria Group, Inc.'s share repurchase activity for each of the three months in the period ended December 31, 2016, was as follows:

Period	Total Number of Shares Purchased [(1)]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased Under the Plans or Programs
October 1- October 31, 2016	2,393,027	$ 62.61	2,392,200	$2,302,733,059
November 1- November 30, 2016	3,395,434	$ 63.19	3,394,623	$2,088,226,586
December 1- December 31, 2016	2,343,025	$ 65.46	2,340,000	$1,935,041,770
For the Quarter Ended December 31, 2016	8,131,486	$ 63.67	8,126,823	

(1) The total number of shares purchased includes (a) shares purchased under the July 2015 share repurchase program (which totaled 2,392,200 shares in October, 3,394,623 shares in November and 2,340,000 shares in December) and (b) shares withheld by Altria Group, Inc. in an amount equal to the statutory withholding taxes for holders who vested in restricted stock units, and forfeitures of restricted stock for which consideration was paid in connection with termination of employment of certain employees (which totaled 827 shares in October, 811 shares in November and 3,025 shares in December).

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Item 6. Selected Financial Data.
(in millions of dollars, except per share and employee data)

	2016	2015	2014	2013	2012
Summary of Operations:					
Net revenues	$ 25,744	$ 25,434	$ 24,522	$ 24,466	$ 24,618
Cost of sales	7,746	7,740	7,785	7,206	7,937
Excise taxes on products	6,407	6,580	6,577	6,803	7,118
Operating income	8,762	8,361	7,620	8,084	7,253
Interest and other debt expense, net	747	817	808	1,049	1,126
Earnings from equity investment in SABMiller	795	757	1,006	991	1,224
Gain on AB InBev/SABMiller business combination	13,865	5	—	—	—
Earnings before income taxes [1]	21,852	8,078	7,774	6,942	6,477
Pre-tax profit margin [1]	84.9 %	31.8 %	31.7 %	28.4 %	26.3 %
Provision for income taxes [1]	7,608	2,835	2,704	2,407	2,294
Net earnings [1]	14,244	5,243	5,070	4,535	4,183
Net earnings attributable to Altria Group, Inc. [1]	14,239	5,241	5,070	4,535	4,180
Basic and Diluted EPS — net earnings attributable to Altria Group, Inc. [1]	7.28	2.67	2.56	2.26	2.06
Dividends declared per share	2.35	2.17	2.00	1.84	1.70
Weighted average shares (millions) — Basic and Diluted	1,952	1,961	1,978	1,999	2,024
Capital expenditures	189	229	163	131	124
Depreciation	183	204	188	192	205
Property, plant and equipment, net	1,958	1,982	1,983	2,028	2,102
Inventories	2,051	2,031	2,040	1,879	1,746
Total assets [1][2]	45,932	31,459	33,440	33,858	34,252
Long-term debt [2]	13,881	12,843	13,610	13,907	12,346
Total debt [2]	13,881	12,847	14,610	14,432	13,805
Total stockholders' equity[1]	12,773	2,873	3,010	4,118	3,170
Common dividends declared as a % of Basic and Diluted EPS [1]	32.3 %	81.3 %	78.1 %	81.4 %	82.5 %
Book value per common share outstanding [1]	6.57	1.47	1.53	2.07	1.58
Market price per common share — high/low	70.15-56.15	61.74-47.31	51.67-33.80	38.58-31.85	36.29-28.00
Closing price per common share at year end	67.62	58.21	49.27	38.39	31.44
Price/earnings ratio at year end — Basic and Diluted [1]	9	22	19	17	15
Number of common shares outstanding at year end (millions)	1,943	1,960	1,971	1,993	2,010
Approximate number of employees	8,300	8,800	9,000	9,000	9,100

[1] Certain 2016 amounts include the impact of the Gain on AB InBev/SABMiller business combination. For further information, see Note 7 in Item 8.
[2] Certain prior-years' amounts have been reclassified to conform with the current-year's presentation due to the adoptions of certain accounting standards updates. For further information, see Note 1 in Item 8.

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

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

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

Description of the Company

At December 31, 2016, Altria Group, Inc.'s wholly-owned subsidiaries included PM USA, which is engaged in the manufacture and sale of cigarettes in the United States; Middleton, which is engaged in the manufacture and sale of machine-made large cigars and pipe tobacco and is a wholly-owned subsidiary of PM USA; and UST, which through its wholly-owned subsidiaries, including USSTC and Ste. Michelle, is engaged in the manufacture and sale of smokeless tobacco products and wine. Altria Group, Inc.'s other operating companies included Nu Mark, a wholly-owned subsidiary that is engaged in the manufacture and sale of innovative tobacco products, and PMCC, a wholly-owned subsidiary that maintains a portfolio of finance assets, substantially all of which are leveraged leases. Other Altria Group, Inc. wholly-owned subsidiaries included Altria Group Distribution Company, which provides sales, distribution and consumer engagement services to certain Altria Group, Inc. operating subsidiaries, and Altria Client Services LLC, which provides various support services in areas, such as legal, regulatory, finance, human resources and external affairs, to Altria Group, Inc. and its subsidiaries. In addition, Nu Mark and Middleton use third-party contract manufacturing arrangements in the manufacture of their products. Altria Group, Inc.'s access to the operating cash flows of its wholly-owned subsidiaries consists of cash received from the payment of dividends and distributions, and the payment of interest on intercompany loans by its subsidiaries. At December 31, 2016, Altria Group, Inc.'s principal wholly-owned subsidiaries were not limited by long-term debt or other agreements in their ability to pay cash dividends or make other distributions with respect to their equity interests.

At September 30, 2016, Altria Group, Inc. had an approximate 27% ownership of SABMiller, which Altria Group, Inc. accounted for under the equity method of accounting. On October 10, 2016, Legacy AB InBev completed the Transaction, and AB InBev became the holding company for the combined SABMiller and Legacy AB InBev businesses. Upon completion of the Transaction, Altria Group, Inc. had a 9.6% ownership of AB InBev based on AB InBev's shares outstanding at October 10, 2016. Following completion of the Transaction, Altria Group, Inc. purchased 12,341,937 ordinary shares of AB InBev for a total cost of approximately $1.6 billion, thereby increasing Altria Group, Inc.'s ownership to approximately 10.2%. At December 31, 2016. Altria Group, Inc. had an approximate 10.2% ownership of AB InBev, which

Altria Group, Inc. accounts for under the equity method of accounting using a one-quarter lag. As a result of the one-quarter lag and the timing of the completion of the Transaction, no earnings from Altria Group, Inc.'s equity investment in AB InBev were recorded for the year ended December 31, 2016. Altria Group, Inc. receives cash dividends on its interest in AB InBev if and when AB InBev pays such dividends. For further discussion, see Note 7. Investment in AB InBev/SABMiller to the consolidated financial statements in Item 8 ("Note 7").

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

In January 2017, Altria Group, Inc. acquired Nat Sherman, which sells super-premium cigarettes and premium cigars and joins PM USA and Middleton as part of Altria Group, Inc.'s smokeable products segment.

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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, 2016, from the year ended December 31, 2015, were due primarily to the following:

(in millions, except per share data)	Net Earnings	Diluted EPS
For the year ended December 31, 2015	$ 5,241	$ 2.67
2015 NPM Adjustment Items	(51)	(0.03)
2015 Asset impairment, exit and integration costs	9	—
2015 Tobacco and health litigation items	94	0.05
2015 SABMiller special items	82	0.04
2015 Loss on early extinguishment of debt	143	0.07
2015 Gain on AB InBev/SABMiller business combination	(3)	—
2015 Tax items	(11)	—
Subtotal 2015 special items	263	0.13
2016 NPM Adjustment Items	(11)	(0.01)
2016 Asset impairment, exit, implementation and acquisition-related costs	(135)	(0.07)
2016 Tobacco and health litigation items	(71)	(0.04)
2016 SABMiller special items	57	0.03
2016 Loss on early extinguishment of debt	(541)	(0.28)
2016 Patent litigation settlement	(13)	(0.01)
2016 Gain on AB InBev/SABMiller business combination	9,001	4.61
2016 Tax items	30	0.02
Subtotal 2016 special items	8,317	4.25
Fewer shares outstanding	—	0.02
Change in tax rate	82	0.04
Operations	336	0.17
For the year ended December 31, 2016	$ 14,239	$ 7.28

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 2016 compared with 2015 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 driven by tax benefits associated with the higher cumulative dividends received from SABMiller and AB InBev in 2016.

Operations: The increase of $336 million in operations shown in the table above was due primarily to the following:

higher income from the smokeable products and smokeless products segments;

lower investment spending in the innovative tobacco products businesses;

lower interest and other debt expense, net; and

higher operating results from the financial services business;

partially offset by:

lower 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.

2017 Forecasted Results

In February 2017, Altria Group, Inc. forecasted that its 2017 full-year adjusted diluted EPS growth rate is expected to be in the range of 7.5% to 9.5% over 2016 full-year adjusted diluted EPS. This forecasted growth rate excludes the income and expense items in the table below. Altria Group, Inc. expects that its 2017 full-year effective tax rate on operations will be approximately 36%.

Altria Group, Inc.’s full-year adjusted diluted EPS guidance and full-year forecast for its effective tax rate on operations exclude the impact of certain income and expense items that management believes are not part of underlying operations. These items may include, for example, loss on early extinguishment of debt, restructuring charges, gain on the Transaction, AB InBev/SABMiller special items, certain tax items, charges associated with tobacco and health litigation items, and settlements of, and determinations made in connection with, disputes with certain states and territories related to the Non-Participating Manufacturer (“NPM”) adjustment provision under the 1998 Master Settlement Agreement (such settlements and determinations are referred to collectively as “NPM Adjustment Items” and are more fully described in Health Care Cost Recovery Litigation - NPM Adjustment Disputes in Note 19).

Altria Group, Inc.’s management cannot estimate on a forward-looking basis the impact of certain income and expense items, including those items noted in the preceding paragraph, on Altria Group, Inc.’s reported diluted EPS and reported effective tax rate because these items, which could be significant, are difficult to predict and may be highly variable. As a result, Altria Group, Inc. does not provide a corresponding United States generally accepted accounting principles (“U.S. GAAP”) measure for, or reconciliation to, its adjusted diluted EPS guidance or its effective tax rate on operations forecast.

In addition, the factors described in Item 1A represent continuing risks to this forecast.

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Expense (Income), Net Excluded from Adjusted Diluted EPS

	2017	2016
NPM Adjustment Items	$—	$0.01
Asset impairment, exit and implementation costs	0.02 [1]	0.07
Tobacco and health litigation items	—	0.04
SABMiller special items	—	(0.03)
Loss on early extinguishment of debt	—	0.28
Patent litigation settlement	—	0.01
Gain on AB InBev/SABMiller business combination	—	(4.61)
Tax items	—	(0.02)
	$0.02	$(4.25)

[1] Represents restructuring charges in connection with the facilities consolidation announced in October 2016. For further discussion, see Note 5.

Altria Group, Inc. reports its financial results in accordance with U.S. GAAP. Altria Group, Inc.'s management reviews certain financial results, including diluted EPS, on an adjusted basis, which excludes certain income and expense items, including those items noted above. Altria Group, Inc.'s management does not view any of these special items to be part of Altria Group, Inc.'s underlying results as they may be highly variable, are difficult to predict and can distort underlying business trends and results. Altria Group, Inc.'s management also reviews income tax rates on an adjusted basis. Altria Group, Inc.'s effective tax rate on operations may exclude certain tax items from its reported effective tax rate. Altria Group, Inc.'s management believes that adjusted financial measures provide useful insight into underlying business trends and results and provide a more meaningful comparison of year-over-year results. Adjusted financial measures are used by management and regularly provided to the CODM for planning, forecasting and evaluating business and financial performance, including allocating resources and evaluating results relative to employee compensation targets. These adjusted financial measures are not consistent with U.S. GAAP and may not be calculated the same as similarly titled measures used by other companies. These adjusted financial measures should thus be considered as supplemental in nature and not considered in isolation or as a substitute for the related financial information prepared in accordance with U.S. GAAP.

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. has the ability to exercise significant influence are accounted for under the equity method of accounting. All intercompany transactions and balances have been eliminated.

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

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

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

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Goodwill and indefinite-lived intangible assets recorded by Altria Group, Inc. at December 31, 2016 relate primarily to the acquisitions of Green Smoke in 2014, UST in 2009 and Middleton in 2007. Altria Group, Inc. conducts a required annual review of goodwill and indefinite-lived intangible assets for potential impairment, and more frequently if an event occurs or circumstances change that would require Altria Group, Inc. to perform an interim review. If the carrying value of goodwill exceeds its fair value, which is determined using discounted cash flows, goodwill is considered impaired. The amount of impairment loss is measured as the difference between the carrying value and the implied fair value. If the carrying value of an indefinite-lived intangible asset exceeds its fair value, which is determined using discounted cash flows, the intangible asset is considered impaired and is reduced to fair value.

Goodwill and indefinite-lived intangible assets, by reporting unit at December 31, 2016 were as follows:

(in millions)	Goodwill	Indefinite-Lived Intangible Assets
Cigarettes	$ —	$ 2
Smokeless products	5,023	8,801
Cigars	77	2,640
Wine	74	287
E-vapor	111	10
Total	$ 5,285	$ 11,740

During 2016, 2015 and 2014, Altria Group, Inc. completed its quantitative annual impairment test of goodwill and indefinite-lived intangible assets, and no impairment charges resulted. At December 31, 2016, the estimated fair values of all reporting units and indefinite-lived intangible assets substantially exceeded their carrying values.

In 2016, Altria Group, Inc. used an income approach to estimate the fair values of substantially all of its reporting units and indefinite-lived intangible assets. The income approach reflects the discounting of expected future cash flows to their present value at a rate of return that incorporates the risk-free rate for the use of those funds, the expected rate of inflation and the risks associated with realizing expected future cash flows. The discount rate used in performing substantially all of the valuations was 8.5%.

In performing the 2016 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, which is used by Altria Group, Inc.'s management to evaluate business and financial performance, including allocating resources and evaluating results relative to setting employee compensation targets. The assumptions incorporated the highest and best use of Altria Group, Inc.'s indefinite-lived intangible assets and also included perpetual growth rates for periods beyond the long-term financial forecast. The perpetual growth rate used in performing all of the valuations was 2%. Fair value calculations are sensitive to changes in these estimates and assumptions, some of which

relate to broader macroeconomic conditions outside of Altria Group, Inc.'s control.

Although Altria Group, Inc.'s discounted cash flow analysis is based on assumptions that are considered reasonable and based on the best available information at the time that the discounted cash flow analysis is developed, there is significant judgment used in determining future cash flows. The following factors have the most potential to impact expected future cash flows and, therefore, Altria Group, Inc.'s impairment conclusions: general economic conditions; federal, state and local regulatory developments; category growth rates; consumer preferences; success of planned product expansions; competitive activity; and income and tobacco-related taxes. For further discussion of these factors, see Operating Results by Business Segment - Tobacco Space - Business Environment below.

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

For additional information on goodwill and other intangible assets, see Note 4.

Marketing Costs: Altria Group, Inc.'s businesses promote their products with consumer engagement programs, consumer incentives and trade promotions. Such programs include discounts, coupons, rebates, in-store display incentives, event marketing and volume-based incentives. Consumer engagement programs are expensed as incurred. Consumer incentive and trade promotion activities are recorded as a reduction of revenues, a portion of which is based on amounts estimated as being due to wholesalers, retailers and consumers at the end of a period, based principally on historical volume, utilization and redemption rates. For interim reporting purposes, consumer engagement programs and certain consumer incentive expenses are charged to operations as a percentage of sales, based on estimated sales and related expenses for the full year.

Contingencies: As discussed in Note 19 and Item 3, legal proceedings covering a wide range of matters are pending or threatened in various United States and foreign jurisdictions against Altria Group, Inc. and its subsidiaries, including PM USA and UST and its subsidiaries, as well as their respective indemnitees. In 1998, PM USA and certain other U.S. tobacco product manufacturers entered into the MSA with 46 states and various other governments and jurisdictions to settle asserted and unasserted health care cost recovery and other claims. PM USA and certain other U.S. tobacco product manufacturers had previously entered into agreements to settle similar claims brought by Mississippi, Florida, Texas and Minnesota (together with the MSA, the “State Settlement Agreements”). PM USA’s portion of ongoing adjusted payments and legal fees is based on its relative share of the settling manufacturers’ domestic cigarette shipments, including roll-your-own cigarettes, in the year preceding that in which the payment is due. PM USA, USSTC and Middleton were also subject to payment obligations imposed by the Fair and Equitable Tobacco Reform Act of 2004 ("FETRA"). The FETRA payment obligations expired after the third quarter of 2014. In addition, in June 2009, PM USA and USSTC became subject to quarterly user fees imposed by the FDA as a result of the FSPTCA. Payments under the State Settlement Agreements and the FDA user fees are based on variable factors, such as volume, operating income, market share and inflation, depending on the subject payment. Altria Group, Inc.'s subsidiaries account for the cost of the State Settlement Agreements, FETRA and FDA user fees as a component of cost of sales. For the years ended December 31, 2016, 2015 and 2014, the aggregate amount recorded in cost of sales with respect to the State Settlement Agreements, FETRA (which expired after the third quarter of 2014) and FDA user fees was approximately $4.9 billion, $4.8 billion and $4.9 billion, respectively.

Altria Group, Inc. and its subsidiaries record provisions in the consolidated financial statements for pending litigation when they determine that an unfavorable outcome is probable and the amount of the loss can be reasonably estimated. At the present time, while it is reasonably possible that an unfavorable outcome in a case may occur, except to the extent discussed in Note 19 and Item 3: (i) management has concluded that it is not probable that a loss has been incurred in any of the pending tobacco-related cases; (ii) management is unable to estimate the possible loss or range of loss that could result from an unfavorable outcome in any of the pending tobacco-related cases; and (iii) accordingly, management has not provided any amounts in the consolidated financial statements for unfavorable outcomes, if any. Litigation defense costs are expensed as incurred and included in marketing, administration and research costs in the consolidated statements of earnings.

Employee Benefit Plans: As discussed in Note 17. Benefit Plans to the consolidated financial statements in Item 8 ("Note 17"), Altria Group, Inc. provides a range of benefits to its employees and retired employees, including pension, postretirement health care and postemployment benefits. Altria Group, Inc. records annual amounts relating to these plans based on calculations specified by U.S. GAAP, which include various actuarial assumptions as to discount rates, assumed rates of return on plan assets, mortality, compensation increases, turnover rates and health care cost trend rates. Altria Group, Inc. reviews its actuarial assumptions on an annual basis and makes modifications to the assumptions based on current rates and trends when it is deemed appropriate to do so. Any effect of the modifications is generally amortized over future periods.

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

At December 31, 2016, Altria Group, Inc.'s discount rate assumptions for its pension and postretirement plans obligations decreased to 4.1% from 4.4% at December 31, 2015. Altria Group, Inc. presently anticipates its 2017 pre-tax pension and postretirement expense will be essentially unchanged versus 2016, excluding amounts in each year related to termination, settlement and curtailment. Higher expected return on plan assets due to the impact of voluntary pension contributions totaling $500 million in September 2016 is expected to be offset by the impact of higher amortization of unrecognized losses, which includes the impact of the lower discount rate. Assuming no change to the shape of the yield curve, a 50 basis point decrease in Altria Group, Inc.'s discount rates would increase Altria Group, Inc.'s pension and postretirement expense by approximately $49 million, and a 50 basis point increase in Altria Group, Inc.'s discount rates would decrease Altria Group, Inc.'s pension and postretirement expense by approximately $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 $38 million. See Note 17 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. may be required to change the valuation allowance with respect to foreign tax credit carryforwards, based upon additional information to be received from AB InBev in 2017.

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 in its consolidated statements of earnings.

Altria Group, Inc. recognized income tax benefits and charges in the consolidated statements of earnings during 2016, 2015 and 2014 as a result of various tax events.

For additional information on income taxes, see Note 15. Income Taxes to the consolidated financial statements in Item 8 (“Note 15”).

Leasing: Substantially all of PMCC’s net revenues in 2016 related to income on leveraged leases and related gains on asset sales. Income attributable to leveraged leases is initially

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recorded as unearned income, which is included in the line item finance assets, net, on Altria Group, Inc.’s consolidated balance sheets and subsequently recognized as revenue over the terms of the respective leases at constant after-tax rates of return on the positive net investment balances. 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, 2016 and 2015. At December 31, 2016, PMCC’s net finance receivables of approximately $1.1 billion, which are included in finance assets, net, on Altria Group, Inc.’s consolidated balance sheet, consisted of rents receivable ($1.6 billion) and the residual value of assets under lease ($0.5 billion), reduced by third-party nonrecourse debt ($0.8 billion) and unearned income ($0.2 billion). The repayment of the nonrecourse debt is collateralized by lease payments receivable and the leased property, and is nonrecourse to the general assets of PMCC. As required by U.S. GAAP, the third-party nonrecourse debt has been offset against the related rents receivable and has been presented on a net basis within finance assets, net, on Altria Group, Inc.’s consolidated balance sheets. Finance assets, net, of $1.0 billion at December 31, 2016 also included an allowance for losses.

Estimated residual values represent PMCC’s estimate at lease inception as to the fair values of assets under lease at the end of the non-cancelable lease terms. The estimated residual values are reviewed at least annually by PMCC’s management, which includes analysis of a number of factors, including activity in the relevant industry. If necessary, revisions are recorded to reduce the residual values. In 2016, 2015 and 2014, PMCC’s review of estimated residual values resulted in a decrease of $28 million, $65 million and $63 million, respectively, to unguaranteed residual values. These decreases in unguaranteed residual values resulted in a reduction to PMCC’s net revenues of $18 million, $41 million and $26 million in 2016, 2015 and 2014, respectively.

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, 2016.

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 8.

Consolidated Operating Results

	For the Years Ended December 31,		
(in millions)	2016	2015	2014
Net Revenues:			
Smokeable products	$22,851	$22,792	$21,939
Smokeless products	2,051	1,879	1,809
Wine	746	692	643
All other	96	71	131
Net revenues	$25,744	$25,434	$24,522
Excise Taxes on Products:			
Smokeable products	$6,247	$6,423	$6,416
Smokeless products	135	133	138
Wine	25	24	23

Excise taxes on products	$6,407	$6,580	$6,577
Operating Income:			
Operating companies income (loss):			
Smokeable products	$7,768	$7,569	$6,873
Smokeless products	1,177	1,108	1,061
Wine	164	152	134
All other	(99)	(169)	(185)
Amortization of intangibles	(21)	(21)	(20)
General corporate expenses	(222)	(237)	(241)
Reductions of PMI and Mondelēz tax-related receivables	—	(41)	(2)
Corporate asset impairment and exit costs	(5)	—	—
Operating income	$8,762	$8,361	$7,620

As discussed further in Note 16, the CODM 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 general corporate expenses and amortization of intangibles. 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 2016, 2015 and 2014 affected the comparability of statement of earnings amounts.

Gain on AB InBev/SABMiller Business Combination: As a result of the Transaction, during 2016, Altria Group, Inc. recorded a pre-tax gain of approximately $13.9 billion. For further discussion, see Note 7.

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NPM Adjustment Items: For the years ended December 31, 2016, 2015 and 2014, pre-tax expense (income) for NPM Adjustment Items was recorded in Altria Group, Inc.'s consolidated statements of earnings as follows:

(in millions)	2016	2015	2014
Smokeable products segment	$ 12	$ (97)	$ (43)
Interest and other debt expense, net	6	13	(47)
Total	$ 18	$ (84)	$ (90)

The amounts shown in the table above for the smokeable products segment were recorded by PM USA as increases (reductions) to costs of sales, which decreased (increased) operating companies income in the smokeable products segment. For further discussion, see Health Care Cost Recovery Litigation - NPM Adjustment Disputes in Note 19.

Tobacco and Health Litigation Items: For the years ended December 31, 2016, 2015 and 2014, pre-tax charges related to certain tobacco and health litigations items were recorded in Altria Group, Inc.'s consolidated statements of earnings as follows:

(in millions)	2016	2015	2014
Smokeable products segment	$ 88	$ 127	$ 27
General corporate	—	—	15
Interest and other debt expense, net	17	23	2
Total	$ 105	$ 150	$ 44

During 2016, PM USA recorded pre-tax charges of $88 million in marketing, administration and research costs, primarily related to settlements in the Miner and Aspinall cases totaling approximately $67 million and $16 million related to a judgment in the Merino case. In addition, during 2016, PM USA recorded $17 million in interest costs primarily related to Aspinall. For further discussion, see Note 19.

During 2015, PM USA recorded pre-tax charges in marketing, administration and research costs related to tobacco and health judgments in seven state Engle progeny lawsuits and Schwarz of $59 million and $25 million, respectively, as well as $14 million and $9 million, respectively, in interest costs related to these cases. Additionally in 2015, PM USA and certain other cigarette manufacturers reached an agreement to resolve approximately 415 pending federal Engle progeny cases. As a result of the agreement, PM USA recorded a pre-tax provision of approximately $43 million in marketing, administration and research costs. For further discussion, see Smoking and Health Litigation in Note 19.

During 2014, Altria Group, Inc. and PM USA recorded an aggregate pre-tax charge of $31 million in marketing, administration and research costs for the estimated costs of implementing the corrective communications remedy in connection with the federal government's lawsuit against Altria Group, Inc. and PM USA. For further discussion, see Health Care Cost Recovery Litigation - Federal Government's Lawsuit in Note 19.

Asset Impairment, Exit, Implementation, Integration and Acquisition-Related Costs: Pre-tax asset impairment, exit, implementation, integration and acquisition-related costs for the years ended December 31, 2016, 2015 and 2014 were $206 million, $11 million and $21 million, respectively.

In October 2016, Altria Group, Inc. announced the consolidation of certain of its operating companies' manufacturing facilities to streamline operations and achieve greater efficiencies. The consolidation is expected to be completed by the first quarter of 2018 and deliver approximately $50 million in annualized cost savings by the end of 2018.

As a result of the consolidation, Altria Group, Inc. expects to record total pre-tax charges of approximately $150 million, or $0.05 per share. Altria Group, Inc. incurred $71 million of this amount during 2016 and expects to record approximately $70 million in 2017 and the remainder in 2018.

In January 2016, Altria Group, Inc. announced a productivity initiative designed to maintain its operating companies' leadership and cost competitiveness. The initiative, which reduces spending on certain selling, general and administrative infrastructure and implements a leaner organizational structure, is expected to deliver approximately $300 million in annualized productivity savings by the end of 2017. As a result of the initiative, during 2016, Altria Group, Inc. incurred total pre-tax restructuring charges of $132 million. Total pre-tax charges related to the initiative have been substantially completed.

For further discussion on 2016 asset impairment, exit and implementation costs, including a breakdown of these costs by segment, see Note 5.
For 2014, these costs consisted primarily of integration and acquisition-related costs of $28 million related to the acquisition of Green Smoke, partially offset by a pre-tax gain of $10 million from the sale of PM USA’s Cabarrus, North Carolina manufacturing facility in 2014. For further discussion of the Green Smoke acquisition, see Note 3.
Loss on Early Extinguishment of Debt: During 2016 and 2015, Altria Group, Inc. completed debt tender offers to purchase for cash certain of its senior unsecured notes in aggregate principal amounts of $0.9 billion and $0.8 billion, respectively.
During 2014, UST redeemed in full its $300 million (aggregate principal amount) 5.75% senior notes due 2018.
As a result of the Altria Group, Inc. debt tender offers and the UST debt redemption, pre-tax losses on early extinguishment of debt were recorded as follows:

(in millions)	2016	2015	2014
Premiums and fees	$809	$226	$ 44
Write-off of unamortized debt discounts and debt issuance costs	14	2	—
Total	$823	$228	$ 44

For further discussion, see Note 10. Long-Term Debt to the consolidated financial statements in Item 8 (“Note 10”).

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SABMiller Special Items: Altria Group, Inc.'s earnings from its equity investment in SABMiller for 2016 included net pre-tax income of $89 million, due primarily to a pre-tax non-cash gain of $309 million, reflecting Altria Group, Inc.'s share of SABMiller's increase to shareholders' equity, resulting from the completion of the SABMiller, The Coca-Cola Company and Gutsche Family Investments transaction, combining bottling operations in Africa, partially offset by Altria Group, Inc.'s share of SABMiller's costs related to the Transaction and asset impairment charges. Altria Group, Inc.'s earnings from its equity investment in SABMiller for 2015 included net pre-tax charges of $126 million, consisting primarily of Altria Group, Inc.'s share of SABMiller's asset impairment charges.

Tax Items: Tax items for 2016 primarily included the reversal of tax accruals no longer required. Tax items for 2015 primarily included the reversal of tax reserves and associated interest due primarily to the closure in August 2015 of the Internal Revenue Service audit of Altria Group, Inc. and its consolidated subsidiaries' 2007-2009 tax years, partially offset by a reversal of foreign tax credits primarily associated with SABMiller dividends. Tax items for 2014 included the reversal of tax accruals no longer required. For further discussion, see Note 15.

2016 Compared with 2015

The following discussion compares consolidated operating results for the year ended December 31, 2016 with the year ended December 31, 2015.

Net revenues, which include excise taxes billed to customers, increased $310 million (1.2%), due primarily to higher net revenues in the smokeless products, smokeable products and wine segments.

Cost of sales was essentially unchanged as higher per unit settlement charges and NPM Adjustment Items in 2015 were offset by lower shipment volume and lower pension and benefit costs in the smokeable products segment.

Excise taxes on products decreased $173 million (2.6%), due primarily to lower smokeable products shipment volume.

Marketing, administration and research costs decreased $58 million (2.1%), due primarily to lower costs in the smokeable products segment (which included lower tobacco and health litigation items), partially offset by higher costs in the smokeless products segment.

Operating income increased $401 million (4.8%), due primarily to higher operating results from the smokeable products and smokeless products segments (which included asset impairment, exit and implementation costs in connection with the facilities consolidation and productivity initiative in 2016), lower investment spending in the innovative tobacco products businesses, a reduction of a PMI tax-related receivable in 2015 and higher operating results from the financial services business.

Interest and other debt expense, net, decreased $70 million (8.6%), due primarily to lower interest costs on debt as a result

of a debt maturity in 2015 and debt tender offers in 2016 and 2015.

Earnings from Altria Group, Inc.'s equity investment in SABMiller, which increased $38 million (5.0%), were positively impacted by SABMiller special items, mostly offset by three fewer months of SABMiller's earnings in 2016 versus 2015, as a result of the timing of the completion of the Transaction.

Net earnings attributable to Altria Group, Inc. of $14,239 million increased $8,998 million (171.7%), due primarily to the gain on the Transaction, higher operating income and lower interest and other debt expense, partially offset by a higher loss on early extinguishment of debt. Diluted and basic EPS attributable to Altria Group, Inc. of $7.28, each increased by 172.7% due to higher net earnings attributable to Altria Group, Inc. and fewer shares outstanding.

2015 Compared with 2014

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

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

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

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

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

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

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

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

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Operating Results by Business Segment
Tobacco Space
Business Environment
Summary
The United States tobacco industry faces a number of business and legal challenges that have adversely affected and may adversely affect the business and sales volume of our tobacco subsidiaries and our consolidated results of operations, cash flows or financial position. These challenges, some of which are discussed in more detail below, in Note 19, Item 1A and Item 3, include:

- pending and threatened litigation and bonding requirements;
- the requirement to issue "corrective statements" in various media in connection with the federal government's lawsuit;
- restrictions and requirements imposed by the FSPTCA, and restrictions and requirements (and related enforcement actions) that have been, and in the future will be, imposed by the FDA;
- actual and proposed excise tax increases, as well as changes in tax structures and tax stamping requirements;
- bans and restrictions on tobacco use imposed by governmental entities and private establishments and employers;
- other federal, state and local government actions, including:
- increases in the minimum age to purchase tobacco products above the current federal minimum age of 18;
  - restrictions on the sale of tobacco products by certain retail establishments, the sale of certain tobacco products with certain characterizing flavors and the sale of tobacco products in certain package sizes;
- additional restrictions on the advertising and promotion of tobacco products;
- other actual and proposed tobacco product legislation and regulation; and
- governmental investigations;
- the diminishing prevalence of cigarette smoking and increased efforts by tobacco control advocates and others (including employers and retail establishments) to further restrict tobacco use;
- changes in adult tobacco consumer purchase behavior, which is influenced by various factors such as economic conditions, excise taxes and price gap relationships, may result in adult tobacco consumers switching to discount products or other lower priced tobacco products;
  - the highly competitive nature of the tobacco categories in which our tobacco subsidiaries operate, including
- competitive disadvantages related to cigarette price increases attributable to the settlement of certain litigation;
- illicit trade in tobacco products; and
- potential adverse changes in tobacco leaf price, availability and quality.

In addition to and in connection with the foregoing, evolving adult tobacco consumer preferences pose challenges for Altria Group, Inc.'s tobacco subsidiaries. Our tobacco subsidiaries believe that a significant number of adult tobacco consumers switch between tobacco categories, use multiple forms of tobacco products and try innovative tobacco products, such as e-vapor products. While the e-vapor category grew rapidly from 2012 through early 2015, the category has slowed since that time. Nu Mark believes the category will continue to be dynamic as adult tobacco consumers explore a variety of tobacco product options.
Altria Group, Inc. and its tobacco subsidiaries work to meet these evolving adult tobacco consumer preferences over time by developing, manufacturing, marketing and distributing products both within and outside the United States through innovation and adjacency growth strategies (including, where appropriate, arrangements with, or investments in, third parties). For example, Nu Mark entered the e-vapor category in 2013. See the discussions regarding new product technologies, adjacency growth strategy and evolving consumer preferences in Cautionary Factors That May Affect Future Results below for certain risks associated with the foregoing discussion.
We have provided additional detail on the following topics below:

- FSPTCA and FDA Regulation;
- Excise Taxes;
- International Treaty on Tobacco Control;
- State Settlement Agreements;

Other Federal, State and Local Regulation and Activity;
Illicit Trade in Tobacco Products;
Price, Availability and Quality of Agricultural Products; and
Timing of Sales.

FSPTCA and FDA Regulation

The Regulatory Framework: The FSPTCA expressly establishes certain restrictions and prohibitions on our tobacco businesses and authorizes or requires further FDA action. Under the FSPTCA, the FDA has broad authority to (1) regulate the design, manufacture, packaging, advertising, promotion, sale and distribution of tobacco products; (2) require disclosures of related information; and (3) enforce the FSPTCA and related regulations. The FSPTCA went into effect in 2009 for cigarettes, cigarette tobacco and smokeless tobacco products and in August 2016 for Other Tobacco Products. See FDA Regulatory Actions - Deeming Regulations below.

Among other measures, the FSPTCA or its implementing regulations:

imposes restrictions on the advertising, promotion, sale and distribution of tobacco products, including at retail;
bans descriptors such as "light," "mild" or "low" or similar descriptors when used as descriptors of modified risk unless expressly authorized by the FDA;
requires extensive product disclosures to the FDA and may require public disclosures;
prohibits any express or implied claims that a tobacco product is or may be less harmful than other tobacco products without FDA authorization;
imposes reporting obligations relating to contraband activity and grants the FDA authority to impose recordkeeping and other obligations to address illicit trade in tobacco products;
changes the language of the cigarette and smokeless tobacco product health warnings, enlarges their size and requires the development by the FDA of graphic warnings for cigarettes, establishes warning requirements for Other Tobacco Products, and gives the FDA the authority to require new warnings for any type of tobacco products;
authorizes the FDA to adopt product regulations and related actions, including imposing tobacco product standards that are appropriate for the protection of the public health (e.g., related to the use of menthol in cigarettes, nicotine yields and other constituents or ingredients) and imposing manufacturing standards for tobacco products;
establishes pre-market review pathways for new and modified tobacco products for the FDA to follow, including:
subjecting cigarettes, cigarette tobacco and smokeless tobacco products modified or first introduced into the market after March 22, 2011, and Other Tobacco Products modified or first introduced into the market after August 8, 2016, to new tobacco product application and pre-market review and authorization requirements unless a manufacturer can demonstrate they are "substantially equivalent" to products commercially marketed as of February 15, 2007, and possibly to deny any such new tobacco product application, thereby preventing the distribution and sale of any product affected by such denial;
determining that cigarettes, cigarette tobacco and smokeless tobacco products modified or introduced into the market for the first time between February 15, 2007 and March 22, 2011 for which a manufacturer submitted a substantial equivalence report are not "substantially equivalent" to products commercially marketed as of February 15, 2007, in which case the FDA could require the removal of such products from the marketplace (see FDA Regulatory Actions - Substantial Equivalence and Other New Product Processes/Pathways below);
determining that Other Tobacco Products modified or introduced into the market for the first time between February 15, 2007 and August 8, 2016 for which a manufacturer submits a substantial equivalence report by February 8, 2018 are not "substantially equivalent" to products commercially marketed as of February 15, 2007, or to reject a new tobacco product application submitted by a manufacturer by August 8, 2018, both of which could require the removal of such products from the marketplace (see FDA Regulatory Actions - Substantial Equivalence and Other New Product Processes/Pathways below); 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 for cigarettes, cigarette tobacco and smokeless tobacco products and in August 2016 for Other Tobacco Products and will continue over time. The provisions of the FSPTCA that require the FDA to take action through rulemaking generally involve consideration of public comment and, for some issues, scientific review. From time to time, the FDA issues guidance that also generally involves public comment, which may be issued in draft or final form.

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

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

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

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

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otherwise significantly increase the cost of doing business.

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

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

Investigation and Enforcement: The FDA has a number of investigatory and enforcement tools available to it, including document requests and other required information submissions, facility inspections, examinations and investigations, injunction proceedings, monetary penalties, product withdrawal and recall orders, and product seizures. The use of any of these investigatory or enforcement tools by the FDA could result in significant costs to the tobacco businesses of Altria Group, Inc. or otherwise have a material adverse effect on the business, consolidated results of operations, cash flows or financial position of Altria Group, Inc. and its tobacco subsidiaries.

TPSAC

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

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

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

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

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

Final Tobacco Marketing Rule: As required by the FSPTCA, the FDA re-promulgated in March 2010 a wide range of advertising and promotion restrictions in substantially the same form as regulations that were previously adopted in 1996 (but never imposed on tobacco manufacturers due to a United States Supreme Court ruling) (the "Final Tobacco Marketing Rule"). The May 2016 amendments to the Final Tobacco Marketing Rule

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(instituted as part of the FDA's deeming regulations) apply certain provisions to certain "covered tobacco products," which include cigars, e-vapor products containing nicotine or other tobacco derivatives, pipe tobacco and oral tobacco-derived nicotine products, but do not include any component or part that is not made or derived from tobacco. The Final Tobacco Marketing Rule as so amended:

- bans the use of color and graphics in cigarette and smokeless tobacco product labeling and advertising;
- prohibits the sale of cigarettes, smokeless tobacco and covered tobacco products to persons under the age of 18;
- 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 covered tobacco products 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 cigarette or smokeless tobacco brands or logos; and
- prohibits cigarettes and smokeless tobacco 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 for cigarettes and smokeless tobacco products and in August 2016 for covered tobacco products. At the time of the re-promulgation of the Final Tobacco Marketing Rule, the FDA also issued an advance notice of proposed rulemaking regarding the so-called "1000 foot rule," which would establish restrictions on the placement of outdoor tobacco advertising in relation to schools and playgrounds. PM USA and USSTC submitted comments on this advance notice.

Since enactment in 2009, several lawsuits have been filed challenging various provisions of the FSPTCA, the Final Tobacco Marketing Rule and the deeming regulations, including their constitutionality and the scope of the FDA's authority thereunder. As a result of one such challenge (Commonwealth Brands), the portion of the Final Tobacco Marketing Rule that bans the use of color and graphics in labeling and advertising is unenforceable by the FDA. For a further discussion of the Final Tobacco Marketing Rule and the status of graphic warnings for cigarette packages and advertising, see FDA Regulatory Actions - Graphic Warnings below.

In a separate lawsuit that challenged the constitutionality of an FDA regulation that restricts tobacco manufacturers from using the trade or brand name of a non-tobacco product on cigarettes or smokeless tobacco products, the case was dismissed without prejudice pursuant to a stipulation by which the FDA agreed not to enforce the current or any amended trade name rule against plaintiffs until at least 180 days after rulemaking on the amended

rule concludes. This relief only applies to plaintiffs in the case. However, in May 2010, the FDA issued guidance on the use of non-tobacco trade and brand names applicable to all cigarette and smokeless tobacco product manufacturers. This guidance indicated the FDA's intention not to commence enforcement actions under the regulation while it considers how to address the concerns raised by various manufacturers. In November 2011, the FDA proposed an amended rule, but has not yet issued a final rule. PM USA and USSTC submitted comments on the proposed amended rule.

FDA Regulatory Actions

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

Substantial Equivalence and Other New Product Processes/Pathways: In January 2011, the FDA issued guidance concerning reports that manufacturers must submit for certain tobacco products that the manufacturer modified or introduced for the first time into the market after February 15, 2007. These reports must be reviewed by the FDA to determine if such tobacco products are “substantially equivalent” to products commercially available as of February 15, 2007. In general, in order to continue marketing cigarette, cigarette tobacco and smokeless tobacco products commercially available before March 22, 2011, manufacturers of such products were required to send to the FDA a report demonstrating substantial equivalence by March 22, 2011. These products are referred to as “provisional products.” All cigarette and smokeless tobacco products currently marketed by PM USA and USSTC are provisional products, as are some of the products currently marketed by Nat Sherman. Our subsidiaries submitted timely reports for these products and can continue marketing these products unless the FDA makes a determination that a specific product is not substantially equivalent. If the FDA ultimately makes such a determination, it could require the removal of such products from the marketplace. While our cigarette and smokeless tobacco subsidiaries believe that all of their current products meet the statutory requirements of the FSPTCA, they cannot predict whether, when or how the FDA ultimately will apply its guidance to their various

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respective substantial equivalence reports or seek to enforce the law and regulations consistent with its guidance.
The FDA began announcing its decisions on substantial equivalence reports for provisional cigarette, cigarette tobacco and smokeless tobacco products in 2013. There are a significant number of substantial equivalence reports for such products for which the FDA has not announced decisions, including reports submitted by our cigarette and smokeless tobacco subsidiaries. At the request of the FDA, our cigarette and smokeless tobacco subsidiaries have provided additional information with respect to certain substantial equivalence reports. At this time, it is not possible to predict how long reviews by the FDA of substantial equivalence reports or new tobacco product applications for any tobacco product will take. A "not substantially equivalent" determination or denial of a new tobacco product application on one or more products could 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.

In order to continue marketing Other Tobacco Products modified or introduced into the market for the first time between February 15, 2007 and August 8, 2016, manufacturers are required to send to the FDA a report demonstrating substantial equivalence by February 8, 2018 or a new tobacco product application by August 8, 2018. If a manufacturer does not obtain a "substantial equivalence order" from the FDA by February 8, 2019 or a "new tobacco product marketing order" from the FDA by August 8, 2019, the FDA could require the manufacturer to remove such product from the marketplace.

Because of the limited number of e-vapor products on the market as of February 14, 2007, Nu Mark may not be able to file substantial equivalence reports with the FDA on its e-vapor products in the market as of August 8, 2016. In such case, Nu Mark would have to file new tobacco product applications which, among other things, demonstrate that the marketing of the e-vapor products would be appropriate for the protection of the public health. It is uncertain how the FDA will interpret the requirements for obtaining a "new tobacco product marketing order."

Manufacturers intending to first introduce new and certain modified cigarette, cigarette tobacco and smokeless tobacco products into the market after March 22, 2011 or intending to first introduce new and certain modified Other Tobacco Products into the market after August 8, 2016, must submit a substantial equivalence report to the FDA and obtain a "substantial equivalence order" from the FDA or submit a new tobacco product application to the FDA and obtain a "new tobacco product marketing order" from the FDA before introducing the products into the market.

In March 2015, the FDA issued a document entitled "Guidance for Industry: Demonstrating the Substantial Equivalence of a New Tobacco Product: Responses to Frequently Asked Questions" ("Substantial Equivalence Guidance"). In that document, the FDA announced that (i)

certain label changes and (ii) changes to the quantity of tobacco product(s) in a package would each require submission of newly required substantial equivalence reports and authorization from the FDA prior to marketing tobacco products with such changes, even when the tobacco product itself is not changed. Our cigarette and smokeless tobacco subsidiaries market various products that fall within the scope of the Substantial Equivalence Guidance.

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

In September 2015, the FDA issued a second edition of the Substantial Equivalence Guidance (the "Revised SE Guidance"), which continued to require FDA pre-authorization for certain label changes and for product quantity changes. PM USA, USSTC and other tobacco product manufacturers filed a new lawsuit in the U.S. District Court for the District of Columbia against the same defendants named in the prior suit seeking to declare the requirements of the Revised SE Guidance invalid and to enjoin defendants from enforcing them. In October 2015, plaintiffs filed a motion for summary judgment. Defendants opposed the motion for summary judgment and moved to dismiss the complaint in December 2015. In August 2016, the court held that a modification to an existing product's label does not result in a "new tobacco product" and therefore such a label change does not give rise to the substantial equivalence review process. Accordingly, the court vacated the Revised SE Guidance insofar as it pertains to label changes, but upheld the guidance in all other respects, including its treatment of product quantity changes as modifications that give rise to a new tobacco product requiring substantial equivalence review. The parties did not appeal this decision, concluding the litigation.

Deeming Regulations: As discussed above under FSPTCA and FDA Regulation - The Regulatory Framework, in May 2016, the FDA issued final regulations for all Other Tobacco Products, imposing the FSPTCA regulatory framework on the tobacco products manufactured, marketed and sold by Middleton and Nu Mark. At the same time the FDA issued its final deeming regulations, it also amended the Final Tobacco Marketing Rule as described above in FSPTCA and FDA Regulation - Final Tobacco Marketing Rule. Under the new regulations, for Other Tobacco Products modified or introduced into the market for the first time between February 15, 2007 and August 8, 2016, manufacturers must

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demonstrate substantial equivalence to a product on the market as of February 15, 2007 or obtain a "new tobacco marketing order" by certain specified dates to continue marketing those products. For further details, see FSPTCA and FDA Regulation - FDA Regulatory Actions - Substantial Equivalence and Other New Product Processes/Pathways above.

Among the FSPTCA requirements that apply to Other Tobacco Products is a ban on descriptors, including "mild," when used as descriptors of modified risk unless expressly authorized by the FDA. In May 2016, Middleton filed a lawsuit in the U.S. District Court for the District of Columbia against the FDA challenging the application of the descriptor ban on the use of the word "mild" as it relates to the "Black & Mild" trademark. In July 2016, the Department of Justice, on behalf of the FDA, informed Middleton that at present the FDA does not intend to bring an enforcement action against Middleton for the use of the term "mild" in the trademark "Black & Mild." Consequently, Middleton dismissed its lawsuit without prejudice. If the FDA were to change its mind at some later date, Middleton would have the opportunity to make a submission to the FDA and ultimately, if necessary, to bring another lawsuit.

Smokeless Tobacco Product Standard: In January 2017, the FDA proposed a product standard for N-nitrosonornicotine (NNN) levels in finished smokeless tobacco products. USSTC believes that the FDA has not adequately considered whether the proposed standard is technically achievable and further believes it would have a significant negative impact on farmers and manufacturers. USSTC is advocating for withdrawal of the proposed rule. If the FDA does not withdraw the rule, USSTC plans to submit comments. If the proposed rule as presently formulated were to become final and upheld in the courts, it could have a material adverse effect on the business, consolidated results of operations, cash flows or financial position of Altria Group, Inc. and USSTC.

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

Excise Taxes

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

Federal, state and local excise taxes have increased substantially over the past decade, far outpacing the rate of inflation. By way of example, in 2009, the federal excise tax on cigarettes increased from \$0.39 per pack to approximately \$1.01 per pack, in 2010, the New York state excise tax increased by \$1.60 to \$4.35 per pack and in October 2014, Philadelphia, Pennsylvania enacted a \$2.00 per pack local cigarette excise tax. Between the end of 1998 and February 23, 2017, the weighted-average state and certain local cigarette excise taxes increased from \$0.36 to \$1.61 per pack. During 2016, Pennsylvania, Louisiana and West Virginia enacted legislation to increase their cigarette excise taxes and California passed a ballot measure to increase its cigarette excise tax by \$2.00 per pack and impose corresponding increases on other tobacco products and e-vapor products. As of February 23, 2017, no state has increased its cigarette excise tax in 2017.

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

A majority of states currently tax smokeless tobacco products using an ad valorem method, which is calculated as a percentage of the price of the product, typically the wholesale price. This ad valorem method results in more tax being paid on premium products than is paid on lower-priced products of equal weight. Altria Group, Inc.'s subsidiaries support legislation to convert ad valorem taxes on smokeless tobacco to a weight-based methodology because, unlike the ad valorem tax, a weight-based tax subjects cans of equal weight to the same tax. As of February 23, 2017, the federal government, 23 states, Puerto Rico, Philadelphia, Pennsylvania and Cook County, Illinois have adopted a weight-based tax methodology for smokeless tobacco.

International Treaty on Tobacco Control

The World Health Organization's Framework Convention on Tobacco Control (the "FCTC") entered into force in February 2005. As of February 23, 2017, 179 countries, as well as the European Community, have become parties to the FCTC. While the United States is a signatory of the FCTC, it is not currently a party to the agreement, as the agreement has not been submitted to, or ratified by, the United States Senate. The FCTC is the first international public health treaty and its objective is to establish a global agenda for tobacco regulation with the purpose of reducing initiation of tobacco use and encouraging cessation. The treaty recommends (and in certain instances, requires) signatory nations to enact legislation that would, among other things: establish specific actions to prevent youth tobacco product use; restrict or eliminate all tobacco product advertising, marketing, promotion and sponsorship; initiate public education campaigns to inform the public about the health consequences of tobacco consumption and exposure to tobacco smoke and the benefits of quitting; implement regulations imposing product testing, disclosure and performance standards; impose health warning requirements on packaging; adopt measures intended to combat tobacco product smuggling and counterfeit tobacco

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products, including tracking and tracing of tobacco products through the distribution chain; and restrict smoking in public places.

There are a number of proposals currently under consideration by the governing body of the FCTC, some of which call for substantial restrictions on the manufacture, marketing, distribution and sale of tobacco products. In addition, the Protocol to Eliminate Illicit Trade in Tobacco Products (the “Protocol”) was approved by the Conference of Parties to the FCTC in November 2012. It includes provisions related to the tracking and tracing of tobacco products through the distribution chain and numerous other provisions regarding the regulation of the manufacture, distribution and sale of tobacco products. The Protocol has not yet entered into force, but in any event will not apply to the United States until the Senate ratifies the FCTC and until the President signs, and the Senate ratifies, the Protocol. It is not possible to predict the outcome of these proposals or the impact of any FCTC actions on legislation or regulation in the United States, either indirectly or as a result of the United States becoming a party to the FCTC, or whether or how these actions might indirectly influence FDA regulation and enforcement.

State Settlement Agreements

As discussed in Note 19, during 1997 and 1998, PM USA and other major domestic tobacco product manufacturers entered into the State Settlement Agreements. These settlements require participating manufacturers to make substantial annual payments, which are adjusted for several factors, including inflation, operating income, market share and industry volume. For a discussion of the impact of the State Settlement Agreements on Altria Group, Inc., see Financial Review - Off-Balance Sheet Arrangements and Aggregate Contractual Obligations - Payments Under State Settlement Agreements, FETRA and FDA Regulation below and Note 19. The State Settlement Agreements also place numerous requirements and restrictions on participating manufacturers’ business operations, including prohibitions and restrictions on the advertising and marketing of cigarettes and smokeless tobacco products. Among these are prohibitions of outdoor and transit brand advertising, payments for product placement and free sampling (except in adult-only facilities). Restrictions are also placed on the use of brand name sponsorships and brand name non-tobacco products. The State Settlement Agreements also place prohibitions on targeting youth and the use of cartoon characters. In addition, the State Settlement Agreements require companies to affirm corporate principles directed at reducing underage use of cigarettes; impose requirements regarding lobbying activities; mandate public disclosure of certain industry documents; limit the industry’s ability to challenge certain tobacco control and underage use laws; and provide for the dissolution of certain tobacco-related organizations and place restrictions on the establishment of any replacement organizations.

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

initiated against USSTC. The STMSA required USSTC to adopt various marketing and advertising restrictions. USSTC is the only smokeless tobacco manufacturer to sign the STMSA.

Other Federal, State and Local Regulation and Activity

Federal, State and Local Regulation: A number of states and localities have enacted or proposed legislation that imposes restrictions on tobacco products (including innovative tobacco products, such as e-vapor products), such as legislation that (1) prohibits the sale of certain tobacco products with certain characterizing flavors, (2) requires the disclosure of health information separate from or in addition to federally-mandated health warnings and (3) restricts commercial speech or imposes additional restrictions on the marketing or sale of tobacco products (including proposals to ban all tobacco product sales). The legislation varies in terms of the type of tobacco products, the conditions under which such products are or would be restricted or prohibited, and exceptions to the restrictions or prohibitions. For example, a number of proposals involving characterizing flavors would prohibit smokeless tobacco products with characterizing flavors without providing an exception for mint- or wintergreen-flavored products. Whether other states or localities will enact legislation in these areas, and the precise nature of such legislation if enacted, cannot be predicted. Altria Group, Inc.’s tobacco subsidiaries have challenged and will continue to challenge certain state and local legislation, including through litigation.

State and Local Legislation to Increase the Legal Age to Purchase Tobacco Products: An increasing number of states and localities have proposed legislation to increase the minimum age to purchase tobacco products above the current Federal minimum age of 18. The following states have enacted such legislation: California (21), Hawaii (21), Alabama (19), Alaska (19), New Jersey (19) and Utah (19). Various localities (such as New York City (21) and Chicago (21)) have taken similar actions.

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

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

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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 could have a material adverse impact on the business and volume of our tobacco subsidiaries and the consolidated results of operations, cash flows or financial position of Altria Group, Inc. and its tobacco subsidiaries.

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

Illicit Trade in Tobacco Products

Illicit trade in tobacco products can have an adverse impact on the businesses of Altria Group, Inc. and its tobacco subsidiaries. Illicit trade can take many forms, including the sale of counterfeit tobacco products; the sale of tobacco products in the United States that are intended for sale outside the country; the sale of tobacco products over the Internet and by other means designed to avoid the collection of applicable taxes; and diversion into one taxing jurisdiction of tobacco products intended for sale in another. Counterfeit tobacco products, for example, are manufactured by unknown third parties in unregulated environments. Counterfeit versions of our tobacco subsidiaries' products can negatively affect adult tobacco consumer experiences with and opinions of those brands. Illicit trade in tobacco products also harms law-abiding wholesalers and retailers by depriving them of lawful sales and undermines the significant investment Altria Group, Inc.'s tobacco subsidiaries have made in legitimate distribution channels. Moreover, illicit trade in tobacco products results in federal, state and local governments losing tax revenues. Losses in tax revenues can cause such governments to

take various actions, including increasing excise taxes; imposing legislative or regulatory requirements that may adversely impact Altria Group, Inc.'s consolidated results of operations and cash flows and the businesses of its tobacco subsidiaries; or asserting claims against manufacturers of tobacco products or members of the trade channels through which such tobacco products are distributed and sold.

Altria Group, Inc. and its tobacco subsidiaries devote significant resources to help prevent illicit trade in tobacco products and to protect legitimate trade channels. For example, Altria Group, Inc.'s tobacco subsidiaries are engaged in a number of initiatives to help prevent illicit trade in tobacco products, including communication with wholesale and retail trade members regarding illicit trade in tobacco products and how they can help prevent such activities; enforcement of wholesale and retail trade programs and policies that address illicit trade in tobacco products; engagement with and support of law enforcement and regulatory agencies; litigation to protect their trademarks; and support for a variety of federal and state legislative initiatives. Legislative initiatives to address illicit trade in tobacco products are designed to protect the legitimate channels of distribution, impose more stringent penalties for the violation of illegal trade laws and provide additional tools for law enforcement. Regulatory measures and related governmental actions to prevent the illicit manufacture and trade of tobacco products continue to evolve as the nature of illicit tobacco products evolves.

Price, Availability and Quality of Agricultural Products

Shifts in crops (such as those driven by economic conditions and adverse weather patterns), government mandated prices, economic trade sanctions, geopolitical instability and production control programs may increase or decrease the cost or reduce the supply or quality of tobacco and other agricultural products used to manufacture our companies' 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. Certain types of tobacco are also only available in limited geographies. 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. Certain types of tobacco are available in limited geographies and loss of their availability could impact adult tobacco consumer product acceptability. Any significant change in the price, quality or availability of tobacco leaf or other agricultural products used to manufacture our products could impact adult consumer product acceptability and adversely affect our subsidiaries' profitability and businesses.

Timing of Sales

In the ordinary course of business, our tobacco subsidiaries are subject to many influences that can impact the timing of sales to

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customers, including the timing of holidays and other annual or special events, the timing of promotions, customer incentive programs and customer inventory programs, as well as the actual or speculated timing of pricing actions and tax-driven price increases.

Operating Results

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

	For the Years Ended December 31,					
	Net Revenues			Operating Companies Income		
(in millions)	2016	2015	2014	2016	2015	2014
Smokeable products	$22,851	$22,792	$21,939	$7,768	$7,569	$6,873
Smokeless products	2,051	1,879	1,809	1,177	1,108	1,061
Total smokeable and smokeless products	$24,902	$24,671	$23,748	$8,945	$8,677	$7,934

Smokeable Products Segment

The smokeable products segment's operating companies income and operating companies income margin increased during 2016 due primarily to higher pricing. PM USA grew total cigarettes retail share by 0.1 percentage point for 2016.

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

	Shipment Volume For the Years Ended December 31,		
(sticks in millions)	2016	2015	2014
Cigarettes:			
Marlboro	105,297	108,113	108,023
Other premium	6,382	6,753	7,047
Discount	11,251	11,152	10,320
Total cigarettes	122,930	126,018	125,390
Cigars:			
Black & Mild	1,379	1,295	1,246
Other	24	30	25
Total cigars	1,403	1,325	1,271
Total smokeable products	124,333	127,343	126,661

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

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

	Retail Share For the Years Ended December 31,		
	2016	2015	2014
Cigarettes:			
Marlboro	44.0 %	44.0 %	43.8 %
Other premium	2.7	2.8	2.9
Discount	4.7	4.5	4.2
Total cigarettes	51.4 %	51.3 %	50.9 %
Cigars:			
Black & Mild	26.3 %	27.3 %	28.3 %

Other	0.4	0.3	0.4
Total cigars	26.7 %	27.6 %	28.7 %

Retail share results for cigarettes are based on data from IRI/Management Science Associate Inc., a tracking service that uses a sample of stores and certain wholesale shipments to project market share and depict share trends. Retail share results for cigars are based on data from IRI InfoScan, a tracking service that uses a sample of stores to project market share and depict share trends. Both services track sales in the food, drug and mass merchandisers (including Wal-Mart), convenience, military, dollar store and club trade classes. For other trade classes selling cigarettes, retail share is based on shipments from wholesalers to retailers through the Store Tracking Analytical Reporting System ("STARS"). These services are not designed to capture sales through other channels, including the internet, direct mail and some illicitly tax-advantaged outlets. Retail share results for cigars are based on data for machine-made large cigars. Middleton defines machine-made large cigars as cigars, made by machine, that weigh greater than three pounds per thousand, except cigars sold at retail in packages of 20 cigars. Because the cigars service represents retail share performance only in key trade channels, it should not be considered a precise measurement of actual retail share. It is IRI's standard practice to periodically refresh its services, which could restate retail share results that were previously released in these services.

PM USA executed the following pricing and promotional allowance actions during 2016, 2015 and 2014:

Effective November 13, 2016, PM USA reduced its wholesale promotional allowance on Marlboro by $0.02 per pack and L&M by $0.08 per pack. In addition, PM USA increased the list price on Marlboro by $0.06 per pack and on all of its other cigarette brands by $0.08 per pack, except for L&M, which had no list price change.

Effective May 15, 2016, PM USA increased the list price on all of its cigarette brands by $0.07 per pack.

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

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

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

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

The following discussion compares operating results for the smokeable products segment for the year ended December 31, 2016 with the year ended December 31, 2015.

Net revenues, which include excise taxes billed to customers, increased $59 million (0.3%), due primarily to higher pricing, which includes higher promotional investments, partially offset by lower shipment volume ($577 million).

Operating companies income increased $199 million (2.6%), due primarily to higher pricing, which includes higher promotional investments, lower costs (due primarily to lower pension and benefit costs) and lower tobacco and health litigation items ($39 million). These factors were partially offset by lower shipment volume ($298 million), higher per unit settlement charges, costs in connection with the productivity initiative and facilities consolidation ($134 million) and NPM Adjustment Items in 2015 ($97 million).

Marketing, administration and research costs for the smokeable products segment include PM USA's cost of administering and litigating product liability claims. Litigation defense costs are influenced by a number of factors, including the number and types of cases filed, the number of cases tried annually, the results of trials and appeals, the development of the law controlling relevant legal issues, and litigation strategy and tactics. For further discussion on these matters, see Note 19 and Item 3. For the years ended December 31, 2016, 2015 and 2014, product liability defense costs for PM USA were $234 million, $228 million and $230 million, respectively. The factors that have influenced past product liability defense costs are expected to continue to influence future costs. PM USA does not expect future product liability defense costs to be significantly different from product liability defense costs incurred in the last few years.

Total smokeable products reported shipment volume decreased 2.4%. PM USA's reported and adjusted domestic cigarettes shipment volume decreased approximately 2.5% driven primarily by the industry's rate of decline. PM USA estimates that full-year total industry cigarette volumes also declined by approximately 2.5%.

PM USA's shipments of premium cigarettes accounted for 90.8% of its reported domestic cigarettes shipment volume for 2016, versus 91.2% for 2015.

Middleton's reported cigars shipment volume increased 5.9%, driven primarily by Black & Mild in the tipped cigars segment.

Marlboro's retail share was unchanged in 2016. PM USA grew its total retail share 0.1 share point.

In the machine-made large cigars category, Black & Mild's retail share declined 1.0 share point.

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

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

Operating companies income increased $696 million (10.1%), due primarily to higher pricing, which includes higher promotional investments, lower resolution expenses (due principally to the end of the federal tobacco quota buy-out payments after the third quarter of 2014), higher shipment volume ($68 million) and higher NPM Adjustment Items in 2015 ($54 million). These factors were partially offset by higher costs (due primarily to higher pension and benefit costs, and marketing, administration and research costs) and higher tobacco and health litigation items ($100 million).

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

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

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

Marlboro's retail share increased 0.2 share points.

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

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

Smokeless Products Segment

During 2016, the smokeless products segment grew net revenues and operating companies income, primarily through higher shipment volume and higher pricing. USSTC increased Copenhagen and Skoal's combined retail share versus 2015.

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The following table summarizes smokeless products segment shipment volume performance:

	Shipment Volume For the Years Ended December 31,		
(cans and packs in millions)	2016	2015	2014
Copenhagen	525.1	474.7	448.6
Skoal	260.9	267.9	269.6
Copenhagen and Skoal	786.0	742.6	718.2
Other	67.5	70.9	75.1
Total smokeless products	853.5	813.5	793.3

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

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

	Retail Share For the Years Ended December 31,		
	2016	2015	2014
Copenhagen	33.8 %	31.6 %	30.7 %
Skoal	18.4	19.7	20.3
Copenhagen and Skoal	52.2	51.3	51.0
Other	3.4	3.6	4.0
Total smokeless products	55.6 %	54.9 %	55.0 %

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

USSTC executed the following pricing actions during 2016, 2015 and 2014:

- Effective December 6, 2016, USSTC increased the list price on Copenhagen and Skoal popular price products by $0.12 per can. In addition, USSTC increased the list price on all its brands, except for Copenhagen and Skoal popular price products, by $0.07 per can.
- Effective May 10, 2016, USSTC increased the list price on all its brands by $0.07 per can.
- Effective December 8, 2015, USSTC increased the list price on Copenhagen and Skoal popular price products by $0.12 per can. In addition, USSTC increased the list price on all its brands, except for Copenhagen and Skoal popular price products, by $0.07 per can.
- Effective May 5, 2015, USSTC increased the list price on all its brands by $0.07 per can.
- Effective November 25, 2014, USSTC increased the list price on all its brands by $0.07 per can.
- Effective May 11, 2014, USSTC increased the list price on all of its brands by $0.06 per can.

The following discussion compares operating results for the smokeless products segment for the year ended December 31, 2016 with the year ended December 31, 2015.

Net revenues, which include excise taxes billed to customers, increased $172 million (9.2%), due primarily to higher shipment volume ($111 million) and higher pricing, which includes higher promotional investments, partially offset by mix due to growth in popular price products.

Operating companies income increased $69 million (6.2%), due primarily to higher shipment volume ($98 million) and higher pricing, which includes higher promotional investments, partially offset by costs in connection with the productivity initiative and facilities consolidation ($57 million), product mix, higher marketing, administration and research costs and higher manufacturing costs.

The smokeless products segment's reported domestic shipment volume increased 4.9%, driven by Copenhagen, partially offset by declines in Skoal and Other portfolio brands. Copenhagen and Skoal's combined reported domestic shipment volume increased 5.8%.

After adjusting for trade inventory movements and other factors, USSTC estimates that its domestic smokeless products shipment volume grew approximately 5% for 2016. USSTC estimates that the smokeless products category volume grew approximately 2.5% over the six months ended December 31, 2016.

Copenhagen and Skoal's combined retail share increased 0.9 share points to 52.2%. Copenhagen's retail share increased 2.2 share points and Skoal's retail share declined 1.3 share points.

Total smokeless products retail share increased 0.7 share points to 55.6%.

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

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

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Operating companies income increased $47 million (4.4%), due primarily to higher pricing, which includes higher promotional investments, partially offset by higher costs.
The smokeless products segment's reported domestic shipment volume increased 2.5% as volume growth in Copenhagen was partially offset by declines in Skoal and Other portfolio brands. Copenhagen and Skoal's combined reported domestic shipment volume increased 3.4%.
After adjusting for trade inventory movements and other factors, USSTC estimates that its domestic smokeless products shipment volume grew approximately 2.5% for 2015. USSTC estimates that the smokeless products category volume grew approximately 2.5% over the six months ended December 31, 2015 as compared with approximately 2.0% for the six months ended December 31, 2014.
Copenhagen and Skoal's combined retail share increased 0.3 share points to 51.3%. Copenhagen's retail share increased 0.9 share points and Skoal's retail share declined 0.6 share points.
Total smokeless products retail share declined 0.1 share point to 54.9%.

Wine Segment

Business Environment

Ste. Michelle is a leading producer of Washington state wines, primarily Chateau Ste. Michelle, Columbia Crest and 14 Hands, and owns wineries in or distributes wines from several other domestic and foreign wine regions. Ste. Michelle holds an 85% ownership interest in Michelle-Antinori, LLC, which owns Stag's Leap Wine Cellars in Napa Valley. Ste. Michelle also owns Conn Creek in Napa Valley, Patz & Hall in Sonoma and Erath in Oregon. In addition, Ste. Michelle imports and markets Antinori, Torres and Villa Maria Estate wines and Champagne Nicolas Feuillatte in the United States. Key elements of Ste. Michelle's strategy are expanded domestic distribution of its wines, especially in certain account categories such as restaurants, wholesale clubs, supermarkets, wine shops and mass merchandisers, and a focus on improving product mix to higher-priced, premium products.
Ste. Michelle's business is subject to significant competition, including competition from many larger, well-established domestic and international companies, as well as from many smaller wine producers. Wine segment competition is primarily based on quality, price, consumer and trade wine tastings, competitive wine judging, third-party acclaim and advertising. Substantially all of Ste. Michelle's sales occur in the United States through state-licensed distributors. Ste. Michelle also sells to domestic consumers through retail and e-commerce channels and exports wines to international distributors.
Federal, state and local governmental agencies regulate the beverage alcohol industry through various means, including licensing requirements, pricing rules, labeling and advertising restrictions, and distribution and production policies. Further regulatory restrictions or additional excise or other taxes on the manufacture and sale of alcoholic beverages may have an adverse effect on Ste. Michelle's wine business.

Operating Results

Ste. Michelle's net revenues and operating companies income increased in 2016, due primarily to higher shipment volume. The following table summarizes operating results for the wine segment:

	For the Years Ended December 31,		
(in millions)	2016	2015	2014
Net revenues	$746	$692	$643
Operating companies income	$164	$152	$134

The following discussion compares operating results for the wine segment for the year ended December 31, 2016 with the year ended December 31, 2015.
Net revenues, which include excise taxes billed to customers, increased $54 million (7.8%), due primarily to higher shipment volume. Operating companies income increased $12 million (7.9%), due primarily to higher shipment volume and improved premium mix, partially offset by higher costs.

For 2016, Ste. Michelle’s reported wine shipment volume of 9,333 thousand cases grew 5.3%, driven primarily by growth among its core premium brands.

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

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

For 2015, Ste. Michelle’s reported wine shipment volume of 8,866 thousand cases increased 6.2%.

Financial Review

Net Cash Provided by Operating Activities

During 2016, net cash provided by operating activities was $3.8 billion compared with $5.8 billion during 2015. This decrease was due primarily to the following:

- income taxes paid on both the cash proceeds from the Transaction and gains from exercising derivative financial instruments associated with the Transaction in 2016; and
- voluntary contributions totaling $500 million to Altria Group, Inc.’s pension plans during 2016;

partially offset by:

- higher cumulative dividends received from AB InBev and SABMiller in 2016.

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

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

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the end of the federal tobacco quota buy-out payments after the third quarter of 2014;
partially offset by:
higher settlement payments during 2015, driven by the impact of NPM Adjustment Items in 2014.
Altria Group, Inc. had a working capital deficit at December 31, 2016 and 2015. Altria Group, Inc.'s management believes that it has the ability to fund these working capital deficits with cash provided by operating activities and/or short-term borrowings under its commercial paper program as discussed in the Debt and Liquidity section below.
Net Cash Provided by/Used in Investing Activities
During 2016, net cash provided by investing activities was $3.7 billion compared with net cash used in investing activities of $15 million during 2015. This change was due primarily to the following:
proceeds of $4.8 billion from the Transaction during 2016; and
proceeds of $0.5 billion from exercising derivative financial instruments associated with the Transaction during 2016;
partially offset by:
payment of approximately $1.6 billion for the purchase of ordinary shares of AB InBev during 2016.
During 2015, net cash used in investing activities was $15 million compared with net cash provided by investing activities of $177 million during 2014. This change was due primarily to the following:
$132 million payment for a derivative financial instrument during 2015;
the sale of PM USA's Cabarrus, North Carolina manufacturing facility during 2014; and
higher capital expenditures during 2015, due primarily to a new USSTC manufacturing facility in Hopkinsville, Kentucky that was completed in 2016;
partially offset by:
Nu Mark's acquisition of the e-vapor business of Green Smoke during 2014.
Capital expenditures for 2016 decreased 17.5% to $189 million, due primarily to higher capital expenditures during 2015 for the new USSTC manufacturing facility noted above. Capital expenditures for 2017 are expected to be in the range of $180 million to $220 million, and are expected to be funded from operating cash flows. The increase in expected capital expenditures in 2017 compared with 2016 is due primarily to spending related to the facilities consolidation.

Net Cash Used in Financing Activities
During 2016, net cash used in financing activities was $5.3 billion compared with $6.7 billion during 2015. This decrease was due primarily to the following:
debt issuance of $2.0 billion of senior unsecured notes used in part to repurchase senior unsecured notes in connection with the 2016 debt tender offer, as more fully described in Note 10; and
$1.0 billion repayment of Altria Group, Inc. senior unsecured notes at scheduled maturity in 2015;
partially offset by:
higher premiums, fees and repayments of debt in connection with debt tender offers during 2016;
higher share repurchases during 2016; and
higher dividends paid during 2016.
During 2015, net cash used in financing activities was $6.7 billion compared with $4.7 billion during 2014. This increase was due primarily to the following:
debt tender offer completed during 2015, which resulted in the repurchase of $793 million of senior unsecured notes and a $226 million payment of premiums and fees, as more fully described in Note 10;
$1.0 billion repayment of Altria Group, Inc. senior unsecured notes at scheduled maturity in 2015;
debt issuance of $1.0 billion in 2014; and
higher dividends paid during 2015;
partially offset by:
$525 million repayment of Altria Group, Inc. senior unsecured notes at scheduled maturity in 2014;
lower share repurchases during 2015; and
full redemption of UST senior notes of $300 million in 2014.
Debt and Liquidity

Credit Ratings - Altria Group, Inc.’s cost and terms of financing and its access to commercial paper markets may be impacted by applicable credit ratings. As a result of credit rating upgrades by both Moody’s Investors Service, Inc. (“Moody’s”) and Standard & Poor’s Ratings Services (“Standard & Poor’s”) in the first quarter of 2016, the provision in certain of Altria Group, Inc.’s senior unsecured notes issued in 2008 and 2009 that required an adjustment to the cost of borrowings upon a change in credit rating terminated in accordance with its terms. The impact of credit ratings on the cost of borrowings under Altria Group, Inc.’s credit agreement is discussed below. See the discussion in Item 1A regarding the potential adverse impact of certain events on Altria Group, Inc.’s credit ratings.

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At December 31, 2016, the credit ratings and outlook for Altria Group, Inc.'s indebtedness by major credit rating agencies were:

	Short-term Debt	Long-term Debt	Outlook
Moody's[1]	P-2	A3	Stable
Standard & Poor's[2]	A-1	A-	Stable
Fitch Ratings Ltd.	F2	BBB+	Stable

[1] On March 9, 2016, Moody's raised the long-term debt credit rating for Altria Group, Inc. to A3 from Baa1.
[2] On March 30, 2016, Standard & Poor's raised the long-term debt credit rating for Altria Group, Inc. to A- from BBB+ and the short-term debt credit rating for Altria Group, Inc. to A-1 from A-2.

Credit Lines - From time to time, Altria Group, Inc. has short-term borrowing needs to meet its working capital requirements and generally uses its commercial paper program to meet those needs. At December 31, 2016, 2015 and 2014, Altria Group, Inc. had no short-term borrowings.

At December 31, 2016, Altria Group, Inc. had in place a senior unsecured 5-year revolving credit agreement (the "Credit Agreement"). The Credit Agreement provides for borrowings up to an aggregate principal amount of $3.0 billion and expires August 19, 2020.

Pricing for interest and fees under the Credit Agreement may be modified in the event of a change in the rating of Altria Group, Inc.'s senior unsecured long-term debt. Interest rates on borrowings under the Credit Agreement are expected to be based on the London Interbank Offered Rate ("LIBOR") plus a percentage based on the higher of the ratings of Altria Group, Inc.'s long-term senior unsecured debt from Moody's and Standard & Poor's. The applicable percentage based on Altria Group, Inc.'s long-term senior unsecured debt ratings at December 31, 2016 for borrowings under the Credit Agreement was 1.125%. The Credit Agreement does not include any other rating triggers, nor does it contain any provisions that could require the posting of collateral. At December 31, 2016, credit available to Altria Group, Inc. under the Credit Agreement was $3.0 billion.

The Credit Agreement is used for general corporate purposes and to support Altria Group, Inc.'s commercial paper issuances. The Credit Agreement requires that Altria Group, Inc. maintain (i) a ratio of debt to consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA") of not more than 3.0 to 1.0 and (ii) a ratio of consolidated EBITDA to consolidated interest expense of not less than 4.0 to 1.0, each calculated as of the end of the applicable quarter on a rolling four quarters basis.

At December 31, 2016, the ratios of debt to consolidated EBITDA and consolidated EBITDA to consolidated interest expense, calculated in accordance with the Credit Agreement, were 1.4 to 1.0 and 13.5 to 1.0, respectively. Altria Group, Inc. expects to continue to meet its covenants associated with the Credit Agreement. The terms "consolidated EBITDA," "debt" and "consolidated interest expense," as defined in the Credit Agreement, include certain adjustments. Exhibit 99.3 to Altria Group, Inc.'s Quarterly Report on Form 10-Q for the period ended September 30, 2013 sets forth the definitions of these terms as they appear in the Credit Agreement and is incorporated herein by reference.

Any commercial paper issued by Altria Group, Inc. and borrowings under the Credit Agreement are guaranteed by PM USA as further discussed in Note 20. Condensed Consolidating Financial Information to the consolidated financial statements in Item 8 ("Note 20").

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

Debt - At December 31, 2016 and 2015, Altria Group, Inc.'s total debt was $13.9 billion and $12.8 billion, respectively.

During 2016, Altria Group, Inc. issued $0.5 billion aggregate principal amount of 2.625% senior unsecured notes due 2026 and $1.5 billion aggregate principal amount of 3.875% senior unsecured notes due 2046. In addition, during 2016, Altria Group, Inc. completed a debt tender offer to purchase for cash certain of its senior unsecured notes in the aggregate principal amount of $933 million.

All of Altria Group, Inc.'s debt was fixed-rate debt at December 31, 2016 and 2015. The weighted-average coupon interest rate on total debt was approximately 4.9% and 5.5% at December 31, 2016 and 2015, respectively.

For further details on long-term debt, see Note 10.

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

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Off-Balance Sheet Arrangements and Aggregate Contractual Obligations
Altria Group, Inc. has no off-balance sheet arrangements, including special purpose entities, other than guarantees and contractual obligations that are discussed below.
Guarantees and Other Similar Matters - As discussed in Note 19, Altria Group, Inc. and certain of its subsidiaries had unused letters of credit obtained in the ordinary course of business, guarantees (including third-party guarantees) and a redeemable noncontrolling interest outstanding at December 31, 2016. From time to time, subsidiaries of Altria Group, Inc. also issue lines of credit to affiliated entities. In addition, as discussed in Note 20, PM USA has issued guarantees relating to Altria Group, Inc.'s obligations under its outstanding debt securities, borrowings under the Credit Agreement and amounts outstanding under its commercial paper program. These items have not had, and are not expected to have, a significant impact on Altria Group, Inc.'s liquidity.
Aggregate Contractual Obligations - The following table summarizes Altria Group, Inc.'s contractual obligations at December 31, 2016:

	Payments Due				
(in millions)	Total	2017	2018 - 2019	2020 - 2021	2022 and Thereafter
Long-term debt [(1)]	$14,017	$—	$2,008	$2,500	$ 9,509
Interest on borrowings [(2)]	9,096	693	1,303	933	6,167
Operating leases [(3)]	259	52	81	54	72
Purchase obligations: [(4)]					
Inventory and production costs	3,118	968	1,211	499	440
Other	807	588	186	33	—
	3,925	1,556	1,397	532	440
Other long-term liabilities [(5)]	2,366	147	294	286	1,639
	$29,663	$2,448	$5,083	$4,305	$ 17,827

(1) Amounts represent the expected cash payments of Altria Group, Inc.'s long-term debt.
(2) Amounts represent the expected cash payments of Altria Group, Inc.'s interest expense on its long-term debt. Interest on Altria Group, Inc.'s debt, which was all fixed-rate debt at December 31, 2016, is presented using the stated coupon interest rate. Amounts exclude the amortization of debt discounts and debt issuance costs, the amortization of loan fees and fees for lines of credit that would be included in interest and other debt expense, net in the consolidated statements of earnings.
(3) Amounts represent the minimum rental commitments under non-cancelable operating leases.
(4) Purchase obligations for inventory and production costs (such as raw materials, indirect materials and services, contract manufacturing, packaging, storage and distribution) are commitments for projected needs to be used in the normal course of business. Other purchase obligations include commitments for marketing, capital expenditures, information technology and professional services. Arrangements are considered purchase obligations if a contract specifies all significant terms, including fixed or minimum quantities to be purchased, a pricing structure and approximate timing of the transaction. Most arrangements are cancelable without a significant penalty, and with short notice (usually 30 days). Any amounts reflected on the consolidated balance sheet as accounts payable and accrued liabilities are excluded from the table above.
(5) Other long-term liabilities consist of accrued postretirement health care costs and certain accrued pension costs. The amounts included in the table above for accrued pension costs consist of the actuarially determined anticipated minimum funding requirements for each year from 2017 through 2021. Contributions beyond 2021 cannot be reasonably estimated and, therefore, are not included in the table above. In addition, the following long-term liabilities included on the consolidated balance sheet are excluded from the table above: accrued postemployment costs, income taxes and tax contingencies, and other accruals. Altria Group, Inc. is unable to estimate the timing of payments for these items.
The State Settlement Agreements and related legal fee payments, and payments for FDA user fees, as discussed below and in Note 19 and Item 3, are excluded from the table above, as the payments are subject to adjustment for several factors, including inflation, operating income, market share and industry volume. Litigation escrow deposits, as

discussed below and in Note 19, are also excluded from the table above since these deposits will be returned to PM USA should it prevail on appeal.

Payments Under State Settlement Agreements, FETRA and FDA Regulation - As discussed previously and in Note 19 and Item 3, PM USA has entered into State Settlement Agreements with the states and territories of the United States that call for certain payments. PM USA, Middleton and USSTC were also

subject to payment obligations imposed by FETRA. The FETRA payment obligations expired after the third quarter of 2014. In addition, in June 2009, PM USA and USSTC became subject to quarterly user fees imposed by the FDA as a result of the FSPTCA. Payments under the State Settlement Agreements and the FDA user fees are based on variable factors, such as volume, operating income, market share and inflation, depending on the subject payment. Altria Group, Inc.’s subsidiaries account for the cost of the State Settlement Agreements, FETRA and FDA user fees as a component of cost of sales. For the years ended December 31, 2016, 2015 and 2014, the aggregate amount recorded in cost of sales with respect to the State Settlement Agreements, FETRA (which expired after the third quarter of

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2014) and FDA user fees was approximately $4.9 billion, $4.8 billion and $4.9 billion, respectively. For a detailed discussion of settlements of, and determinations made in connection with, disputes with certain states and territories related to the NPM Adjustment provision under the MSA for the years 2003-2012, see Health Care Cost Recovery Litigation - NPM Adjustment Disputes in Note 19.

Based on current agreements, 2016 market share and historical annual industry volume decline rates, the estimated amounts that Altria Group, Inc.'s subsidiaries may charge to cost of sales for payments related to State Settlement Agreements and FDA user fees approximate $4.9 billion in 2017 and each year thereafter. These amounts exclude the potential impact of the NPM Adjustment provision applicable under the MSA and the revised NPM Adjustment provisions applicable under the settlements of the NPM Adjustment disputes with the 24 signatory states and with New York, respectively, for years after 2014 discussed above.

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

Litigation-Related Deposits and Payments - With respect to certain adverse verdicts currently on appeal, to obtain stays of judgments pending appeals, as of December 31, 2016, PM USA had posted various forms of security totaling approximately $82 million, the majority of which have been collateralized with cash deposits. These cash deposits are included in other assets on the consolidated balance sheet.

Although litigation is subject to uncertainty and an adverse outcome or settlement of litigation could have a material adverse effect on the financial position, cash flows or results of operations of PM USA, UST or Altria Group, Inc. in a particular fiscal quarter or fiscal year, as more fully disclosed in Note 19, Item 3 and Item 1A, management expects cash flow from operations, together with Altria Group, Inc.'s access to capital markets, to provide sufficient liquidity to meet ongoing business needs.

Equity and Dividends

As discussed in Note 12. Stock Plans to the consolidated financial statements in Item 8, during 2016 Altria Group, Inc. granted an aggregate of 0.9 million shares of restricted stock units to eligible employees.

At December 31, 2016, the number of shares to be issued upon vesting of restricted stock units was not significant.

Dividends paid in 2016 and 2015 were approximately $4.5 billion and $4.2 billion, respectively, an increase of 8.0%, reflecting a higher dividend rate, partially offset by fewer shares

outstanding as a result of shares repurchased by Altria Group, Inc. under its share repurchase programs.

During the third quarter of 2016, the Board of Directors approved an 8.0% increase in the quarterly dividend rate to $0.61 per share of Altria Group, Inc. common stock versus the previous rate of $0.565 per share. Altria Group, Inc. expects to continue to maintain a dividend payout ratio target of approximately 80% of its adjusted diluted EPS. The current annualized dividend rate is $2.44 per share. Future dividend payments remain subject to the discretion of the Board of Directors.

During 2016, 2015 and 2014 the Board of Directors authorized Altria Group, Inc. to repurchase shares of its outstanding common stock under several share repurchase programs.

At December 31, 2016, Altria Group, Inc. had approximately $1,935 million remaining in the July 2015 share repurchase program, which it expects to complete by the end of the second quarter of 2018. For further discussion of Altria Group, Inc.'s share repurchase programs, see Note 11. Capital Stock to the consolidated financial statements in Item 8 and Part II, Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities of this Annual Report on Form 10-K.

Recent Accounting Guidance Not Yet Adopted

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

Contingencies

See Note 19 and Item 3 for a discussion of contingencies.

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

At December 31, 2016 and 2015, the fair value of Altria Group, Inc.'s total debt was $15.1 billion and $14.5 billion, respectively. The fair value of Altria Group, Inc.'s debt is subject to fluctuations resulting from changes in market interest rates. A 1% increase in market interest rates at December 31, 2016 and 2015 would decrease the fair value of Altria Group, Inc.'s total debt by approximately $1.2 billion and $1.1 billion, respectively. A 1% decrease in market interest rates at December 31, 2016 and 2015 would increase the fair value of Altria Group, Inc.'s total debt by approximately $1.4 billion and $1.3 billion, respectively.

Interest rates on borrowings under the Credit Agreement are expected to be based on LIBOR plus a percentage based on the higher of the ratings of Altria Group, Inc.'s long-term senior unsecured debt from Moody's and Standard & Poor's. The applicable percentage based on Altria Group, Inc.'s long-term senior unsecured debt ratings at December 31, 2016 for borrowings under the Credit Agreement was 1.125%. At December 31, 2016, Altria Group, Inc. had no borrowings under the Credit Agreement.

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Item 8. Financial Statements and Supplementary Data.

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

at December 31,	2016	2015
Assets		
Cash and cash equivalents	$4,569	$2,369
Receivables	151	124
Inventories:		
Leaf tobacco	892	957
Other raw materials	164	181
Work in process	512	444
Finished product	483	449
	2,051	2,031
Other current assets	489	387
Total current assets	7,260	4,911
Property, plant and equipment, at cost:		
Land and land improvements	316	295
Buildings and building equipment	1,481	1,406
Machinery and equipment	2,917	2,969
Construction in progress	121	207
	4,835	4,877
Less accumulated depreciation	2,877	2,895
	1,958	1,982
Goodwill	5,285	5,285
Other intangible assets, net	12,036	12,028
Investment in AB InBev/SABMiller	17,852	5,483
Finance assets, net	1,028	1,239
Other assets	513	531
Total Assets	$45,932	$31,459

See notes to consolidated financial statements.

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

at December 31,	2016	2015
Liabilities		
Current portion of long-term debt	$—	$4
Accounts payable	425	400
Accrued liabilities:		
Marketing	747	695
Employment costs	289	198
Settlement charges	3,701	3,590
Other	1,025	1,073
Dividends payable	1,188	1,110
Total current liabilities	7,375	7,070
Long-term debt	13,881	12,843
Deferred income taxes	8,416	4,667
Accrued pension costs	805	1,277
Accrued postretirement health care costs	2,217	2,245
Other liabilities	427	447
Total liabilities	33,121	28,549
Contingencies (Note 19)		
Redeemable noncontrolling interest	38	37
Stockholders' Equity		
Common stock, par value $0.33 1/3 per share (2,805,961,317 shares issued)	935	935
Additional paid-in capital	5,893	5,813
Earnings reinvested in the business	36,906	27,257
Accumulated other comprehensive losses	(2,052)	(3,280)
Cost of repurchased stock (862,689,093 shares at December 31, 2016 and 845,901,836 shares at December 31, 2015)	(28,912)	(27,845)
Total stockholders' equity attributable to Altria Group, Inc.	12,770	2,880
Noncontrolling interests	3	(7)
Total stockholders' equity	12,773	2,873
Total Liabilities and Stockholders' Equity	$45,932	$31,459

See notes to consolidated financial statements.

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

for the years ended December 31,	2016	2015	2014
Net revenues	$25,744	$25,434	$24,522
Cost of sales	7,746	7,740	7,785
Excise taxes on products	6,407	6,580	6,577
Gross profit	11,591	11,114	10,160
Marketing, administration and research costs	2,650	2,708	2,539
Reductions of PMI and Mondelēz tax-related receivables	—	41	2
Asset impairment and exit costs	179	4	(1)
Operating income	8,762	8,361	7,620
Interest and other debt expense, net	747	817	808
Loss on early extinguishment of debt	823	228	44
Earnings from equity investment in SABMiller	(795)	(757)	(1,006)
Gain on AB InBev/SABMiller business combination	(13,865)	(5)	—
Earnings before income taxes	21,852	8,078	7,774
Provision for income taxes	7,608	2,835	2,704
Net earnings	14,244	5,243	5,070
Net earnings attributable to noncontrolling interests	(5)	(2)	—
Net earnings attributable to Altria Group, Inc.	$14,239	$5,241	$5,070
Per share data:			
Basic and diluted earnings per share attributable to Altria Group, Inc.	$7.28	$2.67	$2.56

See notes to consolidated financial statements.

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

for the years ended December 31,	2016	2015	2014
Net earnings	$14,244	$5,243	$5,070
Other comprehensive earnings (losses), net of deferred income taxes:			
Currency translation adjustments	1	(3)	(2)
Benefit plans	(38)	30	(767)
SABMiller	1,265	(625)	(535)
Other comprehensive earnings (losses), net of deferred income taxes	1,228	(598)	(1,304)
Comprehensive earnings	15,472	4,645	3,766
Comprehensive earnings attributable to noncontrolling interests	(5)	(2)	—
Comprehensive earnings attributable to Altria Group, Inc.	$15,467	$4,643	$3,766

See notes to consolidated financial statements.

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

for the years ended December 31,	2016	2015	2014
Cash Provided by (Used in) Operating Activities			
Net earnings	$14,244	$5,243	$5,070
Adjustments to reconcile net earnings to operating cash flows:			
Depreciation and amortization	204	225	208
Deferred income tax provision (benefit)	3,119	(132)	(129)
Earnings from equity investment in SABMiller	(795)	(757)	(1,006)
Gain on AB InBev/SABMiller business combination	(13,865)	(5)	—
Dividends from AB InBev/SABMiller	739	495	456
Asset impairment and exit costs, net of cash paid	106	1	(9)
Loss on early extinguishment of debt	823	228	44
Cash effects of changes, net of the effects from acquisition of Green Smoke:			
Receivables	(27)	3	(8)
Inventories	(34)	(33)	(184)
Accounts payable	(6)	(7)	(5)
Income taxes	(231)	(12)	1
Accrued liabilities and other current assets	(113)	184	(107)
Accrued settlement charges	111	90	109
Pension plan contributions	(531)	(28)	(15)
Pension provisions and postretirement, net	(73)	114	21
Other	120	201	217
Net cash provided by operating activities	3,791	5,810	4,663
Cash Provided by (Used in) Investing Activities			
Capital expenditures	(189)	(229)	(163)
Acquisition of Green Smoke, net of acquired cash	—	—	(102)
Proceeds from finance assets	231	354	369
Proceeds from AB InBev/SABMiller business combination	4,773	—	—
Purchase of AB InBev ordinary shares	(1,578)	—	—
Payment for derivative financial instruments	(3)	(132)	—
Proceeds from derivative financial instruments	510	—	—
Other	(36)	(8)	73
Net cash provided by (used in) investing activities	3,708	(15)	177
Cash Provided by (Used in) Financing Activities			
Long-term debt issued	1,976	—	999
Long-term debt repaid	(933)	(1,793)	(825)
Repurchases of common stock	(1,030)	(554)	(939)
Dividends paid on common stock	(4,512)	(4,179)	(3,892)
Premiums and fees related to early extinguishment of debt	(809)	(226)	(44)
Other	9	5	7
Net cash used in financing activities	(5,299)	(6,747)	(4,694)

Cash and cash equivalents:			
Increase (decrease)	2,200	(952)	146
Balance at beginning of year	2,369	3,321	3,175
Balance at end of year	$4,569	$2,369	$3,321
Cash paid: Interest	$775	$776	$820
Income taxes	$4,664	$3,029	$2,765

See notes to consolidated financial statements.

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

	Attributable to Altria Group, Inc.						
	Common Stock	Additional Paid-in Capital	Earnings Reinvested in the Business	Accumulated Other Comprehensive Losses	Cost of Repurchased Stock	Non-controlling Interests	Total Stockholders' Equity
Balances, December 31, 2013	$935	$ 5,714	$ 25,168	$ (1,378)	$ (26,320)	$ (1)	$ 4,118
Net earnings (losses) [1]	—	—	5,070	—	—	(3)	5,067
Other comprehensive losses, net of deferred income taxes	—	—	—	(1,304)	—	—	(1,304)
Stock award activity	—	21	—	—	8	—	29
Cash dividends declared ($2.00 per share)	—	—	(3,961)	—	—	—	(3,961)
Repurchases of common stock	—	—	—	—	(939)	—	(939)
Balances, December 31, 2014	935	5,735	26,277	(2,682)	(27,251)	(4)	3,010
Net earnings (losses) [1]	—	—	5,241	—	—	(3)	5,238
Other comprehensive losses, net of deferred income taxes	—	—	—	(598)	—	—	(598)
Stock award activity	—	78	—	—	(40)	—	38
Cash dividends declared ($2.17 per share)	—	—	(4,261)	—	—	—	(4,261)
Repurchases of common stock	—	—	—	—	(554)	—	(554)
Balances, December 31, 2015	935	5,813	27,257	(3,280)	(27,845)	(7)	2,873
Net earnings [1]	—	—	14,239	—	—	—	14,239
Other comprehensive earnings, net of deferred income taxes	—	—	—	1,228	—	—	1,228
Stock award activity	—	90	—	—	(37)	—	53
Cash dividends declared ($2.35 per share)	—	—	(4,590)	—	—	—	(4,590)
Repurchases of common stock	—	—	—	—	(1,030)	—	(1,030)
Other	—	(10)	—	—	—	10	—
Balances, December 31, 2016	$935	$ 5,893	$ 36,906	$ (2,052)	$ (28,912)	$ 3	$ 12,773

[1] Amounts attributable to noncontrolling interests for the years ended December 31, 2016, 2015 and 2014 exclude net earnings of $5 million, $5 million and $3 million, respectively, due to the redeemable noncontrolling interest related to Stag's Leap Wine Cellars, which is reported in the mezzanine equity section on the consolidated balance sheets at December 31, 2016, 2015 and 2014, respectively. See Note 19.

See notes to consolidated financial statements.

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Altria Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 1. Background and Basis of Presentation

Background: At December 31, 2016, Altria Group, Inc.'s wholly-owned subsidiaries included Philip Morris USA Inc. ("PM USA"), which is engaged in the manufacture and sale of cigarettes in the United States; John Middleton Co. ("Middleton"), which is engaged in the manufacture and sale of machine-made large cigars and pipe tobacco and is a wholly-owned subsidiary of PM USA; and UST LLC ("UST"), which through its wholly-owned subsidiaries, including U.S. Smokeless Tobacco Company LLC ("USSTC") and Ste. Michelle Wine Estates Ltd. ("Ste. Michelle"), is engaged in the manufacture and sale of smokeless tobacco products and wine. Altria Group, Inc.'s other operating companies included Nu Mark LLC ("Nu Mark"), a wholly-owned subsidiary that is engaged in the manufacture and sale of innovative tobacco products, and Philip Morris Capital Corporation ("PMCC"), a wholly-owned subsidiary that maintains a portfolio of finance assets, substantially all of which are leveraged leases. Other Altria Group, Inc. wholly-owned subsidiaries included Altria Group Distribution Company, which provides sales, distribution and consumer engagement services to certain Altria Group, Inc. operating subsidiaries, and Altria Client Services LLC, which provides various support services in areas, such as legal, regulatory, finance, human resources and external affairs, to Altria Group, Inc. and its subsidiaries. Altria Group, Inc.'s access to the operating cash flows of its wholly-owned subsidiaries consists of cash received from the payment of dividends and distributions, and the payment of interest on intercompany loans by its subsidiaries. At December 31, 2016, Altria Group, Inc.'s principal wholly-owned subsidiaries were not limited by long-term debt or other agreements in their ability to pay cash dividends or make other distributions with respect to their equity interests.

At September 30, 2016, Altria Group, Inc. had an approximate 27% ownership of SABMiller plc ("SABMiller"), which Altria Group, Inc. accounted for under the equity method of accounting. On October 10, 2016, Anheuser-Busch InBev SA/NV ("Legacy AB InBev") completed a business combination with SABMiller in a cash and stock transaction (the "Transaction"). A newly formed Belgian company, which retained the name Anheuser-Busch InBev SA/NV ("AB InBev"), became the holding company for the combined SABMiller and Legacy AB InBev businesses. Upon completion of the Transaction, Altria Group, Inc. had a 9.6% ownership of AB InBev based on AB InBev's shares outstanding at October 10, 2016. Following completion of the Transaction, Altria Group, Inc. purchased 12,341,937 ordinary shares of AB InBev for a total cost of approximately $1.6 billion, thereby increasing Altria Group, Inc.'s ownership to approximately 10.2%. At December 31, 2016, Altria Group, Inc. had an approximate 10.2% ownership of AB InBev, which Altria Group, Inc. accounts for under the equity method of accounting using a one-quarter lag. As a result of the one-quarter lag and the timing of the completion of the Transaction, no earnings from Altria Group, Inc.'s equity investment in AB InBev were recorded for the year ended

December 31, 2016. Altria Group, Inc. receives cash dividends on its interest in AB InBev if and when AB InBev pays such dividends. For further discussion, see Note 7. Investment in AB InBev/SABMiller.

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

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the dates of the financial statements and the reported amounts of net revenues and expenses during the reporting periods. Significant estimates and assumptions include, among other things, pension and benefit plan assumptions, lives and valuation assumptions for goodwill and other intangible assets, marketing programs, income taxes, and the allowance for losses and estimated residual values of finance leases. Actual results could differ from those estimates.

Certain prior year amounts have been reclassified to conform with the current year's presentation due primarily to Altria Group, Inc.'s 2016 adoptions of Accounting Standards Update ("ASU") No. 2015-17, Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes ("ASU No. 2015-17") and ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs ("ASU No. 2015-03"). For further discussion, see Note 15. Income Taxes and Note 10. Long-Term Debt.

Note 2. Summary of Significant Accounting Policies

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

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

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

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

Derivative Financial Instruments: Derivative financial instruments are recorded at fair value on the consolidated balance sheets as either assets or liabilities. Changes in the fair value of derivatives are recorded each period either in accumulated other comprehensive earnings (losses) or in earnings, depending on the type of derivative and whether the derivative qualifies for hedge accounting treatment. Gains and losses on derivative instruments reported in accumulated other comprehensive earnings (losses) are reclassified to the consolidated statements of earnings in the periods in which operating results are affected by the respective hedged item. Cash flows from hedging instruments are classified in the same manner as the respective hedged item in the consolidated statements of cash flows. Altria Group, Inc. does not enter into or hold derivative financial instruments for trading or speculative purposes.

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

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

Environmental Costs: Altria Group, Inc. is subject to laws and regulations relating to the protection of the environment.

Altria Group, Inc. provides for expenses associated with environmental remediation obligations on an undiscounted basis when such amounts are probable and can be reasonably estimated. Such accruals are adjusted as new information develops or circumstances change.

Compliance with environmental laws and regulations, including the payment of any remediation and compliance costs or damages and the making of related expenditures, has not had, and is not expected to have, a material adverse effect on Altria Group, Inc.'s consolidated results of operations, capital expenditures, financial position or cash flows (see Note 19. Contingencies - Environmental Regulation).

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

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

Level 2	Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3	Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

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

PMCC considers rents receivable past due when they are beyond the grace period of their contractual due date. PMCC stops recording income ("non-accrual status") on rents receivable when contractual payments become 90 days past due or earlier if management believes there is significant uncertainty of collectability of rent payments, and resumes recording income when collectability of rent payments is reasonably certain.

Payments received on rents receivable that are on non-accrual status are used to reduce the rents receivable balance. Write-offs to the allowance for losses are recorded when amounts are deemed to be uncollectible.

Guarantees: Altria Group, Inc. recognizes a liability for the fair value of the obligation of qualifying guarantee activities. See Note 19. Contingencies for a further discussion of guarantees.

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

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

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

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

Marketing Costs: Altria Group, Inc.’s businesses promote their products with consumer engagement programs, consumer incentives and trade promotions. Such programs include discounts, coupons, rebates, in-store display incentives, event marketing and volume-based incentives. Consumer engagement programs are expensed as incurred. Consumer incentive and trade promotion activities are recorded as a reduction of revenues, a portion of which is based on amounts estimated as being due to wholesalers, retailers and consumers at the end of a period, based principally on historical volume, utilization and redemption rates. For interim reporting purposes, consumer engagement programs and certain consumer incentive expenses are charged to operations as a percentage of sales, based on estimated sales and related expenses for the full year.

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

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

New Accounting Standards: The following table provides a description of the recently issued accounting guidance that Altria Group, Inc. has not yet adopted:

Standards	Description	Effective Date for Public Entity	Effect on Financial Statements
ASU Nos. 2014-09; 2015-14; 2016-08; 2016-10; 2016-12; 2016-20 Revenue from Contracts with Customers (Topic 606)	The guidance establishes principles for reporting information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers.	The guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period.	The adoption of this guidance is not expected to have a material impact on the amount or timing of revenue recognized on Altria Group, Inc.'s financial statements based on current contracts with customers. The guidance will result in expanded footnote disclosures. Altria Group, Inc. plans to retrospectively adopt this guidance by the first quarter of 2018.

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Standards	Description	Effective Date for Public Entity	Effect on Financial Statements
ASU No. 2016-01 Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)	The guidance addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments.	The guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption of the guidance is not permitted, except for a certain provision of the guidance.	The adoption of this guidance is not expected to have a material impact on Altria Group, Inc.'s consolidated financial statements.
ASU No. 2016-02 Leases (Topic 842)	The guidance increases transparency and comparability among organizations by requiring entities to recognize lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements.	The guidance is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period. Early adoption is permitted.	Altria Group, Inc. is in the process of evaluating the impact of this guidance on its consolidated financial statements and related disclosures, including identifying and analyzing all contracts that contain a lease. As a lessor, PMCC maintains a portfolio of finance assets, substantially all of which are leveraged leases, the accounting of which will be unchanged under the new guidance and is not expected to change unless there is a contract modification to an existing lease. As a lessee, Altria Group, Inc.'s various leases under existing guidance are classified as operating leases that are not recorded on the balance sheet but are recorded in the statement of earnings as expense is incurred. Upon adoption of the new guidance, Altria Group, Inc. will be required to record substantially all leases on the balance sheet as a right-of-use asset and a lease liability. The timing of expense recognition and classification in the statement of earnings could change based on the classification of leases as either operating or financing.
ASU No. 2016-09 Improvements to Employee Share-Based Payment Accounting (Topic 718)	The guidance simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows.	The guidance is effective for annual reporting periods beginning after December 15, 2016, and interim periods within that reporting period. Early adoption is permitted in any interim or	The adoption of this guidance is not expected to have a material impact on Altria Group, Inc.'s consolidated financial statements. Altria Group, Inc. expects to adopt this guidance effective January 1, 2017.

		annual period.	
ASU No. 2016-13 Measurement of Credit Losses on Financial Instruments (Topic 326)	The guidance replaces the current incurred loss impairment methodology for recognizing credit losses for financial assets with a methodology that reflects the entity's current estimate of all expected credit losses and requires consideration of a broader range of reasonable and supportable information for estimating credit losses.	The guidance is effective for annual reporting periods beginning after December 15, 2019, including interim periods within that reporting period. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period.	Altria Group, Inc. is in the process of evaluating the impact of this guidance on its consolidated financial statements and related disclosures. Altria Group, Inc.'s financial assets that are within the scope of the new guidance are approximately 3% of Altria Group, Inc.'s total assets at December 31, 2016.
ASU No. 2016-15 Classification of Certain Cash Receipts and Cash Payments (Topic 230)	The guidance addresses how eight specific cash flow issues are to be presented and classified in the statement of cash flows.	The guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period.	Altria Group, Inc. is in the process of evaluating the impact of this guidance on its consolidated financial statements and related disclosures.
ASU No. 2016-18 Restricted Cash (Topic 230)	The guidance requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash and restricted cash equivalents.	The guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period.	Altria Group, Inc. is in the process of evaluating the impact of this guidance on its consolidated financial statements and related disclosures.

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Note 3. Acquisition of Green Smoke

In April 2014, Nu Mark acquired the e-vapor business of Green Smoke, Inc. and its affiliates (“Green Smoke”) for a total purchase price of approximately $130 million. The acquisition complements Nu Mark’s capabilities and enhances its competitive position by adding e-vapor experience, broadening product offerings and strengthening supply chain capabilities.

Green Smoke’s financial position and results of operations have been consolidated with Altria Group, Inc. as of April 1, 2014. The purchase price allocation was completed in 2015.

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

Costs incurred to effect the acquisition, as well as integration costs, were recognized as expenses in the periods in which the costs were incurred. For the years ended December 31, 2015 and 2014, Altria Group, Inc. incurred $7 million and $28 million, respectively, of pre-tax integration and acquisition-related costs, consisting primarily of contract termination costs, transaction costs and inventory adjustments, which were included in Altria Group, Inc.’s consolidated statements of earnings.

Note 4. Goodwill and Other Intangible Assets, net

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

(in millions)	Goodwill		Other Intangible Assets, net	
	December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
Smokeable products	$77	$ 77	$2,901	$ 2,919
Smokeless products	5,023	5,023	8,829	8,831
Wine	74	74	295	267
Other	111	111	11	11
Total	$5,285	$ 5,285	$12,036	$ 12,028

Goodwill relates to the 2014 acquisition of Green Smoke, 2009 acquisition of UST and 2007 acquisition of Middleton.

Other intangible assets consisted of the following:

(in millions)	December 31, 2016		December 31, 2015	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Indefinite-lived intangible assets	$11,740	$ —	$11,711	$ —
Definite-lived intangible assets	465	169	465	148
Total other intangible assets	$12,205	$ 169	$12,176	$ 148

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

Pre-tax amortization expense for definite-lived intangible assets during the years ended December 31, 2016, 2015 and 2014, was $21 million, $21 million and $20 million, respectively. Annual amortization expense for each of the next five years is estimated to be approximately $20 million, assuming no additional transactions occur that require the amortization of intangible assets.

During 2016, 2015 and 2014, Altria Group, Inc. completed its quantitative annual impairment test of goodwill and indefinite-lived intangible assets, and no impairment charges resulted.
For the years ended December 31, 2016, 2015 and 2014, there have been no changes in goodwill and the gross carrying amount of other intangible assets except for Ste. Michelle’s 2016 purchase of substantially all of the assets of Patz & Hall Wine Company, Inc. and the 2014 acquisition of Green Smoke. In addition, there were no accumulated impairment losses related to goodwill and other intangible assets, net at December 31, 2016 and 2015.

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Note 5. Asset Impairment, Exit and Implementation Costs
Pre-tax asset impairment, exit and implementation costs for the year ended December 31, 2016 consisted of the following:

(in millions)	Asset Impairment and Exit Costs [1]	Implementation Costs	Total
Smokeable products	$ 125	$ 9	$ 134
Smokeless products	42	15	57
All other	7	—	7
General corporate	5	—	5
Total	$ 179	$ 24	$ 203

[1] Includes termination, settlement and curtailment costs of $27 million. See Note 17. Benefit Plans.
The movement in the restructuring liabilities (excluding termination, settlement and curtailment costs), substantially all of which are severance liabilities, was as follows:

(in millions)	For the Year Ended December 31, 2016
Charges	$ 152
Cash spent	(73)
Balances at December 31, 2016	$ 79

The pre-tax asset impairment, exit and implementation costs for 2016 shown above are related to the facilities consolidation and productivity initiative discussed below.
Facilities Consolidation: In October 2016, Altria Group, Inc. announced the consolidation of certain of its operating companies' manufacturing facilities to streamline operations and achieve greater efficiencies. Middleton will transfer its Limerick, Pennsylvania operations to the Manufacturing Center site in Richmond, Virginia ("Richmond Manufacturing Center"). USSTC will transfer its Franklin Park, Illinois operations to its Nashville, Tennessee facility and the Richmond Manufacturing Center. Separation benefits will be paid to non-relocating employees. The consolidation is expected to be completed by the first quarter of 2018.
As a result of the consolidation, Altria Group, Inc. expects to record total pre-tax charges of approximately $150 million, or $0.05 per share. Of this amount, during 2016, Altria Group, Inc. incurred pre-tax charges of $71 million, or approximately $0.03 per share, and expects to record approximately $70 million in 2017 and the remainder in 2018. The total estimated charges relate primarily to accelerated depreciation ($55 million), employee separation costs ($45 million) and other exit and implementation costs ($50 million). Approximately $90 million of the total pre-tax charges are expected to result in cash expenditures.
For the year ended December 31, 2016, total pre-tax asset impairment and exit costs for the consolidation of $54 million

were recorded in the smokeable products segment ($25 million) and smokeless products segment ($29 million). In addition, for the year ended December 31, 2016, pre-tax implementation costs of $17 million were recorded in the smokeable products segment ($3 million) and smokeless products segment ($14 million). The pre-tax implementation costs were included in cost of sales in Altria Group, Inc.'s consolidated statement of earnings.
Cash payments related to the consolidation of $4 million were made during the year ended December 31, 2016.

Productivity Initiative: In January 2016, Altria Group, Inc. announced a productivity initiative designed to maintain its operating companies' leadership and cost competitiveness. The initiative reduces spending on certain selling, general and administrative infrastructure and implements a leaner organizational structure. As a result of the initiative, during 2016, Altria Group, Inc. incurred total pre-tax restructuring charges of $132 million, or $0.04 per share, substantially all of which result in cash expenditures. The charges consist of employee separation costs of $117 million and other associated costs of $15 million. Total pre-tax charges related to the initiative have been substantially completed.

For the year ended December 31, 2016, total pre-tax asset impairment and exit costs for the initiative of $125 million were recorded in the smokeable products segment ($100 million), smokeless products segment ($13 million), all other ($7 million) and general corporate ($5 million). In addition, for the year ended December 31, 2016, pre-tax implementation costs of $7 million were recorded in the smokeable products segment ($6 million) and smokeless products segment ($1 million). The pre-tax implementation costs were included in marketing, administration and research costs in Altria Group, Inc.'s consolidated statement of earnings.

Cash payments related to the initiative of $69 million were made during the year ended December 31, 2016.

Other Programs: During 2014, PM USA sold its Cabarrus, North Carolina manufacturing facility for approximately $66 million in connection with the previously completed manufacturing optimization program associated with PM USA's closure of the manufacturing facility in 2009. As a result, during 2014, PM USA recorded a pre-tax gain of $10 million.

Note 6. Inventories

The cost of approximately 62% and 65% of inventories at December 31, 2016 and 2015, respectively, was determined using the LIFO method. The stated LIFO amounts of inventories were approximately $0.7 billion lower than the current cost of inventories at December 31, 2016 and 2015.

Note 7. Investment in AB InBev/SABMiller

Prior to the completion of the Transaction on October 10, 2016, Altria Group, Inc. held an approximate 27% ownership of SABMiller that was accounted for under the equity method of accounting.

Pre-tax earnings from Altria Group, Inc.'s equity investment in SABMiller were $795 million, $757 million and $1,006 million for the years ended December 31, 2016, 2015 and 2014, respectively. Altria Group, Inc.'s earnings from its equity investment in SABMiller for the year ended December 31, 2016 included a pre-tax non-cash gain of $309 million, reflecting Altria Group, Inc.'s share of SABMiller's increase to shareholders' equity, resulting from the completion of the SABMiller, The Coca-Cola Company and Gutsche Family Investments transaction, combining bottling operations in Africa. As a result of the timing of the completion of the Transaction, Altria Group, Inc.'s pre-tax earnings from its equity investment in SABMiller for the year ended December 31, 2016 included its share of approximately nine months of SABMiller's earnings.

Summary financial data of SABMiller is as follows:

	For the Years Ended December 31,		
(in millions)	2016 [1]	2015	2014
Net revenues	$14,543	$20,188	$22,380
Operating profit	$2,099	$3,690	$4,478
Net earnings	$1,803	$2,838	$3,532

(in millions)	At December 31, 2015
Current assets	$ 4,266
Long-term assets	$ 38,425
Current liabilities	$ 6,282
Long-term liabilities	$ 13,960
Noncontrolling interests	$ 1,235

[1] As a result of the timing of the completion of the Transaction, summary financial data of SABMiller for the year ended December 31, 2016 included approximately nine months of SABMiller's results.

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

AB InBev and SABMiller Business Combination: On October 10, 2016, Legacy AB InBev completed the Transaction, and AB InBev became the holding company for the combined SABMiller and Legacy AB InBev businesses. Under the terms of the Transaction, SABMiller shareholders received 45 British pounds ("GBP") in cash for each SABMiller share held, with a partial share alternative ("PSA"), which was subject to proration, available for approximately 41% of the SABMiller shares.

Pursuant to the terms and conditions of an Irrevocable Undertaking, previously delivered by Altria Group, Inc. in November 2015, Altria Group, Inc. elected the PSA.

Upon completion of the Transaction and taking into account proration, Altria Group, Inc. received, in respect of its 430,000,000 SABMiller shares, (i) an interest that was converted into 185,115,417 restricted shares of AB InBev (the "Restricted Shares"), representing a 9.6% ownership of AB InBev based on AB InBev's shares outstanding at October 10, 2016, and (ii) approximately $4.8 billion in pre-tax cash as the cash component

of the PSA. Additionally, Altria Group, Inc. received pre-tax cash proceeds of approximately $0.5 billion from exercising the derivative financial instruments discussed below, which, together with the pre-tax cash from the Transaction, totaled approximately $5.3 billion in pre-tax cash. Following completion of the Transaction, Altria Group, Inc. purchased 12,341,937 ordinary shares of AB InBev for a total cost of approximately $1.6 billion, thereby increasing Altria Group, Inc.'s ownership of AB InBev to approximately 10.2%. At December 31, 2016, Altria Group,

Inc. had an approximate 10.2% ownership of AB InBev.
The Restricted Shares:
are unlisted and not admitted to trading on any stock exchange;
are subject to a five-year lock-up (subject to limited exceptions) ending October 10, 2021;
are convertible into ordinary shares of AB InBev on a one-for-one basis after the end of this five-year lock-up period;
rank equally with ordinary shares of AB InBev with regards to dividends and voting rights; and
have director nomination rights with respect to AB InBev.
As a result of the Transaction, for the year ended December 31, 2016, Altria Group, Inc. recorded a pre-tax gain of approximately $13.9 billion, or $9.0 billion after-tax, which was based on the following:
the Legacy AB InBev share price as of October 10, 2016;
the book value of Altria Group, Inc.'s investment in SABMiller, including Altria Group, Inc.'s accumulated other comprehensive losses directly attributable to SABMiller, at October 10, 2016;
the gains on the derivative financial instruments discussed below; and
the impact of AB InBev's divestitures of certain SABMiller assets and businesses in connection with Legacy AB InBev obtaining necessary regulatory clearances for the Transaction ("AB InBev divestitures") that occurred by December 31, 2016.
Altria Group, Inc. expects to record additional pre-tax gains of approximately $445 million related to the remaining AB InBev divestitures when those divestitures occur.
Altria Group, Inc.'s gain on the Transaction is deferred for United States corporate income tax purposes, except to the extent of the cash consideration received.
Altria Group, Inc. accounts for its investment in AB InBev under the equity method of accounting because Altria Group, Inc. has the ability to exercise significant influence over the operating and financial policies of AB InBev, including having active representation on AB InBev's Board of Directors ("AB InBev Board") and certain AB InBev Board Committees. Through this representation, Altria Group, Inc. participates in AB InBev policy making processes.
Altria Group, Inc. reports its share of AB InBev's results using a one-quarter lag because AB InBev's results are not available in time for Altria Group, Inc. to record them in the concurrent period. As a result of the one-quarter lag

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and the timing of the completion of the Transaction, no earnings from Altria Group, Inc.'s equity investment in AB InBev were recorded for the year ended December 31, 2016.

Summary financial data of AB InBev at October 10, 2016 representing preliminary purchase price accounting for the Transaction is as follows:

(in millions)	At October 10, 2016
Current assets	$40,086
Long-term assets	$223,701
Current liabilities	$44,272
Long-term liabilities	$139,112
Noncontrolling interests	$9,177

At December 31, 2016, Altria Group, Inc.'s carrying amount of its equity investment in AB InBev exceeded its share of AB InBev's net assets attributable to equity holders of AB InBev by approximately $10.7 billion. Substantially all of this difference is comprised of goodwill and other indefinite-lived intangible assets (consisting primarily of trademarks).

The fair value of Altria Group, Inc.'s equity investment in AB InBev is based on: (i) unadjusted quoted prices in active markets for AB InBev's ordinary shares and was classified in Level 1 of the fair value hierarchy and (ii) observable inputs other than Level 1 prices, such as quoted prices for similar assets for the Restricted Shares, and was classified in Level 2 of the fair value hierarchy. Altria Group, Inc. may, in certain instances, pledge or otherwise grant a security interest in all or part of its Restricted Shares. In the event the pledgee or security interest holder forecloses on the Restricted Shares, the relevant Restricted Shares will be automatically converted, one-for-one, into ordinary shares. Therefore, the fair value of each Restricted Share is based on the value of an ordinary share. The fair value of Altria Group, Inc.'s equity investment in AB InBev at December 31, 2016 was $20.9 billion, compared with its carrying value of $17.9 billion.

Derivative Financial Instruments: In November 2015 and August 2016, Altria Group, Inc. entered into a derivative financial instrument, each in the form of a put option (together the "options") to hedge Altria Group, Inc.'s exposure to foreign currency exchange rate movements in the GBP to the United States dollar, in relation to the pre-tax cash consideration that Altria Group, Inc. expected to receive under the PSA pursuant to the revised and final offer announced by Legacy AB InBev on July 26, 2016. The notional amounts of the November 2015 and August 2016 options were $2,467 million (1,625 million GBP) and $480 million (378 million GBP), respectively. The options did not qualify for hedge accounting; therefore, changes in the fair values of the options were recorded as gains or losses in Altria Group, Inc.'s consolidated statements of earnings in the periods in which the changes occurred. For the year ended December 31, 2016, Altria Group, Inc. recorded pre-tax gains associated with the November 2015 and August 2016 options of $330 million and $19 million, respectively, for the changes in the fair values of the options in Gain on AB InBev/SABMiller business combination in Altria Group, Inc.'s consolidated statement of earnings. For the year ended December 31, 2015, Altria Group, Inc. recorded a pre-tax gain of $20 million for the change in the fair value of the November 2015 option. Exercising the options in October 2016 resulted in approximately $0.5 billion in pre-tax cash proceeds.

The fair values of the options were determined using binomial option pricing models, which reflect the contractual terms of the options and other observable market-based inputs, and were classified in Level 2 of the fair value hierarchy. At December 31, 2015, the fair value of the November 2015 option of $152 million was recorded in other current assets on Altria Group, Inc.'s consolidated balance sheet.

Note 8. Finance Assets, net

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. Accordingly, PMCC's operating companies income will fluctuate over time as investments mature or are sold.

At December 31, 2016, finance assets, net, of $1,028 million were comprised of investments in finance leases of $1,060 million, reduced by the allowance for losses of $32 million. At December 31, 2015, finance assets, net, of $1,239 million were comprised of investments in finance leases of $1,281 million, reduced by the allowance for losses of $42 million.

A summary of the net investments in finance leases, substantially all of which were leveraged leases, at December 31, 2016 and 2015, before allowance for losses was as follows:

(in millions)	2016	2015
Rents receivable, net	$ 805	$ 923
Unguaranteed residual values	495	674
Unearned income	(240)	(316)
Investments in finance leases	1,060	1,281
Deferred income taxes	(717)	(928)
Net investments in finance leases	$ 343	$ 353

Rents receivable, net, represent unpaid rents, net of principal and interest payments on third-party nonrecourse debt. PMCC's rights to rents receivable are subordinate to the third-party nonrecourse debtholders and the leased equipment is pledged as collateral to the debtholders. 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 of $0.8 billion and $1.2 billion at December 31, 2016 and 2015, respectively, has been offset against the related rents receivable. There were no leases with contingent rentals in 2016 and 2015.

In 2016, 2015 and 2014 PMCC's review of estimated residual values resulted in a decrease of $28 million, $65 million and $63 million, respectively, to unguaranteed residual values. These decreases in unguaranteed residual values resulted in a

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reduction to PMCC's net revenues of $18 million, $41 million and $26 million in 2016, 2015 and 2014, respectively.
At December 31, 2016, PMCC's investments in finance leases were principally comprised of the following investment categories: aircraft (43%), electric power (28%), railcar (12%), real estate (9%) and manufacturing (8%). There were no investments located outside the United States at December 31, 2016 and 2015.
Rents receivable in excess of debt service requirements on third-party nonrecourse debt at December 31, 2016 were as follows:

(in millions)	
2017	$33
2018	129
2019	186
2020	128
2021	100
Thereafter	229
Total	$805

Included in net revenues for the years ended December 31, 2016, 2015 and 2014 were leveraged lease revenues of $48 million, $46 million and $80 million, respectively. Income tax expense on leveraged lease revenues for the years ended December 31, 2016, 2015 and 2014 was $16 million, $17 million and $30 million, respectively.
PMCC maintains an allowance for losses that provides for estimated credit losses on its investments in finance leases. PMCC's portfolio consists substantially of leveraged leases to a diverse base of lessees participating in a variety of industries. 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.
Quantitative factors that indicate potential default are tied most directly to public debt ratings. PMCC monitors publicly available information on its obligors, including financial statements and credit rating agency reports. Qualitative factors that indicate the likelihood of recovery if default were to occur include underlying collateral value, other forms of credit support, and legal/structural considerations impacting each lease. Using available information, PMCC calculates potential losses for each lease in its portfolio based on its default and recovery rating assumptions for each lease. The aggregate of these potential losses forms a range of potential losses which is used as a guideline to determine the adequacy of PMCC's allowance for losses.
PMCC assesses the adequacy of its allowance for losses relative to the credit risk of its leasing portfolio on an ongoing basis. During 2016 and 2014, PMCC determined that its

allowance for losses exceeded the amount required based on management's assessment of the credit quality and size of PMCC's leasing portfolio. As a result, PMCC reduced its allowance for losses by $10 million for each of the years ended December 31, 2016 and 2014, respectively. There was no such adjustment for the year ended December 31, 2015. These decreases to the allowance for losses were recorded as a reduction to marketing, administration and research costs in Altria Group, Inc.'s consolidated statements of earnings. PMCC believes that, as of December 31, 2016, the allowance for losses of $32 million was adequate. PMCC continues to monitor economic and credit conditions, and the individual situations of its lessees and their respective industries, and may increase or decrease its allowance for losses if such conditions change in the future.
The activity in the allowance for losses on finance assets for the years ended December 31, 2016, 2015 and 2014 was as follows:

(in millions)	2016	2015	2014
Balance at beginning of year	$ 42	$ 42	$ 52

Decrease to allowance	(10)	—	(10)
Balance at end of year	$ 32	$ 42	$ 42

All PMCC lessees were current on their lease payment obligations as of December 31, 2016.

The credit quality of PMCC's investments in finance leases as assigned by Standard & Poor's Ratings Services ("Standard & Poor's") and Moody's Investors Service, Inc. ("Moody's") at December 31, 2016 and 2015 was as follows:

(in millions)	2016	2015
Credit Rating by Standard & Poor's/Moody's:		
"AAA/Aaa" to "A-/A3"	$218	$212
"BBB+/Baa1" to "BBB-/Baa3"	559	702
"BB+/Ba1" and Lower	283	367
Total	$1,060	$1,281

Note 9. Short-Term Borrowings and Borrowing Arrangements

At December 31, 2016 and December 31, 2015, Altria Group, Inc. had no short-term borrowings. The credit line available to Altria Group, Inc. at December 31, 2016 under the Credit Agreement (as defined below) was $3.0 billion.

At December 31, 2016, Altria Group, Inc. had in place a senior unsecured 5-year revolving credit agreement (the "Credit Agreement"). The Credit Agreement provides for borrowings up to an aggregate principal amount of $3.0 billion and expires on August 19, 2020. Pricing for interest and fees under the Credit Agreement may be modified in the event of a change in the rating of Altria Group, Inc.'s long-term senior unsecured debt. Interest rates on borrowings under the Credit Agreement are expected to be based on the London Interbank Offered Rate ("LIBOR") plus a percentage based on the higher of the ratings of Altria Group, Inc.'s long-term senior unsecured debt from Moody's and Standard & Poor's. The applicable percentage based on Altria Group, Inc.'s long-term senior unsecured debt ratings at

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December 31, 2016 for borrowings under the Credit Agreement was 1.125%. The Credit Agreement does not include any other rating triggers, nor does it contain any provisions that could require the posting of collateral.
The Credit Agreement is used for general corporate purposes and to support Altria Group, Inc.'s commercial paper issuances. The Credit Agreement requires that Altria Group, Inc. maintain (i) a ratio of debt to consolidated earnings before interest, taxes, depreciation and amortization ("EBITDA") of not more than 3.0 to 1.0 and (ii) a ratio of consolidated EBITDA to consolidated interest expense of not less than 4.0 to 1.0, each calculated as of the end of the applicable quarter on a rolling four quarters basis. At December 31, 2016, the ratios of debt to consolidated EBITDA and consolidated EBITDA to consolidated interest expense, calculated in accordance with the Credit Agreement, were 1.4 to 1.0 and 13.5 to 1.0, respectively. Altria Group, Inc. expects to continue to meet its covenants associated with the Credit Agreement. The terms "consolidated EBITDA," "debt" and "consolidated interest expense," as defined in the Credit Agreement, include certain adjustments.
Any commercial paper issued by Altria Group, Inc. and borrowings under the Credit Agreement are guaranteed by PM USA as further discussed in Note 20. Condensed Consolidating Financial Information.
Note 10. Long-Term Debt
At December 31, 2016 and 2015, Altria Group, Inc.'s long-term debt consisted of the following:

(in millions)	2016	2015
Notes, 2.625% to 10.20%, interest payable semi-annually, due through 2046 [1]	$13,839	$12,789
Debenture, 7.75%, interest payable semi-annually, due 2027	42	42
Other	—	16
	13,881	12,847
Less current portion of long-term debt	—	4
	$13,881	$12,843

[1] Weighted-average coupon interest rate of 4.9% and 5.5% at December 31, 2016 and 2015, respectively.
At December 31, 2016, aggregate maturities of Altria Group, Inc.'s long-term debt were as follows:

(in millions)	
2018	$864
2019	1,144
2020	1,000
2021	1,500
2022	1,900
Thereafter	7,609
	14,017
Less: debt issuance costs	77
debt discounts	59
	$13,881

On January 1, 2016, Altria Group, Inc. adopted ASU No.

2015-03, which requires that debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts, rather than as a deferred charge (an asset). As a result of the adoption, $77 million of debt issuance costs have been presented on Altria Group, Inc.'s consolidated balance sheet at December 31, 2016 as a deduction from the carrying amount of long-term debt. In addition, $72 million of debt issuance costs were reclassified from other assets to long-term debt on Altria Group, Inc.'s consolidated balance sheet at December 31, 2015.
Altria Group, Inc.'s estimate of the fair value of its debt is based on observable market information derived from a third party pricing source and is classified in Level 2 of the fair value hierarchy. The aggregate fair value of Altria Group, Inc.'s total long-term debt at December 31, 2016 and 2015, was $15.1 billion and $14.5 billion, respectively, as

compared with its carrying value of $13.9 billion and $12.8 billion, respectively.

Altria Group, Inc. Senior Notes: In September 2016, Altria Group, Inc. issued $0.5 billion aggregate principal amount of 2.625% senior unsecured long-term notes due 2026 and $1.5 billion aggregate principal amount of 3.875% senior unsecured long-term notes due 2046. Interest on these notes is payable semi-annually. The net proceeds from the issuance of these senior unsecured notes were added to Altria Group, Inc.'s general funds and were used to repurchase certain of its senior unsecured notes in connection with the 2016 debt tender offer described below and for other general corporate purposes, including voluntary contributions to Altria Group, Inc.'s pension plans.

The notes of Altria Group, Inc. are senior unsecured obligations and rank equally in right of payment with all of Altria Group, Inc.'s existing and future senior unsecured indebtedness. Upon the occurrence of both (i) a change of control of Altria Group, Inc. and (ii) the notes ceasing to be rated investment grade by each of Moody's, Standard & Poor's and Fitch Ratings Ltd. within a specified time period, Altria Group, Inc. will be required to make an offer to purchase the notes at a price equal to 101% of the aggregate principal amount of such notes, plus accrued and unpaid interest to the date of repurchase as and to the extent set forth in the terms of the notes.

With respect to $2.5 billion aggregate principal amount of Altria Group, Inc.'s senior unsecured long-term notes issued in 2008 and 2009, the interest rate payable on each series of notes was subject to adjustment from time to time if the rating assigned to the notes of such series by Moody's or Standard & Poor's was downgraded (or subsequently upgraded) as and to the extent set forth in the terms of the notes. As a result of credit rating upgrades by both Moody's and Standard & Poor's in the first quarter of 2016, this interest rate adjustment provision terminated in accordance with its terms.

The obligations of Altria Group, Inc. under the notes are guaranteed by PM USA as further discussed in Note 20. Condensed Consolidating Financial Information.

Debt Tender Offers and Redemption: During 2016 and 2015, Altria Group, Inc. completed debt tender offers to purchase for cash certain of its senior unsecured notes in aggregate principal amounts of $0.9 billion and $0.8 billion, respectively.

Details of these debt tender offers were as follows:

(in millions)	2016	2015
Notes Purchased		
9.95% Notes due 2038	$441	$—
10.20% Notes due 2039	492	—
9.70% Notes due 2018	—	793
Total	$933	$793

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

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

(in millions)	2016	2015	2014
Premiums and fees	$809	$226	$44
Write-off of unamortized debt discounts and debt issuance costs	14	2	—
Total	$823	$228	$44

Note 11. Capital Stock

At December 31, 2016, Altria Group, Inc. had 12 billion shares of authorized common stock; issued, repurchased and outstanding shares of common stock were as follows:

	Shares Issued	Shares Repurchased	Shares Outstanding
Balances, December 31, 2013	2,805,961,317	(812,482,035)	1,993,479,282
Stock award activity	—	447,840	447,840
Repurchases of common stock	—	(22,452,599)	(22,452,599)
Balances, December 31, 2014	2,805,961,317	(834,486,794)	1,971,474,523
Stock award activity	—	(732,623)	(732,623)
Repurchases of common stock	—	(10,682,419)	(10,682,419)
Balances, December 31, 2015	2,805,961,317	(845,901,836)	1,960,059,481
Stock award activity	—	(566,256)	(566,256)
Repurchases of common stock	—	(16,221,001)	(16,221,001)
Balances, December 31, 2016	2,805,961,317	(862,689,093)	1,943,272,224

At December 31, 2016, 41,952,545 shares of common stock were reserved for stock-based awards under Altria Group, Inc.'s stock plans, and 10 million shares of serial preferred stock, $1.00

par value, were authorized. No shares of serial preferred stock have been issued.

Dividends: During the third quarter of 2016, Altria Group, Inc.'s Board of Directors (the "Board of Directors") approved an 8.0% increase in the quarterly dividend rate to $0.61 per share of Altria Group, Inc. common stock versus the previous rate of $0.565 per share. The current annualized dividend rate is $2.44 per share. Future dividend payments remain subject to the discretion of the Board of Directors.

Share Repurchases: In April 2013, the Board of Directors authorized a $300 million share repurchase program and expanded it to $1.0 billion in August 2013 (as expanded, the "April 2013 share repurchase program"). During the third quarter of 2014, Altria Group, Inc. completed the April 2013 share repurchase program, under which Altria Group, Inc. repurchased a total of 27.1 million shares of its common stock at an average price of $36.97 per share.

In July 2014, the Board of Directors authorized a $1.0 billion share repurchase program (the “July 2014 share repurchase program”). During the third quarter of 2015, Altria Group, Inc. completed the July 2014 share repurchase program, under which Altria Group, Inc. repurchased a total of 20.4 million shares of its common stock at an average price of $48.90 per share.

In July 2015, the Board of Directors authorized a $1.0 billion share repurchase program that it expanded to $3.0 billion in October 2016 (as expanded, the “July 2015 share repurchase program”). During 2016 and 2015, Altria Group, Inc. repurchased 16.2 million shares and 0.6 million shares, respectively, of its common stock (at an aggregate cost of approximately $1,030 million and $35 million, respectively, and at an average price of $63.48 per share and $57.66 per share, respectively) under the July 2015 share repurchase program. At December 31, 2016, Altria Group, Inc. had approximately $1,935 million remaining in the July 2015 share repurchase program. The timing of share repurchases under this program depends upon marketplace conditions and other factors, and the program remains subject to the discretion of the Board of Directors.

For the years ended December 31, 2016, 2015 and 2014, Altria Group, Inc.’s total share repurchase activity was as follows:

	2016	2015	2014
	(in millions, except per share data)		
Total number of shares repurchased	16.2	10.7	22.5
Aggregate cost of shares repurchased	$1,030	$554	$939
Average price per share of shares repurchased	$63.48	$51.83	$41.79

Note 12. Stock Plans

Under the Altria Group, Inc. 2015 Performance Incentive Plan (the “2015 Plan”), Altria Group, Inc. may grant stock options, stock appreciation rights, restricted stock, restricted and deferred stock units, and other stock-based awards, as well as cash-based annual and long-term incentive awards to employees of Altria Group, Inc. or any of its subsidiaries or affiliates. Up to 40 million shares of common stock may be issued under the 2015 Plan. In addition, under the 2015 Stock Compensation Plan for Non-Employee Directors (the "Directors Plan"), Altria Group, Inc. may grant up to one million shares of common stock to members of the Board of Directors who are not employees of Altria Group, Inc.

Shares available to be granted under the 2015 Plan and the Directors Plan at December 31, 2016, were 39,046,757 and 954,574, respectively.

Restricted Stock and Restricted Stock Units: Altria Group, Inc. may grant shares of restricted stock and restricted stock units to employees of Altria Group, Inc. or any of its subsidiaries or affiliates. During the vesting period, these shares include nonforfeitable rights to dividends or dividend equivalents and may not be sold, assigned, pledged or otherwise encumbered. Such shares are subject to forfeiture if certain employment conditions are not met. Shares of restricted stock and restricted stock units generally vest three years after the grant date.

The fair value of the shares of restricted stock and restricted stock units at the date of grant is amortized to expense ratably over the restriction period, which is generally three years. Altria Group, Inc. recorded pre-tax compensation expense related to restricted stock and restricted stock units granted to employees for the years ended December 31, 2016, 2015 and 2014 of $44 million, $51 million and $46 million, respectively. The deferred tax benefit recorded related to this compensation expense was $17 million, $20 million and $18 million for the years ended December 31, 2016, 2015 and 2014, respectively. The unamortized compensation expense related to Altria Group, Inc. restricted stock and restricted stock units was $64 million at December 31, 2016 and is expected to be recognized over a weighted-average period of approximately two years.

Altria Group, Inc.'s restricted stock and restricted stock units activity was as follows for the year ended December 31, 2016:

	Number of Shares	Weighted-Average Grant Date Fair Value Per Share
Balance at December 31, 2015	3,937,685	$ 40.86
Granted	947,725	59.38
Vested	(1,305,351)	33.90
Forfeited	(334,525)	46.83
Balance at December 31, 2016	3,245,534	48.45

The weighted-average grant date fair value of Altria Group, Inc. restricted stock and restricted stock units granted during the years ended December 31, 2016, 2015 and 2014 was $56 million, $65 million and $53 million, respectively, or $59.38, $54.54 and $36.75 per restricted share or restricted stock unit, respectively. The total fair value of Altria Group, Inc. restricted stock and restricted stock units that vested during the years ended December 31, 2016, 2015 and 2014 was $78 million, $85 million and $86 million, respectively.

Note 13. Earnings per Share

Basic and diluted earnings per share ("EPS") were calculated using the following:

	For the Years Ended December 31,		
(in millions)	2016	2015	2014
Net earnings attributable to Altria Group, Inc.	$14,239	$5,241	$5,070
Less: Distributed and undistributed earnings attributable to unvested restricted shares and restricted stock units	(24)	(10)	(12)
Earnings for basic and diluted EPS	$14,215	$5,231	$5,058
Weighted-average shares for basic and diluted EPS	1,952	1,961	1,978

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Note 14. Other Comprehensive Earnings/Losses
The following tables set forth the changes in each component of accumulated other comprehensive losses, net of deferred income taxes, attributable to Altria Group, Inc.:

(in millions)	Currency Translation Adjustments	Benefit Plans	SABMiller	Accumulated Other Comprehensive Losses
Balances, December 31, 2013	$ —	$(1,273)	$ (105)	$ (1,378)
Other comprehensive losses before reclassifications	(2)	(1,411)	(881)	(2,294)
Deferred income taxes	—	550	308	858
Other comprehensive losses before reclassifications, net of deferred income taxes	(2)	(861)	(573)	(1,436)
Amounts reclassified to net earnings	—	154	59	213
Deferred income taxes	—	(60)	(21)	(81)
Amounts reclassified to net earnings, net of deferred income taxes	—	94	38	132
Other comprehensive losses, net of deferred income taxes	(2)	(767)	(535) [1]	(1,304)
Balances, December 31, 2014	(2)	(2,040)	(640)	(2,682)
Other comprehensive losses before reclassifications	(4)	(223)	(983)	(1,210)
Deferred income taxes	1	86	344	431
Other comprehensive losses before reclassifications, net of deferred income taxes	(3)	(137)	(639)	(779)
Amounts reclassified to net earnings	—	272	21	293
Deferred income taxes	—	(105)	(7)	(112)
Amounts reclassified to net earnings, net of deferred income taxes	—	167	14	181
Other comprehensive (losses) earnings, net of deferred income taxes	(3)	30	(625) [1]	(598)
Balances, December 31, 2015	(5)	(2,010)	(1,265)	(3,280)
Other comprehensive earnings (losses) before reclassifications	1	(247)	787	541
Deferred income taxes	—	96	(276)	(180)
Other comprehensive earnings (losses) before reclassifications, net of deferred income taxes	1	(151)	511 [2]	361
Amounts reclassified to net earnings	—	178	1,160	1,338
Deferred income taxes	—	(65)	(406)	(471)
Amounts reclassified to net earnings, net of deferred income taxes	—	113	754 [3]	867
Other comprehensive earnings (losses), net of deferred income taxes	1	(38)	1,265	1,228
Balances, December 31, 2016	$ (4)	$(2,048)	$ —	$ (2,052)

(1) For the years ended December 31, 2015 and 2014, Altria Group, Inc.'s proportionate share of SABMiller's other comprehensive earnings/losses consisted primarily of currency translation adjustments.
(2) As a result of the Transaction, Altria Group, Inc. reversed to Investment in AB InBev/SABMiller $414 million of its accumulated other comprehensive losses directly attributable to SABMiller; the remaining $97 million consisted primarily of currency translation adjustments.
(3) As a result of the Transaction, Altria Group, Inc. recognized $737 million of its accumulated other comprehensive losses directly attributable to SABMiller.

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The following table sets forth pre-tax amounts by component, reclassified from accumulated other comprehensive losses to net earnings:

	For the Years Ended December 31,		
(in millions)	2016	2015	2014
Benefit Plans: [1]			
Net loss	$223	$304	$187
Prior service cost/credit	(45)	(32)	(33)
	178	272	154
SABMiller [2]	1,160	21	59
Pre-tax amounts reclassified from accumulated other comprehensive losses to net earnings	$1,338	$293	$213

[1] Amounts are included in net defined benefit plan costs. For further details, see Note 17. Benefit Plans.
[2] Substantially all of the amount for the year ended December 31, 2016 is included in Gain on AB InBev/SABMiller business combination. For the years ended December 31, 2015 and 2014, amounts are included in earnings from equity investment in SABMiller. For further information, see Note 7. Investment in AB InBev/SABMiller.

Note 15. Income Taxes

Earnings before income taxes and provision for income taxes consisted of the following for the years ended December 31, 2016, 2015 and 2014:

(in millions)	2016	2015	2014
Earnings before income taxes:			
United States	$21,867	$8,078	$7,763
Outside United States	(15)	—	11
Total	$21,852	$8,078	$7,774
Provision for income taxes:			
Current:			
Federal	$4,093	$2,516	$2,350
State and local	390	451	480
Outside United States	6	—	3
	4,489	2,967	2,833
Deferred:			
Federal	3,102	(140)	(124)
State and local	20	8	(5)
Outside United States	(3)	—	—
	3,119	(132)	(129)
Total provision for income taxes	$7,608	$2,835	$2,704

Altria Group, Inc.'s U.S. subsidiaries join in the filing of a U.S. federal consolidated income tax return. The U.S. federal statute of limitations remains open for the year 2010 and forward, with years 2010 to 2013 currently under examination by the Internal Revenue Service ("IRS") as part of an audit conducted in the ordinary course of business. With the exception of corresponding federal audit adjustments, state statutes of limitations generally remain open for the year 2012 and forward. Certain of Altria Group, Inc.'s state tax returns are currently under examination by various states as part of routine audits conducted in the ordinary course of business.

A reconciliation of the beginning and ending amount of unrecognized tax benefits for the years ended December 31, 2016, 2015 and 2014 was as follows:

(in millions)	2016	2015	2014
Balance at beginning of year	$158	$258	$227

Additions based on tax positions related to the current year	15	15	15
Additions for tax positions of prior years	29	57	29
Reductions for tax positions due to lapse of statutes of limitations	(4)	(4)	(2)
Reductions for tax positions of prior years	(28)	(86)	—
Settlements	(1)	(82)	(11)
Balance at end of year	$169	$158	$258

Unrecognized tax benefits and Altria Group, Inc.'s consolidated liability for tax contingencies at December 31, 2016 and 2015 were as follows:

(in millions)	2016	2015
Unrecognized tax benefits	$169	$158
Accrued interest and penalties	23	14
Tax credits and other indirect benefits	(6)	(3)
Liability for tax contingencies	$186	$169

The amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate at December 31, 2016 was $67 million, along with $102 million affecting deferred taxes. The amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate at December 31, 2015 was $76 million, along with $82 million affecting deferred taxes.

Altria Group, Inc. recognizes accrued interest and penalties associated with uncertain tax positions as part of the tax provision.

For the years ended December 31, 2016, 2015 and 2014, Altria Group, Inc. recognized in its consolidated statements of earnings $9 million, $(36) million and $14 million, respectively, of gross interest expense (income) associated with uncertain tax positions.

Altria Group, Inc. is subject to income taxation in many jurisdictions. Uncertain tax positions reflect the difference between tax positions taken or expected to be taken on income tax returns and the amounts recognized in the financial statements. Resolution of the related tax positions with the relevant tax authorities may take many years to complete, and such timing is not entirely within the control of Altria Group, Inc. It is reasonably possible that within the next 12 months certain examinations will be resolved, which could result in a decrease in unrecognized tax benefits of approximately $116 million.

The effective income tax rate on pre-tax earnings differed from the U.S. federal statutory rate for the following reasons for the years ended December 31, 2016, 2015 and 2014:

	2016	2015	2014
U.S. federal statutory rate	35.0 %	35.0 %	35.0 %
Increase (decrease) resulting from:			
State and local income taxes, net of federal tax benefit	1.2	3.7	4.0
Uncertain tax positions	—	(0.8)	0.5
AB InBev/SABMiller dividend benefit	(0.6)	(0.5)	(2.3)
Domestic manufacturing deduction	(0.8)	(2.0)	(2.4)
Other	—	(0.3)	—
Effective tax rate	34.8 %	35.1 %	34.8 %

The tax provision in 2016 included increased tax benefits associated with the cumulative SABMiller and AB InBev dividends and tax expense of $4.9 billion (approximately 35%) for the gain on the Transaction.

The tax provision in 2015 included net tax benefits of (i) $59 million from the reversal of tax reserves and associated interest due primarily to the closure in the third quarter of 2015 of the IRS audit of Altria Group, Inc. and its consolidated subsidiaries' 2007-2009 tax years ("IRS 2007-2009 Audit"); and (ii) $41 million for Philip Morris International Inc. ("PMI") tax matters discussed below, partially offset by the reversal of foreign tax credits primarily associated with SABMiller dividends that were recorded during the third quarter of 2015 ($41 million) and the fourth quarter of 2015 ($24 million). The tax provision in 2015 also included decreased recognition of foreign tax credits associated with SABMiller dividends.

The tax provision in 2014 included net tax benefits of (i) $14 million from the reversal of tax accruals no longer required that was recorded during the third quarter of 2014 ($19 million), partially offset by additional tax provisions recorded during the fourth quarter of 2014 ($5 million); and (ii) $2 million for Mondelēz International, Inc. ("Mondelēz") tax matters discussed below.

Under tax sharing agreements between Altria Group, Inc. and its former subsidiaries Kraft Foods Inc. (now known as Mondelēz) and PMI, entered into in connection with the 2007 and 2008 spin-offs, respectively, Mondelēz and PMI are responsible for their respective pre-spin-off tax obligations. Altria Group, Inc., however, remained severally liable for Mondelēz's and PMI's pre-spin-off federal tax obligations pursuant to regulations governing federal consolidated income tax returns, and continued to include the pre-spin-off federal income tax reserves of Mondelēz and PMI in its liability for uncertain tax positions. As of December 31, 2015, there were no remaining pre-spin-off tax reserves for Mondelēz and PMI.

During 2015 and 2014, Altria Group, Inc. recorded net tax benefits of $41 million and $2 million, respectively, for PMI and Mondelēz tax matters, primarily relating to the IRS 2007-2009 Audit. These net tax benefits were offset by reductions of PMI and Mondelēz tax-related receivables, which were recorded as decreases to operating income in

Altria Group, Inc.'s consolidated statements of earnings. Due to the respective offsets, the PMI and Mondelēz tax matters had no impact on Altria Group, Inc.'s net earnings for the years ended December 31, 2015 and 2014.

The tax effects of temporary differences that gave rise to deferred income tax assets and liabilities consisted of the following at December 31, 2016 and 2015:

(in millions)	2016	2015
Deferred income tax assets:		
Accrued postretirement and postemployment benefits	$952	$953
Settlement charges	1,446	1,393
Accrued pension costs	330	512
Net operating losses and tax credit carryforwards	288	335
Total deferred income tax assets	3,016	3,193
Deferred income tax liabilities:		
Property, plant and equipment	(429)	(441)
Intangible assets	(4,032)	(3,968)
Investment in AB InBev/SABMiller	(5,546)	(1,794)
Finance assets, net	(708)	(909)
Other	(125)	(116)
Total deferred income tax liabilities	(10,840)	(7,228)
Valuation allowances	(240)	(260)
Net deferred income tax liabilities	$(8,064)	$(4,295)

At December 31, 2016, Altria Group, Inc. had estimated gross state tax net operating losses of $532 million that, if unused, will expire in 2017 through 2036, state tax credit carryforwards of $14 million that, if unused, will expire in 2017, and foreign tax credit carryforwards of $296 million that, if unused, will expire in 2020 through 2025. Realization of these benefits is dependent upon various factors such as generating sufficient taxable income in the applicable states and receiving sufficient amounts of lower-taxed foreign dividends from AB InBev. A valuation allowance of $240 million has been established for those benefits that more-likely-than-not will not be realized. Altria Group, Inc. may be

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required to change the valuation allowance with respect to foreign tax credit carryforwards, based upon additional information to be received from AB InBev in 2017.

In the fourth quarter of 2016, Altria Group, Inc. retroactively adopted ASU No. 2015-17, which requires that deferred tax assets and liabilities be classified as noncurrent on a classified statement of financial position. As a result of the adoption, at December 31, 2015, current deferred income tax assets of approximately $1.2 billion were reclassified to noncurrent deferred income tax liabilities ($1.0 billion) and noncurrent deferred income tax assets ($0.2 billion) on Altria Group, Inc.'s consolidated balance sheet.

Note 16. Segment Reporting

At December 31, 2016, the products of Altria Group, Inc.'s subsidiaries include smokeable tobacco products, consisting of cigarettes manufactured and sold by PM USA and machine-made large cigars and pipe tobacco manufactured and sold by Middleton; smokeless tobacco products, which are manufactured and sold by USSTC; and wine produced and/or distributed by Ste. Michelle. The products and services of these subsidiaries constitute Altria Group, Inc.'s reportable segments of smokeable products, smokeless products and wine. The financial services and the innovative tobacco products businesses are included in all other.

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

Segment data were as follows:

	For the Years Ended December 31,		
(in millions)	2016	2015	2014
Net revenues:			
Smokeable products	$22,851	$22,792	$21,939
Smokeless products	2,051	1,879	1,809
Wine	746	692	643
All other	96	71	131
Net revenues	$25,744	$25,434	$24,522
Earnings before income taxes:			
Operating companies income (loss):			
Smokeable products	$7,768	$7,569	$6,873
Smokeless products	1,177	1,108	1,061
Wine	164	152	134
All other	(99)	(169)	(185)
Amortization of intangibles	(21)	(21)	(20)
General corporate expenses	(222)	(237)	(241)
Reductions of PMI and Mondelēz tax-related receivables	—	(41)	(2)
Corporate asset impairment and exit costs	(5)	—	—
Operating income	8,762	8,361	7,620

Interest and other debt expense, net	(747)	(817)	(808)
Loss on early extinguishment of debt	(823)	(228)	(44)
Earnings from equity investment in SABMiller	795	757	1,006
Gain on AB InBev/SABMiller business combination	13,865	5	—
Earnings before income taxes	$21,852	$8,078	$7,774

The smokeable products segment included net revenues of $22,199 million, $22,193 million and $21,363 million for the years ended December 31, 2016, 2015 and 2014, respectively, related to cigarettes and net revenues of $652 million, $599 million and $576 million for the years ended December 31, 2016, 2015 and 2014, respectively, related to cigars.

PM USA, USSTC and Middleton's largest customer, McLane Company, Inc., accounted for approximately 25%, 26% and 27% of Altria Group, Inc.'s consolidated net revenues for the years ended December 31, 2016, 2015 and 2014, respectively. In addition, Core-Mark Holding Company, Inc. accounted for approximately 14% and 10% of Altria Group, Inc.'s consolidated net revenues for the years ended December 31, 2016 and 2015, respectively. Substantially all of these net revenues were reported in the smokeable products and smokeless products segments. Sales to three distributors accounted for approximately 69%, 66% and 67% of net revenues for the wine segment for the years ended December 31, 2016, 2015 and 2014, respectively.

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Details of Altria Group, Inc.'s depreciation expense and capital expenditures were as follows:

	For the Years Ended December 31,		
(in millions)	2016	2015	2014
Depreciation expense:			
Smokeable products	$93	$117	$112
Smokeless products	26	27	22
Wine	36	32	30
General corporate and other	28	28	24
Total depreciation expense	$183	$204	$188
Capital expenditures:			
Smokeable products	$55	$56	$49
Smokeless products	52	113	40
Wine	59	42	46
General corporate and other	23	18	28
Total capital expenditures	$189	$229	$163

The comparability of operating companies income for the reportable segments was affected by the following:

Non-Participating Manufacturer ("NPM") Adjustment Items: For the years ended December 31, 2016, 2015 and 2014, pre-tax expense (income) for NPM adjustment items was recorded in Altria Group, Inc.'s consolidated statements of earnings as follows:

(in millions)	2016	2015	2014
Smokeable products segment	$ 12	$(97)	$(43)
Interest and other debt expense, net	6	13	(47)
Total	$ 18	$(84)	$(90)

NPM adjustment items result from the settlement of, and determinations made in connection with, disputes with certain states and territories related to the NPM adjustment provision under the 1998 Master Settlement Agreement (such settlements and determinations are referred to collectively as "NPM Adjustment Items" and are more fully described in Health Care Cost Recovery Litigation - NPM Adjustment Disputes in Note 19. Contingencies). The amounts shown in the table above for the smokeable products segment were recorded by PM USA as increases (reductions) to cost of sales, which decreased (increased) operating companies income in the smokeable products segment.

Tobacco and Health Litigation Items: For the years ended December 31, 2016, 2015 and 2014, pre-tax charges related to certain tobacco and health litigation items were recorded in Altria Group, Inc.'s consolidated statements of earnings as follows:

(in millions)	2016	2015	2014
Smokeable products segment	$88	$127	$ 27
General corporate	—	—	15
Interest and other debt expense, net	17	23	2
Total	$105	$150	$ 44

During 2016, PM USA recorded pre-tax charges of $88 million in marketing, administration and research costs, primarily related to settlements in the Miner and Aspinall cases totaling approximately $67 million, and $16 million related to a judgment in the Merino case. In addition, during 2016, PM USA recorded $17 million in interest costs primarily related to Aspinall. For further discussion, see Note 19. Contingencies.

During 2015, PM USA recorded pre-tax charges in marketing, administration and research costs related to tobacco and health judgments in seven state Engle progeny lawsuits and Schwarz of $59 million and $25 million, respectively, as well as $14 million and $9 million, respectively, in interest costs related to these cases. Additionally in 2015, PM USA and certain other cigarette manufacturers reached an agreement to resolve approximately 415 pending federal Engle progeny cases. As a result of the agreement, PM USA recorded a pre-tax provision of approximately $43 million in marketing, administration and research costs. For further discussion, see Smoking and Health Litigation in Note 19. Contingencies.

During 2014, Altria Group, Inc. and PM USA recorded an aggregate pre-tax charge of $31 million in marketing, administration and research costs for the estimated costs of implementing the corrective communications remedy in connection with the federal government's lawsuit against Altria Group, Inc. and PM USA. For further discussion, see Health Care Cost Recovery Litigation - Federal Government's Lawsuit in Note 19. Contingencies.

Asset Impairment and Exit Costs: See Note 5. Asset Impairment, Exit and Implementation Costs for a breakdown of these costs by segment.

Note 17. Benefit Plans

Subsidiaries of Altria Group, Inc. sponsor noncontributory defined benefit pension plans covering the majority of all employees of Altria Group, Inc. and its subsidiaries. However, employees hired on or after a date specific to their employee group are not eligible to participate in these noncontributory defined benefit pension plans but are instead eligible to participate in a defined contribution plan with enhanced benefits. This transition for new hires occurred from October 1, 2006 to January 1, 2008. In addition, effective January 1, 2010, certain employees of UST's subsidiaries and Middleton who were participants in noncontributory defined benefit pension plans ceased to earn additional benefit service under those plans and

became eligible to participate in a defined contribution plan with enhanced benefits. Altria Group, Inc. and its subsidiaries also provide postretirement health care and other benefits to the majority of retired employees.
The plan assets and benefit obligations of Altria Group, Inc.'s pension plans and the benefit obligations of Altria Group, Inc.'s postretirement plans are measured at December 31 of each year. Altria Group, Inc.'s postretirement plans are not funded.

The discount rates for Altria Group, Inc.'s plans were based on a yield curve developed from a model portfolio of high-quality corporate bonds with durations that match the expected future cash flows of the pension and postretirement benefit obligations.

Obligations and Funded Status: The benefit obligations, plan assets and funded status of Altria Group, Inc.'s pension and postretirement plans at December 31, 2016 and 2015 were as follows:

	Pension		Postretirement	
(in millions)	2016	2015	2016	2015
Change in benefit obligation:				
Benefit obligation at beginning of year	$8,011	$8,330	$ 2,392	$ 2,613
Service cost	76	86	17	18
Interest cost	281	337	77	100
Benefits paid	(440)	(431)	(135)	(141)
Actuarial losses (gains)	367	(317)	24	(192)
Termination and curtailment	13	—	5	—
Other	4	6	(16)	(6)
Benefit obligation at end of year	8,312	8,011	2,364	2,392
Change in plan assets:				
Fair value of plan assets at beginning of year	6,706	7,297	—	—
Actual return on plan assets	678	(188)	—	—
Employer contributions	531	28	—	—
Benefits paid	(440)	(431)	—	—
Fair value of plan assets at end of year	7,475	6,706	—	—
Funded status at December 31	$(837)	$(1,305)	$ (2,364)	$ (2,392)
Amounts recognized on Altria Group, Inc.'s consolidated balance sheets were as follows:				
Other accrued liabilities	$(32)	$(28)	$ (147)	$ (147)
Accrued pension costs	(805)	(1,277)	—	—
Accrued postretirement health care costs	—	—	(2,217)	(2,245)
	$(837)	$(1,305)	$ (2,364)	$ (2,392)

The table above presents the projected benefit obligation for Altria Group, Inc.'s pension plans. The accumulated benefit obligation, which represents benefits earned to date, for the pension plans was $8.0 billion and $7.7 billion at December 31, 2016 and 2015, respectively.
At December 31, 2016 and 2015, the accumulated benefit obligations were in excess of plan assets for all pension plans.
The Patient Protection and Affordable Care Act ("PPACA"), as amended by the Health Care and Education Reconciliation Act of 2010, mandates health care reforms with staggered effective dates from 2010 to 2020, including the imposition of an excise tax on high cost health care plans effective in 2020. The additional accumulated postretirement liability resulting from the PPACA, which is not material to Altria Group, Inc., has been

included in Altria Group, Inc.’s accumulated postretirement benefit obligation at December 31, 2016 and 2015. Given the complexity of the PPACA and the extended time period during which implementation is expected to occur, future adjustments to Altria Group, Inc.’s accumulated postretirement benefit obligation may be necessary.

The following assumptions were used to determine Altria Group, Inc.’s pension benefit obligations at December 31:

	2016		2015	
Discount rate	4.1	%	4.4	%
Rate of compensation increase	4.0		4.0	

The following assumptions were used to determine Altria Group, Inc.'s postretirement benefit obligations at December 31:

	2016	2015
Discount rate	4.1 %	4.4 %
Health care cost trend rate assumed for next year	7.0	6.5
Ultimate trend rate	5.0	5.0
Year that the rate reaches the ultimate trend rate	2022	2019

Components of Net Periodic Benefit Cost: Net periodic benefit cost consisted of the following for the years ended December 31, 2016, 2015 and 2014:

	Pension			Postretirement		
(in millions)	2016	2015	2014	2016	2015	2014
Service cost	$76	$86	$68	$ 17	$ 18	$ 15
Interest cost	281	337	345	77	100	107
Expected return on plan assets	(553)	(539)	(518)	—	—	—
Amortization:						
Net loss	171	234	147	25	43	22
Prior service cost (credit)	5	7	10	(39)	(39)	(43)
Termination, settlement and curtailment	34	8	—	(2)	—	—
Net periodic benefit cost	$14	$133	$52	$ 78	$ 122	$ 101

Termination, settlement and curtailment shown in the table above primarily relate to the productivity initiative and facilities consolidation discussed in Note 5. Asset Impairment, Exit and Implementation Costs.

The amounts included in termination, settlement and curtailment in the table above were comprised of the following changes:

	Pension		Postretirement
(in millions)	2016	2015	2016
Benefit obligation	$ 23	$ —	$ 11
Other comprehensive earnings/losses:			
Net loss (earnings)	9	8	—
Prior service cost (credit)	2	—	(13)
	$ 34	$ 8	$ (2)

Beginning in 2016, Altria Group, Inc. began using a spot rate approach to estimate the service and interest cost components of net periodic benefit costs by applying the specific spot rates along the yield curve to the relevant projected cash flows, as Altria Group, Inc. believes that this approach is a more precise estimate of service and interest cost. This change resulted in a decrease of approximately $70 million and $20 million to its 2016 pre-tax pension and postretirement net periodic benefit cost, respectively. Prior to 2016, Altria Group, Inc. estimated the service and interest cost components of net periodic benefit cost using a single weighted-average discount rate derived from the yield curve used to measure the pension and postretirement plans benefit obligations.

At December 31, 2014, Altria Group, Inc. updated its mortality assumptions to reflect longer life expectancy for its pension plan and postretirement plan participants, resulting in an increase of approximately $60 million and $10 million to its 2015 pre-tax pension and postretirement net periodic benefit cost, respectively.

The estimated net loss and prior service cost (credit) that are expected to be amortized from accumulated other comprehensive losses into net periodic benefit cost during 2017 is as follows:

(in millions)	Pension	Postretirement
Net loss	$ 200	$ 32
Prior service cost (credit)	4	(38)

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The following assumptions were used to determine Altria Group, Inc.'s net periodic benefit cost for the years ended December 31:

	Pension			Postretirement		
	2016	2015	2014	2016	2015	2014
Discount rates:						
Service cost	4.7 %	4.1 %	4.9 %	4.5 %	4.0 %	4.8 %
Interest cost	3.6	4.1	4.9	3.4	4.0	4.8
Expected rate of return on plan assets	8.0	8.0	8.0	—	—	—
Rate of compensation increase	4.0	4.0	4.0	—	—	—
Health care cost trend rate	—	—	—	6.5	7.0	7.0

Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement health care plans. A one-percentage-point change in assumed health care cost trend rates would have had the following effects as of December 31, 2016:

	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on total of postretirement service and interest cost	8.0 %	(6.7)%
Effect on postretirement benefit obligation	6.4 %	(5.4)%

Defined Contribution Plans: Altria Group, Inc. sponsors deferred profit-sharing plans covering certain salaried, non-union and union employees. Contributions and costs are determined generally as a percentage of earnings, as defined by the plans. Amounts charged to expense for these defined contribution plans totaled $93 million, $85 million and $82 million in 2016, 2015 and 2014, respectively.

Pension Plan Assets: Altria Group, Inc.'s pension plans investment strategy is based on an expectation that equity securities will outperform debt securities over the long term. Altria Group, Inc. believes that it implements the investment strategy in a prudent and risk-controlled manner, consistent with the fiduciary requirements of the Employee Retirement Income Security Act of 1974, by investing retirement plan assets in a well-diversified mix of equities, fixed income and other securities that reflects the impact of the demographic mix of plan participants on the benefit obligation using a target asset allocation between equity securities and fixed income investments of 55%/45%. The composition of Altria Group, Inc.'s plan assets at December 31, 2016 was broadly characterized as an allocation between equity securities (57%), corporate bonds (32%), U.S. Treasury and foreign government securities (8%) and all other types of investments (3%). Virtually all pension assets can be used to make monthly benefit payments.
Altria Group, Inc.'s pension plans investment objective is accomplished by investing in U.S. and international equity index strategies that are intended to mirror indices such as the Standard & Poor's 500 Index, Russell Small Cap Completeness Index, Research Affiliates Fundamental Index ("RAFI") Low Volatility U.S. Index, and Morgan Stanley Capital International ("MSCI") Europe, Australasia, and the Far East ("EAFE") Index. Altria Group, Inc.'s pension plans also invest in actively managed international equity securities of large, mid and small cap companies located in developed and emerging markets, as well as long duration fixed income securities that primarily include corporate bonds of companies from diversified industries. The allocation to below investment grade securities represented 18% of the fixed income holdings or 8% of total plan assets at December 31, 2016. The allocation to emerging markets represented 3% of the equity holdings or 2% of total plan assets at December 31, 2016.
Altria Group, Inc.'s pension plans risk management practices include ongoing monitoring of asset allocation, investment performance and investment managers' compliance with their investment guidelines, periodic rebalancing between equity and debt asset classes and annual actuarial re-measurement of plan liabilities.
Altria Group, Inc.'s expected rate of return on pension plan assets is determined by the plan assets' historical long-term investment performance, current asset allocation and estimates of future long-term returns by asset class. The

forward-looking estimates are consistent with the overall long-term averages exhibited by returns on equity and fixed income securities.

On January 1, 2016, Altria Group, Inc. retrospectively adopted ASU No. 2015-07, Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent), which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value ("NAV") per share as a practical expedient. As a result of the adoption, certain investments have not been classified by level in the fair value table but are disclosed to permit reconciliation to the fair value of plan assets. Certain investments in the fair value table at December 31, 2015 have been reclassified to conform with the current year's presentation.

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The fair values of Altria Group, Inc.'s pension plan assets by asset category at December 31, 2016 and 2015 were as follows:

	2016				2015			
(in millions)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
U.S. and foreign government securities or their agencies:								
U.S. government and agencies	$—	$444	$ —	$444	$—	$331	$ —	$331
U.S. municipal bonds	—	102	—	102	—	102	—	102
Foreign government and agencies	—	185	—	185	—	252	—	252
Corporate debt instruments:								
Above investment grade	—	1,735	—	1,735	—	1,660	—	1,660
Below investment grade and no rating	—	602	—	602	—	502	—	502
Common stock:								
International equities	1,076	—	—	1,076	907	—	2	909
U.S. equities	760	—	—	760	605	—	—	605
Registered investment companies	51	—	—	51	58	—	—	58
Other, net	91	33	13	137	16	58	13	87
	$1,978	$3,101	$ 13	$5,092	$1,586	$2,905	$ 15	$4,506
Investments measured at NAV as a practical expedient for fair value:								
Common/collective trusts:								
U.S. large cap				1,940				1,762
U.S. small cap				363				360
International developed markets				80				78
Fair value of plan assets, net				$7,475				$6,706

Level 3 holdings and transactions were immaterial to total plan assets at December 31, 2016 and 2015.
For a description of the fair value hierarchy and the three levels of inputs used to measure fair value, see Note 2. Summary of Significant Accounting Policies.
Following is a description of the valuation methodologies used for investments measured at fair value.
U.S. and Foreign Government Securities: U.S. and foreign government securities consist of investments in Treasury Nominal Bonds and Inflation Protected Securities and municipal securities. Government securities are valued at a price that is based on a compilation of primarily observable market information, such as broker quotes. Matrix pricing, yield curves and indices are used when broker quotes are not available.
Corporate Debt Instruments: Corporate debt instruments are valued at a price that is based on a compilation of primarily observable market information, such as broker quotes. Matrix pricing, yield curves and indices are used when broker quotes are not available.
Common Stock: Common stocks are valued based on the price of the security as listed on an open active exchange on last trade date.
Registered Investment Companies: Investments in registered investment companies are valued at the closing NAV publicly reported on the last business day of the year.

Common/Collective Trusts: Common/collective trusts consist of funds that are intended to mirror indices such as Standard & Poor's 500 Index, Russell Small Cap Completeness Index and MSCI EAFE Index. They are valued on the basis of the relative interest of each participating investor in the fair value of the underlying assets of each of the respective common/collective trusts. The underlying assets are valued based on the NAV, which is provided by the investment account manager as a practical expedient to estimate fair value. In accordance with ASU No. 2015-07, these investments have not been classified by level but are disclosed to permit reconciliation to the fair value of plan assets.

Cash Flows: Altria Group, Inc. makes contributions to the pension plans to the extent that the contributions are tax deductible and pays benefits that relate to plans for salaried employees that cannot be funded under IRS regulations. In September 2016, Altria Group, Inc. made voluntary contributions totaling $500 million to its pension plans. Currently, Altria Group, Inc. anticipates making employer contributions to its pension plans of approximately $30 million to $50 million in 2017 based on current tax law. However, this estimate is subject to change as a result of changes in tax and other benefit laws, as well as asset performance significantly above or below the assumed long-term rate of return on pension assets, or changes in interest rates.

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Estimated future benefit payments at December 31, 2016 were as follows:

(in millions)	Pension	Postretirement
2017	$ 456	$ 147
2018	461	149
2019	449	145
2020	456	143
2021	459	141
2022-2026	2,395	655

Comprehensive Earnings/Losses
The amounts recorded in accumulated other comprehensive losses at December 31, 2016 consisted of the following:

(in millions)	Pension	Post-retirement	Post-employment	Total
Net loss	$(2,857)	$ (581)	$ (99)	$(3,537)
Prior service (cost) credit	(19)	195	—	176
Deferred income taxes	1,124	153	36	1,313
Amounts recorded in accumulated other comprehensive losses	$(1,752)	$ (233)	$ (63)	$(2,048)

The amounts recorded in accumulated other comprehensive losses at December 31, 2015 consisted of the following:

(in millions)	Pension	Post-retirement	Post-employment	Total
Net loss	$(2,805)	$ (588)	$ (108)	$(3,501)
Prior service (cost) credit	(22)	231	—	209
Deferred income taxes	1,101	141	40	1,282
Amounts recorded in accumulated other comprehensive losses	$(1,726)	$ (216)	$ (68)	$(2,010)

The movements in other comprehensive earnings/losses during the year ended December 31, 2016 were as follows:

(in millions)	Pension	Post-retirement	Post-employment	Total
Amounts reclassified to net earnings as components of net periodic benefit cost:				
Amortization:				
Net loss	$ 171	$ 25	$ 18	$214
Prior service cost/credit	5	(39)	—	(34)
Other expense (income):				
Net loss	9	—	—	9
Prior service cost/credit	2	(13)	—	(11)
Deferred income taxes	(69)	11	(7)	(65)
	118	(16)	11	113
Other movements during the year:				
Net loss	(232)	(18)	(9)	(259)
Prior service cost/credit	(4)	16	—	12
Deferred income taxes	92	1	3	96
	(144)	(1)	(6)	(151)
Total movements in other comprehensive earnings/losses	$ (26)	$ (17)	$ 5	$(38)

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The movements in other comprehensive earnings/losses during the year ended December 31, 2015 were as follows:

(in millions)	Pension	Post-retirement	Post-employment	Total
Amounts reclassified to net earnings as components of net periodic benefit cost:				
Amortization:				
Net loss	$234	$ 43	$ 19	$296
Prior service cost/credit	7	(39)	—	(32)
Other expense:				
Net loss	8	—	—	8
Deferred income taxes	(96)	(2)	(7)	(105)
	153	2	12	167
Other movements during the year:				
Net loss	(410)	192	(5)	(223)
Prior service cost/credit	(6)	6	—	—
Deferred income taxes	160	(75)	1	86
	(256)	123	(4)	(137)
Total movements in other comprehensive earnings/losses	$(103)	$ 125	$ 8	$30

The movements in other comprehensive earnings/losses during the year ended December 31, 2014 were as follows:

(in millions)	Pension	Post-retirement	Post-employment	Total
Amounts reclassified to net earnings as components of net periodic benefit cost:				
Amortization:				
Net loss	$147	$ 22	$ 18	$187
Prior service cost/credit	10	(43)	—	(33)
Deferred income taxes	(61)	8	(7)	(60)
	96	(13)	11	94
Other movements during the year:				
Net loss	(1,093)	(306)	(12)	(1,411)
Deferred income taxes	425	120	5	550
	(668)	(186)	(7)	(861)
Total movements in other comprehensive earnings/losses	$(572)	$ (199)	$ 4	$(767)

Note 18. Additional Information

(in millions)	For the Years Ended December 31, 2016	2015	2014
Research and development expense	$203	$186	$167
Advertising expense	$27	$25	$30
Interest and other debt expense, net:			
Interest expense	$754	$808	$857
Interest income	(13)	(4)	(2)
Interest related to NPM Adjustment Items	6	13	(47)
	$747	$817	$808
Rent expense	$53	$48	$52

Minimum rental commitments and sublease income under non-cancelable operating leases in effect at December 31, 2016 were as follows:

(in millions)	Rental Commitments	Sublease Income
2017	$ 52	$ 5
2018	46	5
2019	35	5
2020	30	6
2021	24	6
Thereafter	72	15
	$ 259	$ 42

The activity in the allowance for discounts and allowance for returned goods for the years ended December 31, 2016, 2015 and 2014 was as follows:

(in millions)	2016		2015		2014	
	Discounts	Returned Goods	Discounts	Returned Goods	Discounts	Returned Goods
Balance at beginning of year	$ —	$ 68	$ —	$ 46	$ —	$ 41
Charged to costs and expenses	628	133	618	217	599	179
Deductions [(1)]	(628)	(152)	(618)	(195)	(599)	(174)
Balance at end of year	$ —	$ 49	$ —	$ 68	$ —	$ 46

[(1)] Represents the recording of discounts and returns for which allowances were created.

Note 19. Contingencies

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 shipments, patent infringement, employment matters, claims for contribution and claims of competitors or 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 and other litigation are or can be 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

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may not be obtainable in all cases. This risk has been substantially reduced given that 47 states and Puerto Rico limit the dollar amount of bonds or require no bond at all. As discussed below, however, 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. States, including Florida, may also seek to repeal or alter bond cap statutes through legislation. Although Altria Group, Inc. 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.
Altria Group, Inc. and its subsidiaries record provisions in the consolidated financial statements for pending litigation when they determine that an unfavorable outcome is probable and the amount of the loss can be reasonably estimated. At the present time, while it is reasonably possible that an unfavorable outcome in a case may occur, except to the extent discussed elsewhere in this Note 19. Contingencies: (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.
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.
Overview of Altria Group, Inc. and/or PM USA Tobacco-Related Litigation
Types and Number of Cases: Claims related to tobacco products generally fall within the following categories: (i) smoking and health cases alleging personal injury brought on behalf of individual plaintiffs; (ii) smoking and health cases primarily alleging personal injury or seeking court-supervised programs for ongoing medical monitoring and purporting to be brought on behalf of a class of individual plaintiffs, including

cases in which the aggregated claims of a number of individual plaintiffs are to be tried in a single proceeding; (iii) health care cost recovery cases brought by governmental (both domestic and foreign) plaintiffs seeking reimbursement for health care expenditures allegedly caused by cigarette smoking and/or disgorgement of profits; (iv) class action suits alleging that the uses of the terms "Lights" and "Ultra Lights" constitute deceptive and unfair trade practices, common law or statutory fraud, unjust enrichment, breach of warranty or violations of the Racketeer Influenced and Corrupt Organizations Act ("RICO"); and (v) other tobacco-related litigation described below. Plaintiffs' theories of recovery and the defenses raised in pending smoking and health, health care cost recovery and "Lights/Ultra Lights" cases are discussed below.
The table below lists the number of certain tobacco-related cases pending in the United States against PM USA[1] and, in some instances, Altria Group, Inc. as of December 31, 2016, 2015 and 2014:

	2016	2015	2014
Individual Smoking and Health Cases [2]	70	65	67
Smoking and Health Class Actions and Aggregated Claims Litigation [3]	5	5	5
Health Care Cost Recovery Actions [4]	1	1	1
"Lights/Ultra Lights" Class Actions	8	11	12

(1) Does not include 25 cases filed on the asbestos docket in the Circuit Court for Baltimore City, Maryland, which seek to join PM USA and other cigarette-manufacturing defendants in complaints previously filed against asbestos companies.
(2) Does not include 2,485 cases brought by flight attendants seeking compensatory damages for personal injuries allegedly caused by exposure to environmental tobacco smoke (“ETS”). The flight attendants allege that they are members of an ETS smoking and health class action in Florida, which was settled in 1997 (Broin). The terms of the court-approved settlement in that case allowed class members to file individual lawsuits seeking compensatory damages, but prohibited them from seeking punitive damages. Also, does not include individual smoking and health cases brought by or on behalf of plaintiffs in Florida state and federal courts following the decertification of the Engle case (discussed below in Smoking and Health Litigation - Engle Class Action).
(3) Includes as one case the 600 civil actions (of which 344 were actions against PM USA) that were to be tried in a single proceeding in West Virginia (In re: Tobacco Litigation). The West Virginia Supreme Court of Appeals ruled that the United States Constitution did not preclude a trial in two phases in this case. Issues related to defendants’ conduct and whether punitive damages are permissible were tried in the first phase. Trial in the first phase of this case began in April 2013. In May 2013, the jury returned a verdict in favor of defendants on the claims for design defect, negligence, failure to warn, breach of warranty, and concealment and declined to find that the defendants’ conduct warranted punitive damages. Plaintiffs prevailed on their claim that ventilated filter cigarettes should have included use instructions for the period 1964 - 1969. The second phase will consist of trials to determine liability and compensatory damages. In November 2014, the West Virginia Supreme Court of Appeals affirmed the final judgment. In July 2015, the trial court entered an order that will result in the entry of final judgment in favor of defendants and against all but 30 plaintiffs who potentially have a claim against one or more defendants that may be pursued in a second phase of trial. The court intends to try the claims of these 30 plaintiffs in six consolidated trials, each with a group of five plaintiffs. The first trial is currently scheduled to begin May 1, 2018. Dates for the five remaining consolidated trials have not been scheduled.
(4) See Health Care Cost Recovery Litigation - Federal Government’s Lawsuit below.

International Tobacco-Related Cases: As of January 27, 2017, PM USA is a named defendant in 10 health care cost recovery actions in Canada, eight of which also name Altria Group, Inc. as a defendant. PM USA and Altria Group, Inc. are also named defendants in seven smoking and health class actions filed in various Canadian provinces. See Guarantees and Other Similar Matters below for a discussion of the Distribution Agreement between Altria Group, Inc. and PMI that provides for indemnities for certain liabilities concerning tobacco products.

Tobacco-Related Cases Set for Trial: As of January 27, 2017, nine Engle progeny cases are set for trial through March 31, 2017. There are no individual smoking and health cases and no "Lights/Ultra Lights" class actions or medical monitoring cases against PM USA set for trial during this period. Cases against other companies in the tobacco industry are scheduled for trial during this period. Trial dates are subject to change.

Trial Results: Since January 1999, excluding the Engle progeny cases (separately discussed below), verdicts have been returned in 61 smoking and health, "Lights/Ultra Lights" and health care cost recovery cases in which PM USA was a defendant. Verdicts in favor of PM USA and other defendants were returned in 41 of the 61 cases. These 41 cases were tried in Alaska (1), California (7), Florida (10), Louisiana (1), Massachusetts (2), Mississippi (1), Missouri (4), New Hampshire (1), New Jersey (1), New York (5), Ohio (2), Pennsylvania (1), Rhode Island (1), Tennessee (2) and West Virginia (2). A motion for a new trial was granted in one of the cases in Florida and in the case in Alaska. In the Alaska case (Hunter), the trial court withdrew its order for a new trial upon PM USA's motion for reconsideration. In December 2015, the Alaska Supreme Court reversed the trial court decision and remanded the case with directions for the trial court to reassess whether to grant a new trial. In March 2016, the trial court granted a new trial and PM USA filed a petition for review of that order with the Alaska Supreme Court, which the court denied in July 2016. The retrial began in October 2016. In November 2016, the court declared a mistrial after the jury failed to reach a verdict. The plaintiff subsequently moved for a new trial, which is scheduled to begin October 16, 2017. See Types and Number of Cases above for a discussion of the trial results in In re: Tobacco Litigation (West Virginia consolidated cases).

Of the 20 non-Engle progeny cases in which verdicts were returned in favor of plaintiffs, 18 have reached final resolution. A verdict against PM USA in a purported "Lights" class action in Illinois (Price) was reversed and ultimately resolved in PM USA's favor. See "Lights/Ultra Lights" Cases - State Trial Court Class Certifications Concluded in 2016 below for further discussion.

As of January 27, 2017, 105 state and federal Engle progeny cases involving PM USA have resulted in verdicts since the Florida Supreme Court's Engle decision as follows: 58 verdicts were returned in favor of plaintiffs; 44 verdicts were returned in favor of PM USA. Three verdicts in favor of plaintiffs were partially or entirely reversed on appeal. See Smoking and Health Litigation - Engle Progeny Trial Court Results below for a discussion of these verdicts.

Judgments Paid and Provisions for Tobacco and Health Litigation Items (Including Engle Progeny Litigation): After exhausting all appeals in those cases resulting in adverse verdicts associated with tobacco-related litigation, since October 2004, PM USA has paid in the aggregate judgments and settlements (including related costs and fees) totaling approximately $473 million and interest totaling approximately $183 million as of December 31, 2016. These amounts include payments for Engle progeny judgments (and related costs and fees) totaling approximately $82 million, interest totaling approximately $21 million and payment of approximately $43 million in connection with the Federal Engle Agreement, discussed below.

The changes in Altria Group, Inc.'s accrued liability for tobacco and health litigation items, including related interest costs, for the periods specified below are as follows:

(in millions)	2016	2015	2014
Accrued liability for tobacco and health litigation items at beginning of year	$132	$39	$3
Pre-tax charges for:			
Tobacco and health judgments	21	84	11
Related interest costs	7	23	2

Agreement to resolve federal Engle progeny cases	—	43	—
Agreement to resolve Aspinall including related interest costs	32	—	—
Agreement to resolve Miner	45	—	—
Implementation of corrective communications remedy pursuant to the federal government's lawsuit	—	—	31
Payments	(190)	(57)	(8)
Accrued liability for tobacco and health litigation items at end of year	$47	$132	$39

The accrued liability for tobacco and health litigation items, including related interest costs, was included in liabilities on Altria Group, Inc.'s consolidated balance sheets. Pre-tax charges for tobacco and health judgments, the agreement to resolve federal Engle progeny cases, the agreement to resolve the Aspinall case (excluding related interest costs of approximately $10 million), the agreement to resolve the Miner case and the implementation of the corrective communications remedy pursuant to the federal government's lawsuit were included in marketing, administration and research costs on Altria Group, Inc.'s consolidated statements of earnings. Pre-tax charges for related interest costs were included in interest and other debt expense, net on Altria Group, Inc.'s consolidated statements of earnings.

Security for Judgments: To obtain stays of judgments pending current appeals, as of December 31, 2016, PM USA has posted various forms of security totaling approximately $82 million, the majority of which has been collateralized with cash deposits that are included in other assets on the consolidated balance sheet.

Smoking and Health Litigation

Overview: Plaintiffs' allegations of liability in smoking and health cases are based on various theories of recovery, including negligence, gross negligence, strict liability, fraud, misrepresentation, design defect, failure to warn, nuisance, breach of express and implied warranties, breach of special duty, conspiracy, concert of action, violations of deceptive trade practice laws and consumer protection statutes, and claims under the federal and state anti-racketeering statutes. Plaintiffs in the smoking and health cases seek various forms of relief, including compensatory and punitive damages, treble/multiple damages and other statutory damages and penalties, creation of medical monitoring and smoking cessation funds, disgorgement of profits, and injunctive and equitable relief. Defenses raised in these cases include lack of proximate cause, assumption of the risk, comparative fault and/or contributory negligence, statutes of limitations and preemption by the Federal Cigarette Labeling and Advertising Act.

Non-Engle Progeny Litigation: Summarized below are the non-Engle progeny smoking and health cases pending during 2016 in which verdicts were returned in favor of plaintiffs and against PM USA. Charts listing the verdicts for plaintiffs in the Engle progeny cases can be found in Smoking and Health Litigation - Engle Progeny Trial Results below.

Bullock: In December 2015, a jury in the U.S. District Court for the Central District of California returned a verdict in favor of plaintiff, awarding $900,000 in compensatory damages. In January 2016, the plaintiff moved for a new trial, which the district court denied in February 2016. In March 2016, PM USA filed a notice of appeal to the U.S. Court of Appeals for the Ninth Circuit and plaintiff cross-appealed.

Schwarz: In March 2002, an Oregon jury awarded $168,500 in compensatory damages and $150 million in punitive damages against PM USA. In May 2002, the trial court reduced the punitive damages award to $100 million. In May 2006, the Oregon Court of Appeals affirmed the compensatory damages verdict, reversed the award of punitive damages and remanded the case to the trial court for a second trial to determine the amount of punitive damages, if any. In June 2010, the Oregon Supreme Court affirmed the court of appeals' decision and remanded the case to the trial court for a new trial limited to the question of punitive damages. Upon retrial, in February 2012, the jury awarded plaintiff $25 million in punitive damages, which was ultimately upheld on appeal. In the fourth quarter of 2015, PM USA recorded a provision on its consolidated balance sheet of approximately $34 million for the judgment plus interest and associated costs. In June 2016, PM USA paid the final judgment plus interest and associated costs of approximately $34 million, concluding this litigation.

Federal Government's Lawsuit: See Health Care Cost Recovery Litigation - Federal Government's Lawsuit below for a discussion

of the verdict and post-trial developments in the United States of America health care cost recovery case.

Engle Class Action: In July 2000, in the second phase of the Engle smoking and health class action in Florida, a jury returned a verdict assessing punitive damages totaling approximately $145 billion against various defendants, including $74 billion against PM USA. Following entry of judgment, PM USA appealed.

In May 2001, the trial court approved a stipulation providing that execution of the punitive damages component of the Engle judgment will remain stayed against PM USA and the other participating defendants through the completion of all judicial review. As a result of the stipulation, PM USA placed $500 million into an interest-bearing escrow account that, regardless of the outcome of the judicial review, was to be paid to the court and the court was to determine how to allocate or distribute it consistent with Florida Rules of Civil Procedure. In May 2003, the Florida Third District Court of Appeal reversed the judgment entered by the trial court and instructed the trial court to order the decertification of the class. Plaintiffs petitioned the Florida Supreme Court for further review.

In July 2006, the Florida Supreme Court ordered that the punitive damages award be vacated, that the class approved by the trial court be decertified and that members of the decertified class could file individual actions against defendants within one year of issuance of the mandate. The court further declared the following Phase I findings are entitled to res judicata effect in such individual actions brought within one year of the issuance of the mandate: (i) that smoking causes various diseases; (ii) that nicotine in cigarettes is addictive; (iii) that defendants' cigarettes were defective and unreasonably dangerous; (iv) that defendants concealed or omitted material information not otherwise known or available knowing that the material was false or misleading or failed to disclose a material fact concerning the health effects or addictive nature of smoking; (v) that defendants agreed to misrepresent information regarding the health effects or addictive nature of cigarettes with the intention of causing the public to rely on this information to their detriment; (vi) that defendants agreed to conceal or omit information regarding the health effects of cigarettes or their addictive nature with the intention that smokers would rely on the information to their detriment; (vii) that all defendants sold or supplied cigarettes that were defective; and (viii) that defendants were negligent. The court also reinstated compensatory damages awards totaling approximately $6.9 million to two individual plaintiffs and found that a third plaintiff's claim was barred by the statute of limitations. In February 2008, PM USA paid approximately $3 million, representing its share of compensatory damages and interest, to the two individual plaintiffs identified in the Florida Supreme Court's order.

In August 2006, PM USA sought rehearing from the Florida Supreme Court on parts of its July 2006 opinion, including the ruling (described above) that certain jury findings have res judicata effect in subsequent individual trials timely brought by Engle class members. The rehearing motion also asked, among other things, that legal errors that were raised but not expressly ruled upon in the Florida Third District Court of Appeal or in the Florida Supreme Court now be addressed. Plaintiffs also filed a motion for rehearing in August 2006 seeking clarification of the applicability of the statute of limitations to non-members of the decertified class. In December 2006, the Florida Supreme Court refused to revise its July 2006 ruling, except that it revised the set of Phase I findings entitled to res judicata effect by excluding finding (v) listed above (relating to agreement to misrepresent information), and added the finding that defendants sold or supplied cigarettes that, at the time of sale or supply, did not conform to the representations of fact made by defendants. In January 2007, the Florida Supreme Court issued the mandate from its revised opinion. Defendants then filed a motion with the Florida Third District Court of Appeal requesting that the court address legal errors that were previously raised by defendants but have not yet been addressed either by the Florida Third District Court of Appeal or by the Florida Supreme Court. In February 2007, the Florida Third District Court of Appeal denied defendants' motion. In May 2007, defendants' motion for a partial stay of the mandate pending the completion of appellate review was denied by the Florida Third District Court of Appeal. In May 2007, defendants filed a petition for writ of certiorari with the United States Supreme Court, which the United States Supreme Court denied later in 2007.

In February 2008, the trial court decertified the class, except for purposes of the May 2001 bond stipulation, and formally vacated the punitive damages award pursuant to the Florida Supreme Court's mandate. In April 2008, the trial court ruled that certain defendants, including PM USA, lacked standing with respect to allocation of the funds escrowed under the May 2001 bond stipulation and would receive no credit at that time from the $500 million paid by PM USA against any future punitive damages awards in cases brought by former Engle class members.

In May 2008, the trial court, among other things, decertified the limited class maintained for purposes of the May 2001 bond stipulation and, in July 2008, severed the remaining plaintiffs' claims except for those of Howard Engle. The only remaining plaintiff in the Engle case, Howard Engle, voluntarily dismissed his claims with prejudice.

Engle Progeny Cases: The deadline for filing Engle progeny cases, as required by the Florida Supreme Court's Engle decision, expired in January 2008. As of January 27, 2017, approximately 2,600 state court cases were pending against PM USA or Altria Group, Inc. asserting individual claims by or on behalf of approximately 3,500 state court plaintiffs. Because of a number of factors, including, but not limited to, docketing delays, duplicated filings and overlapping dismissal orders, these numbers are estimates. While the Federal Engle Agreement

(discussed below) resolved nearly all Engle progeny cases pending in federal court, as of January 27, 2017, approximately 14 cases were pending against PM USA in federal court representing the cases excluded from that agreement.

Agreement to Resolve Federal Engle Progeny Cases: In 2015, PM USA, R.J. Reynolds Tobacco Company ("R.J. Reynolds") and Lorillard Tobacco Company ("Lorillard") resolved approximately 415 pending federal Engle progeny cases (the "Federal Engle Agreement"). Under the terms of the Federal Engle Agreement, PM USA paid approximately $43 million. Federal cases that were in trial and those that previously reached final verdict were not included in the Federal Engle Agreement.

Engle Progeny Trial Results: As of January 27, 2017, 105 federal and state Engle progeny cases involving PM USA have resulted in verdicts since the Florida Supreme Court Engle decision. Fifty-eight verdicts were returned in favor of plaintiffs and three verdicts (Graham, Skolnick and Calloway) that were initially returned in favor of plaintiffs were reversed on appeal and remain pending. Graham is now subject to en banc appellate review; Skolnick was remanded for a new trial; Calloway was reversed on an appellate finding that improper arguments by plaintiff's counsel deprived defendants of a fair trial.

Forty-four verdicts were returned in favor of PM USA, of which 35 were state cases (Gelep, Kalyvas, Gil de Rubio, Warrick, Willis, Russo (formerly Frazier), C. Campbell, Rohr, Espinosa, Oliva, Weingart, Junious, Szymanski, Hancock, D. Cohen, LaMotte, J. Campbell, Dombey, Haldeman, Blasco, Gonzalez, Banks, Surico, Baum, Bishop, Vila, McMannis, Collar, Suarez, Shulman, Ewing, E. Smith, Mooney, Chacon and Dubinsky) and 9 were federal cases (Gollihue, McCray, Denton, Wilder, Jacobson, Reider, Davis, Starbuck and Sowers). In addition, there have been a number of mistrials, only some of which have resulted in new trials as of January 27, 2017. The judgment in D. Cohen was subsequently reversed for a new trial. The juries in the Reider and Banks cases returned zero damages verdicts in favor of PM USA. The juries in the Weingart and Hancock cases returned verdicts against PM USA awarding no damages, but the trial court in each case granted an additur.

The charts below list the verdicts and post-trial developments in certain Engle progeny cases in which verdicts were returned in favor of plaintiffs (including Hancock, where the verdict originally was returned in favor of PM USA). The first chart lists such cases that are pending as of January 27, 2017; the second chart lists such cases that were pending within the previous 12 months, but that are now concluded.

Currently-Pending Engle Cases

Plaintiff: Pardue
Date: December 2016

Verdict:
An Alachua County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds awarding compensatory damages of approximately $5.9 million and allocating 25% of the fault to PM USA. The jury also awarded plaintiff $6.75 million in punitive damages against PM USA.

Post-Trial Developments:
In December 2016, the trial court entered final judgment in favor of plaintiff without a deduction for plaintiff's comparative fault. In January 2017, PM USA and R.J. Reynolds filed various post-trial motions, including motions to set aside the verdict and for a new trial or, in the alternative, for remittitur of the jury's damages awards.

Plaintiff: Martin
Date: November 2016

Verdict:
A Broward County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds awarding compensatory damages of approximately $5.4 million and allocating 46% of the fault to PM USA (an amount of approximately $2.48 million). The jury also awarded plaintiff $450,000 in punitive damages against PM USA.

Post-Trial Developments:
In December 2016, the trial court entered final judgment in favor of plaintiff with a deduction for plaintiff's comparative fault and PM USA and R.J. Reynolds filed various post-trial motions, including motions to set aside the verdict and for a new trial. In January 2017, the trial court denied all post-trial motions.

Plaintiff: Howles
Date: November 2016

Verdict:
A Broward County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds awarding compensatory damages of $4 million and allocating 50% of the fault to PM USA (an amount of $2 million). The jury also awarded plaintiff $3 million in punitive damages against PM USA.

Post-Trial Developments:
In November 2016, PM USA and R.J. Reynolds filed various post-trial motions, including motions to set aside the verdict and for a new trial, which the court denied in December 2016. Also in December 2016, defendants filed a notice of appeal to the Florida Fourth District Court of Appeal.

Plaintiff: Oshinsky-Blacker
Date: September 2016

Verdict:

A Broward County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds awarding compensatory damages of $6.155 million and allocating 60% of the fault to PM USA (an amount of $3.7 million). The jury also awarded plaintiff $1 million in punitive damages against PM USA.

Post-Trial Developments:
In October 2016, PM USA and R.J. Reynolds filed motions to set aside the verdict and for a directed verdict.

Plaintiff: Varner
Date: July 2016

Verdict:
A Broward County jury returned a verdict in favor of plaintiff and against PM USA awarding compensatory damages of $1.5 million and

allocating 25% of the fault to PM USA (an amount of $375,000).

Post-Trial Developments:
In July 2016, the trial court entered final judgment in favor of plaintiff with a deduction for plaintiff's comparative fault. In August 2016, PM USA filed motions to set aside the verdict and for a directed verdict, and plaintiff filed a motion for a new trial. In January 2017, the trial court denied all post-trial motions.

Plaintiff: Sermons
Date: July 2016

Verdict:
A Duval County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds awarding compensatory damages of $65,000 and allocating 15% of the fault to PM USA (an amount of $9,750). The jury also awarded plaintiff $51,225 in punitive damages against PM USA.

Post-Trial Developments:
In July 2016, plaintiff filed a motion for a new trial or, in the alternative, for an additur.

Plaintiff: Purdo
Date: April 2016

Verdict:
A Palm Beach County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds awarding compensatory damages of $21 million and allocating 12% of the fault to PM USA (an amount of $2.52 million). The jury also awarded plaintiff $6.25 million in punitive damages against each defendant.

Post-Trial Developments:
In May 2016, PM USA and R.J. Reynolds filed various post-trial motions, including motions to set aside the verdict and for a new trial, all of which the court denied and entered final judgment in favor of plaintiff with a deduction for plaintiff's comparative fault. In June 2016, defendants filed a notice of appeal to the Florida Fourth District Court of Appeal and PM USA posted a bond in the amount of approximately $1.5 million.

Plaintiff: McCall
Date: March 2016

Verdict:
A Broward County jury returned a verdict in favor of plaintiff and against PM USA awarding compensatory damages of $350,000 and allocating 25% of the fault to PM USA (an amount of $87,500).

Post-Trial Developments:
In March 2016, PM USA filed a motion to set aside the verdict and to enter judgment in its favor, which the court denied in May 2016. Also in March 2016, plaintiff filed a motion for a new trial on punitive damages, citing the Soffer decision (allowing Engle progeny plaintiffs to seek punitive damages on their negligence and strict liability claims) discussed below under Engle Progeny Appellate Issues, which the court granted in May 2016. In June 2016, PM USA filed a notice of appeal to the Florida Fourth District Court of Appeal and plaintiff cross-appealed.

Plaintiff: Ahrens
Date: February 2016

Verdict:
A Pinellas County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds awarding $9 million in compensatory damages and allocating 24% of the fault to PM USA. The jury also awarded plaintiff $2.5 million in punitive damages against each defendant.

Post-Trial Developments:
In February 2016, the trial court entered final judgment against PM USA and R.J. Reynolds without any deduction for plaintiff's

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comparative fault and defendants filed various post-trial motions, including motions to set aside the verdict and for a new trial. In March 2016, the trial court denied defendants' post-trial motions. In April 2016, defendants filed a notice of appeal to the Florida Second District Court of Appeal and PM USA posted a bond in the amount of $2.5 million.

Plaintiff: Ledoux
Date: December 2015

Verdict:
A Miami-Dade County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds awarding $10 million in compensatory damages and allocating 47% of the fault to PM USA. The jury also awarded plaintiff $12.5 million in punitive damages against each defendant.

Post-Trial Developments:
In January 2016, PM USA and R.J. Reynolds filed various post-trial motions, including motions to set aside the verdict and for a new trial, and the trial court entered final judgment against PM USA and R.J. Reynolds without any deduction for plaintiff's comparative fault. In February 2016, the trial court denied defendants' post-trial motions. In March 2016, defendants filed a notice of appeal to the Florida Third District Court of Appeal and PM USA posted a bond in the amount of $2.5 million.

Plaintiff: Barbose
Date: November 2015

Verdict:
A Pasco County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds awarding $10 million in compensatory damages and allocating 42.5% of the fault to PM USA. The jury also awarded plaintiff $500,000 in punitive damages against each defendant.

Post-Trial Developments:
In November 2015, the court entered final judgment in favor of plaintiff without any deduction for plaintiff's comparative fault and in December 2015, PM USA and R.J. Reynolds filed various post-trial motions, including motions to set aside the verdict and for a new trial, which the court denied in January 2016. In February 2016, PM USA posted a bond in the amount of $2.5 million and filed a notice of appeal to the Florida Second District Court of Appeal.

Plaintiff: Tognoli
Date: November 2015

Verdict:
A Broward County jury returned a verdict in favor of plaintiff and against PM USA awarding $1.05 million in compensatory damages and allocating 15% of the fault to PM USA (an amount of $157,500).

Post-Trial Developments:
In December 2015, PM USA filed a motion to set aside the verdict and for judgment in accordance with its motion for directed verdict. In January 2016, the trial court entered final judgment against PM USA with a deduction for plaintiff's comparative fault and plaintiff filed an appeal to the Florida Fourth District Court of Appeal. Additionally, the trial court denied PM USA's post-trial motions and PM USA cross-appealed.

Plaintiff: Danielson
Date: November 2015

Verdict:
An Escambia County jury returned a verdict in favor of plaintiff and against PM USA awarding $325,000 in compensatory damages and allocating 49% of the fault to PM USA. The jury also awarded plaintiff $325,000 in punitive damages.

Post-Trial Developments:
In November 2015, plaintiff filed a motion to enforce the parties' pretrial stipulation of $2.3 million in economic damages, which the trial court granted. The plaintiff also filed a motion for an additur or, in the alternative, for a new trial and PM USA filed post-trial motions, including a motion concerning the proper form of judgment and for a new trial. In December 2015, the trial court granted

plaintiff's motion for a new trial on damages and denied PM USA's post-trial motions. In January 2016, PM USA filed a notice of appeal to the Florida First District Court of Appeal.

Plaintiff: Marchese
Date: October 2015

Verdict:
A Broward County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds awarding $1 million in compensatory damages and allocating 22.5% of the fault to PM USA (an amount of $225,000). The jury also awarded plaintiff $250,000 in punitive damages against each defendant.

Post-Trial Developments:
In October 2015, defendants filed various post-trial motions, including motions to set aside the verdict and for a new trial. In November 2015, the court entered final judgment in favor of plaintiff. In May 2016, the court denied defendants' post-trial motions and amended the final judgment to apply the comparative fault deduction. In June 2016, defendants filed a notice of appeal to the Florida Fourth District Court of Appeal and plaintiff cross-appealed. Also in June 2016, PM USA posted a bond in the amount of approximately $475,000.

Plaintiff: Duignan
Date: September 2015

Verdict:
A Pinellas County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds awarding $6 million in compensatory damages and allocating 37% of the fault to PM USA. The jury also awarded plaintiff $3.5 million in punitive damages against PM USA.

Post-Trial Developments:
In September 2015, the trial court entered final judgment without any deduction for plaintiff's comparative fault, and PM USA filed various post-trial motions, including motions to set aside the verdict and for a new trial, which the court denied in October 2015. In November 2015, PM USA and R.J. Reynolds filed a notice of appeal to the Florida Second District Court of Appeal and PM USA posted a bond in the amount of approximately $2.7 million.

Plaintiff: Cooper
Date: September 2015

Verdict:
A Broward County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds awarding $4.5 million in compensatory damages and allocating 10% of the fault to PM USA (an amount of $450,000).

Post-Trial Developments:
In September 2015, defendants filed various post-trial motions, including motions to set aside the verdict and for a directed verdict. In January 2016, the trial court denied PM USA's post-trial motions. In February 2016, the trial court entered final judgment in favor of plaintiff, reducing the compensatory damages award against PM USA to approximately $300,000. In March 2016, PM USA and R.J. Reynolds filed a notice of appeal in the Florida Fourth District Court of Appeal and plaintiff cross-appealed. Also in March 2016, PM USA posted a bond in the amount of approximately $300,000.

Plaintiff: Jordan
Date: August 2015

Verdict:
A Duval County jury returned a verdict in favor of plaintiff and against PM USA awarding approximately $7.8 million in compensatory damages and allocating 60% of the fault to PM USA. The jury also awarded approximately $3.2 million in punitive damages.

Post-Trial Developments:
In August 2015, the trial court entered final judgment without any deduction for plaintiff's comparative fault, but reduced the compensatory damages to approximately $6.4 million. PM USA filed various post-trial motions, including motions to set aside the

verdict and for a new trial, which the court denied in December 2015. PM USA subsequently filed a notice of appeal to the Florida First District Court of Appeal and plaintiff cross-appealed.

Plaintiff: Merino
Date: July 2015

Verdict:
A Miami-Dade County jury returned a verdict in favor of plaintiff and against PM USA awarding $8 million in compensatory damages and allocating 70% of the fault to PM USA. The jury also awarded $6.5 million in punitive damages.

Post-Trial Developments:
In August 2015, the trial court denied all post-trial motions, including motions to set aside the verdict and for a new trial, and entered final judgment without any deduction for plaintiff’s comparative fault. In September 2015, PM USA filed a notice of appeal to the Florida Third District Court of Appeal and posted a bond in the amount of $5 million. In November 2016, the Florida Third District Court of Appeal issued a per curiam decision affirming the trial court’s judgment against PM USA. PM USA subsequently filed a motion seeking a written opinion, which the court denied in December 2016. In the fourth quarter of 2016, PM USA recorded a provision on its consolidated balance sheet of $16.9 million for the judgment plus interest and associated costs and increased the bond to $14.5 million.

Plaintiff: McCoy
Date: July 2015

Verdict:
A Broward County jury returned a verdict in favor of plaintiff and against PM USA, R.J. Reynolds and Lorillard awarding $1.5 million in compensatory damages and allocating 20% of the fault to PM USA (an amount of $300,000). The jury also awarded $3 million in punitive damages against each defendant.

Post-Trial Developments:
In July 2015, defendants filed various post-trial motions, including motions to set aside the verdict and for a new trial. In August 2015, the trial court entered final judgment without any deduction for plaintiff’s comparative fault. In January 2016, the trial court denied defendants’ post-trial motions and amended the final judgment to apply the comparative fault deduction. Subsequently, defendants filed a notice of appeal to the Florida Fourth District Court of Appeal, PM USA posted a bond in the amount of approximately $1.65 million and plaintiff filed a notice of cross-appeal.

Plaintiff: M. Brown
Date: May 2015

Verdict:
In May 2015, a Duval County jury returned a verdict in favor of plaintiff and against PM USA in a partial retrial. In 2013, a jury returned a partial verdict against PM USA, but was deadlocked as to (i) the amount of compensatory damages, (ii) whether punitive damages should be awarded and, if so, (iii) the amount of punitive damages. In the partial retrial, the jury was asked to address these issues. In May 2015, the jury awarded $6.375 million in compensatory damages, but did not award any punitive damages.

Post-Trial Developments:
In May 2015, the trial court entered final judgment without any deduction for plaintiff's comparative fault, and PM USA posted a bond in the amount of $5 million. Additionally, PM USA filed post-trial motions, including motions to set aside the verdict and for a new trial, as well as filed a notice of appeal to the Florida First District Court of Appeal. In August 2015, the trial court denied the last of PM USA's post-trial motions and plaintiff cross-appealed.

Plaintiff: Gore
Date: March 2015

Verdict:
An Indian River County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds awarding $2 million in compensatory damages and allocating 23% of the fault to PM USA (an amount of $460,000).

Post-Trial Developments:
In April 2015, defendants filed post-trial motions, including motions to set aside the verdict and for a new trial. In September 2015, the trial court entered final judgment with a deduction for plaintiff's comparative fault. In October 2015, defendants filed a notice of appeal to the Florida Fourth District Court of Appeal and PM USA subsequently posted a bond in the amount of $460,000.

Plaintiff: Pollari
Date: March 2015

Verdict:
A Broward County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds awarding $10 million in compensatory damages and allocating 42.5% of the fault to PM USA (an amount of $4.25 million). The jury also awarded $1.5 million in punitive damages against each defendant.

Post-Trial Developments:
In April 2015, defendants filed post-trial motions, including motions to set aside the verdict and for a new trial, and the trial court entered final judgment without any deduction for plaintiff's comparative fault. In January 2016, the trial court denied defendants' post-trial motions and amended the final judgment to apply the comparative fault deduction. Also in January 2016, defendants filed a notice of appeal to the Florida Fourth District Court of Appeal and PM USA posted a bond in the amount of $2.5 million. In February 2016, plaintiff cross-appealed.

Plaintiff: Zamboni
Date: February 2015

Verdict:
A jury in the U.S. District Court for the Middle District of Florida returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds awarding $340,000 in compensatory damages and allocating 10% of the fault to PM USA (an amount of $34,000).

Post-Trial Developments:
In April 2015, PM USA and R.J. Reynolds filed a motion for judgment in defendants' favor in accordance with the Eleventh Circuit's decision in Graham. In June 2015, the trial court stayed the case pending the Eleventh Circuit's final disposition in the Graham case, discussed below under Engle Progeny Appellate Issues.

Plaintiff: Caprio
Date: February 2015

Verdict:
A Broward County jury returned a partial verdict in favor of plaintiff and against PM USA, R.J. Reynolds, Lorillard and Liggett Group LLC ("Liggett Group"). The jury found against defendants on class membership, allocating 25% of the fault to PM USA. The jury also found $559,172 in economic damages. The jury deadlocked with respect to the intentional torts, certain elements of compensatory damages and punitive damages.

Post-Trial Developments:
In March 2015, PM USA filed post-trial motions, including motions to set aside the partial verdict and for a new trial. In May 2015, the court denied all of PM USA's post-trial motions and defendants filed a notice of appeal to the Florida

Fourth District Court of Appeal. In January 2017, the defendants agreed to voluntarily dismiss their appeal in exchange for a full retrial and the court dismissed the case.

Plaintiff: McKeever
Date: February 2015

Verdict:
A Broward County jury returned a verdict in favor of plaintiff and against PM USA awarding approximately $5.8 million in compensatory damages and allocating 60% of the fault to PM USA. The jury also awarded plaintiff approximately $11.63 million in punitive damages. However, the jury found in favor of PM USA on the statute of repose defense to plaintiff’s intentional tort and punitive damages claims.

Post-Trial Developments:
In March 2015, PM USA filed various post-trial motions, including motions to set aside the verdict and motions for a new trial. In April 2015, the trial court entered final judgment without any deduction for plaintiff's comparative fault. In June 2015, the trial court denied PM USA's post-trial motions, and PM USA posted a bond in the amount of $5 million. PM USA also filed a notice of appeal to the Florida Fourth District Court of Appeal in June 2015. In January 2017, the Florida Fourth District Court of Appeal issued a decision largely affirming the trial court's judgment against PM USA, but remanded the case to the trial court to amend the final judgment to apply the comparative fault deduction to the compensatory damages award.

Plaintiff: D. Brown
Date: January 2015

Verdict:
A jury in the U.S. District Court for the Middle District of Florida returned a verdict against PM USA awarding plaintiff approximately $8.3 million in compensatory damages and allocating 55% of the fault to PM USA. The jury also awarded plaintiff $9 million in punitive damages.

Post-Trial Developments:
In February 2015, the trial court entered final judgment without any deduction for plaintiff's comparative fault. In March 2015, PM USA filed various post-trial motions, including motions to alter or amend the judgment and for a new trial or, in the alternative, remittitur of the damages awards, all of which the court denied. In July 2015, PM USA filed a notice of appeal to the U.S. Court of Appeals for the Eleventh Circuit. In August 2015, the Court of Appeals granted PM USA's motion to stay the appeal pending final disposition in the Graham case, discussed below under Engle Progeny Appellate Issues.

Plaintiff: Allen
Date: November 2014

Verdict:
A Duval County jury returned a verdict against PM USA and R.J. Reynolds awarding plaintiff approximately $3.1 million in compensatory damages and allocating 6% of the fault to PM USA. The jury also awarded approximately $7.76 million in punitive damages against each defendant. This was a retrial of a 2011 trial that awarded plaintiff $6 million in compensatory damages and $17 million in punitive damages against each defendant.

Post-Trial Developments:
In December 2014, defendants filed various post-trial motions, including motions to set aside the verdict and motions for a new trial, which the court denied in July 2015. In August 2015, the trial court entered final judgment without any deduction for plaintiff's comparative fault. Defendants filed a notice of appeal to the Florida First District Court of Appeal in September 2015 and PM USA posted a bond in the amount of approximately $2.5 million.

Plaintiff: Perrotto
Date: November 2014

Verdict:
A Palm Beach County jury returned a verdict against PM USA, R.J. Reynolds, Lorillard and Liggett Group awarding plaintiff approximately $4.1 million in compensatory damages and allocating 25% of the fault to PM USA (an amount

of approximately $1.02 million).

Post-Trial Developments:
In December 2014, the trial court entered final judgment with a deduction for plaintiff's comparative fault, and plaintiff filed a motion for a new trial. In May 2016, the court granted plaintiff's motion for a new trial on punitive damages, citing the Soffer decision, discussed below under Engle Progeny Appellate Issues. In September 2016, the court denied defendants' post-trial motions.

Plaintiff: Boatright
Date: November 2014

Verdict:
A Polk County jury returned a verdict against PM USA and Liggett Group awarding plaintiff $15 million in compensatory damages and

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allocating 85% of the fault to PM USA (an amount of approximately $12.75 million). In addition, in November 2014, the jury awarded plaintiff approximately $19.7 million in punitive damages against PM USA and $300,000 in punitive damages against Liggett Group.

Post-Trial Developments:
In November 2014, PM USA filed various post-trial motions and, in January 2015, the trial court denied PM USA's motions for a new trial and for remittitur, but entered final judgment with a deduction for plaintiff's comparative fault. In February 2015, defendants filed a notice of appeal to the Florida Second District Court of Appeal, and PM USA posted a bond in the amount of $3.98 million.

Plaintiff: Kerrivan
Date: October 2014

Verdict:
A jury in the U.S. District Court for the Middle District of Florida returned a verdict against PM USA and R.J. Reynolds awarding plaintiff $15.8 million in compensatory damages and allocating 50% of the fault to PM USA. The jury also awarded plaintiff $25.3 million in punitive damages and allocated $15.7 million to PM USA.

Post-Trial Developments:
The trial court entered final judgment without any deduction for plaintiff's comparative fault. In December 2014, defendants filed various post-trial motions, including a renewed motion for judgment or for a new trial. Plaintiff agreed to waive the bond for the appeal. In May 2015, the trial court deferred further briefing on the post-trial motions pending the Eleventh Circuit's final disposition in the Graham and Searcy cases, discussed below under Engle Progeny Appellate Issues.

Plaintiff: Lourie
Date: October 2014

Verdict:
A Hillsborough County jury returned a verdict against PM USA, R.J. Reynolds and Lorillard awarding plaintiff approximately $1.37 million in compensatory damages and allocating 27% of the fault to PM USA (an amount of approximately $370,000).

Post-Trial Developments:
In October 2014, defendants filed a motion for judgment and a motion for a new trial. In November 2014, the trial court denied defendants' post-trial motions and entered final judgment with a deduction for plaintiff's comparative fault. Later in November 2014, defendants filed a notice of appeal to the Florida Second District Court of Appeal, and PM USA posted a bond in the amount of $370,318. In August 2016, the Florida Second District Court of Appeal affirmed the judgment entered in favor of the plaintiff. In September 2016, defendants filed a petition to invoke the discretionary jurisdiction of the Florida Supreme Court and the Florida Supreme Court stayed the proceedings pending final disposition in the Marotta case, discussed below under Engle Progeny Appellate Issues.

Plaintiff: Berger
Date: September 2014

Verdict:

A jury in the U.S. District Court for the Middle District of Florida returned a verdict against PM USA awarding plaintiff $6.25 million in compensatory damages and allocating 60% of the fault to PM USA. The jury also awarded $20.76 million in punitive damages.

Post-Trial Developments:
The trial court entered final judgment in September 2014 without any deduction for plaintiff's comparative fault. In October 2014, plaintiff agreed to waive the bond for the appeal. Also in October 2014, PM USA filed a motion for a new trial or, in the alternative, remittitur of the jury's damages awards. In April 2015, the trial court granted PM USA's post-verdict motion in part and vacated the punitive damages award. In November 2015, the court entered final judgment with a deduction for plaintiff's comparative fault. In April 2016, plaintiff filed a motion to reinstate the jury's punitive damages award or, alternatively, for a new trial on punitive damages, citing the Soffer decision, discussed below under Engle Progeny Appellate Issues. Also in April 2016, PM USA filed a motion to stay post-trial proceedings pending the Eleventh Circuit's final disposition in the Graham case, discussed below under Engle Progeny Appellate Issues. In May 2016, (i) the trial court denied PM USA's remaining post-trial motions and (ii) PM USA filed a notice of appeal to the U.S. Court of Appeals for the Eleventh Circuit and a motion to stay the appeal pending Graham, which the court granted in June 2016. In August 2016, the trial court denied plaintiff's motion to reinstate the jury's punitive damages or to order a new trial and, in September 2016,

plaintiff cross-appealed.

Plaintiff: Harris
Date: July 2014

Verdict:
The U.S. District Court for the Middle District of Florida returned a verdict in favor of plaintiff and against PM USA, R.J. Reynolds and Lorillard awarding approximately $1.73 million in compensatory damages and allocating 15% of the fault to PM USA.

Post-Trial Developments:
Defendants filed motions for a defense verdict because the jury's findings indicated that plaintiff was not a member of the Engle class. In December 2014, the trial court entered final judgment without any deduction for plaintiff's comparative fault and, in January 2015, defendants filed a renewed motion for judgment as a matter of law or, in the alternative, a motion for a new trial. Defendants also filed a motion to alter or amend the final judgment. In April 2015, the trial court stayed the post-trial proceedings pending the Eleventh Circuit's final disposition in the Graham case, discussed below under Engle Progeny Appellate Issues.

Plaintiff: Griffin
Date: June 2014

Verdict:
A jury in the U.S. District Court for the Middle District of Florida returned a verdict in favor of plaintiff and against PM USA awarding approximately $1.27 million in compensatory damages and allocating 50% of the fault to PM USA (an amount of approximately $630,000).

Post-Trial Developments:
The trial court entered final judgment against PM USA in July 2014 with a deduction for plaintiff's comparative fault. In August 2014, PM USA filed a motion to amend the judgment to reduce plaintiff's damages by the amount paid by collateral sources, which the court denied in September 2014. In October 2014, PM USA posted a bond in the amount of $640,543 and filed a notice of appeal to the U.S. Court of Appeals for the Eleventh Circuit. In May 2015, the Eleventh Circuit stayed the appeal pending final disposition in the Graham case, discussed below under Engle Progeny Appellate Issues.

Plaintiff: Burkhart
Date: May 2014

Verdict:
A jury in the U.S. District Court for the Middle District of Florida returned a verdict in favor of plaintiff and against PM USA, R.J. Reynolds and Lorillard awarding $5 million in compensatory damages and allocating 15% of the fault to PM USA. The jury also awarded plaintiff $2.5 million in punitive damages, allocating $750,000 to PM USA.

Post-Trial Developments:
In July 2014, defendants filed post-trial motions, including a renewed motion for judgment or, alternatively, for a new trial or remittitur of the damages awards, which the court denied in September 2014. The trial court entered final judgment without any deduction for plaintiff's comparative fault. In October 2014, defendants filed a notice of appeal

to the U.S. Court of Appeals for the Eleventh Circuit.

Plaintiff: Skolnick
Date: June 2013

Verdict:
A Palm Beach County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds. The jury awarded plaintiff $2.555 million in compensatory damages and allocated 30% of the fault to each defendant (an amount of $766,500).

Post-Trial Developments:
In June 2013, defendants and plaintiff filed post-trial motions. The trial court entered final judgment with a deduction for plaintiff's comparative fault. In November 2013, the trial court denied plaintiff's post-trial motion and, in December 2013, denied defendants' post-trial motions. Defendants filed a notice of appeal to the Florida Fourth District Court of Appeal, and plaintiff cross-appealed in December 2013. Also in December 2013, PM USA posted a bond in the amount of $766,500. In July 2015, the District Court of Appeal

reversed the compensatory damages award and ordered judgment in favor of defendants on the strict liability and negligence claims, but remanded plaintiff's conspiracy and concealment claims for a new trial. In August 2015, defendants filed a motion for rehearing, and plaintiff filed a motion for clarification, which the District Court of Appeal denied in September 2015.

Plaintiff: Starr-Blundell
Date: June 2013

Verdict:
A Duval County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds. The jury awarded plaintiff $500,000 in compensatory damages and allocated 10% of the fault to each defendant (an amount of $50,000).

Post-Trial Developments:
In June 2013, the defendants filed a motion to set aside the verdict and to enter judgment in accordance with their motion for directed verdict or, in the alternative, for a new trial, which was denied in October 2013. In November 2013, the trial court entered final judgment with a deduction for plaintiff's comparative fault. In December 2013, plaintiff filed a notice of appeal to the Florida First District Court of Appeal. Plaintiff agreed to waive the bond for the appeal. In May 2015, the Florida First District Court of Appeal affirmed the final judgment. In June 2015, plaintiff filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court. In July 2015, the Florida Supreme Court stayed the case pending the outcome of Soffer, discussed below under Engle Progeny Appellate Issues. In April 2016, the Florida Supreme Court ordered defendants to show cause as to why the case should not be remanded in light of the Soffer decision. In the first quarter of 2016, PM USA recorded a provision on its condensed consolidated balance sheet of approximately $55,000 for the judgment plus interest and associated costs. In May 2016, the Florida Supreme Court accepted jurisdiction of plaintiff's petition for review and remanded the case for reconsideration in light of the Soffer decision. In September 2016, the Florida First District Court of Appeal further remanded the case in light of Soffer.

Plaintiff: Graham
Date: May 2013

Verdict:
A jury in the U.S. District Court for the Middle District of Florida returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds. The jury awarded $2.75 million in compensatory damages and allocated 10% of the fault to PM USA (an amount of $275,000).

Post-Trial Developments:
In June 2013, defendants filed several post-trial motions, including motions for judgment as a matter of law and for a new trial, which the trial court denied in September 2013. The trial court entered final judgment with a deduction for plaintiff's comparative fault. In October 2013, defendants filed a notice of appeal to the U.S. Court of Appeals for the Eleventh Circuit arguing that Engle progeny plaintiffs' product liability claims are impliedly preempted by federal law, and PM USA posted a bond in the amount of $277,750. In April 2015, the U.S. Court of Appeals for the Eleventh Circuit found in favor of defendants on the basis of federal preemption, reversed the trial court's denial of judgment as a matter of law, and plaintiff filed a petition for rehearing en banc or panel rehearing. In January 2016, the Eleventh Circuit granted a rehearing en banc on both the preemption and due process issues.

Plaintiff: Searcy

Date: April 2013

Verdict:
A jury in the U.S. District Court for the Middle District of Florida returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds. The jury awarded $6 million in compensatory damages (allocating 30% of the fault to each defendant) and $10 million in punitive damages against each defendant.

Post-Trial Developments:
In June 2013, the trial court entered final judgment without any deduction for plaintiff's comparative fault. In July 2013, defendants filed various post-trial motions, including motions requesting reductions in damages. In September 2013, the district court reduced the compensatory damages award to $1 million and the punitive damages award to $1.67 million against each defendant. The district court denied all other post-trial motions. Plaintiff filed a motion to reconsider the district court's remittitur and, in the alternative, to certify the issue to the U.S. Court of Appeals for the Eleventh Circuit, both of which the court denied in October 2013. In November 2013, defendants filed a notice of appeal to the U.S. Court of Appeals for the Eleventh Circuit. In December 2013, defendants filed an

amended notice of appeal after the district court corrected a clerical error in the final judgment, and PM USA posted a bond in the amount of approximately $2.2 million.

Plaintiff: Calloway
Date: May 2012

Verdict:
A Broward County jury returned a verdict in favor of plaintiff and against PM USA, R.J. Reynolds, Lorillard and Liggett Group. The jury awarded approximately $21 million in compensatory damages and allocated 25% of the fault against PM USA. The jury also awarded approximately $17 million in punitive damages against PM USA, approximately $17 million in punitive damages against R.J. Reynolds, approximately $13 million in punitive damages against Lorillard and approximately $8 million in punitive damages against Liggett Group.

Post-Trial Developments:
In May and June 2012, defendants filed motions to set aside the verdict and for a new trial. In August 2012, the trial court denied the remaining post-trial motions, reduced the compensatory damages to $16.1 million and entered final judgment without any deduction for plaintiff's comparative fault. In September 2012, PM USA posted a bond in an amount of $1.5 million and defendants filed a notice of appeal to the Florida Fourth District Court of Appeal. In August 2013, plaintiff filed a motion to determine the sufficiency of the bond in the trial court on the ground that the bond cap statute is unconstitutional, which the court denied. In January 2016, a panel of the Florida Fourth District Court of Appeal vacated the punitive damages award and remanded the case for retrial on plaintiff's claims of concealment and conspiracy, and punitive damages. The court also found that the trial court should have applied the comparative fault deduction, reducing the compensatory damages against PM USA to $4.025 million. In February 2016, defendants and plaintiff filed respective motions for rehearing and rehearing en banc. In March 2016, plaintiff filed a notice of supplemental authority citing the Soffer decision, discussed below under Engle Progeny Appellate Issues. In September 2016, the Florida Fourth District Court of Appeal, ruling en banc, reversed the judgment against PM USA and R.J. Reynolds in its entirety on the grounds that improper arguments by plaintiff's counsel deprived defendants of a fair trial, and ordered a new trial. In October 2016, plaintiff filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court.

Plaintiff: Putney
Date: April 2010

Verdict:
A Broward County jury returned a verdict in favor of plaintiff and against PM USA, R.J. Reynolds and Liggett Group. The jury awarded approximately $15.1 million in compensatory damages and allocated 15% of the fault to PM USA (an amount of approximately $2.3 million). The jury also awarded $2.5 million in punitive damages against PM USA.

Post-Trial Developments:
In August 2010, the trial court entered final judgment with a deduction for plaintiff's comparative fault. PM USA filed its notice of appeal to the Florida Fourth District Court of Appeal and, in November 2010, posted a $1.6 million bond. In June 2013, the Fourth District Court of Appeal reversed and remanded the case for further proceedings, holding that the trial court erred in (1) not reducing the compensatory damages award as excessive and (2) not instructing the jury on the statute of repose in connection with plaintiff's conspiracy claim that resulted in the $2.5 million punitive damages award. In July 2013, plaintiff filed a motion for rehearing, which the Fourth District Court of Appeal denied in August 2013. In September 2013, both parties filed notices to invoke the discretionary jurisdiction of the Florida

Supreme Court. In December 2013, the Florida Supreme Court stayed the appeal pending the outcome of the Hess case. In April 2015, the Florida Supreme Court rejected the statute of repose defense in Hess, and PM USA moved for a rehearing. In September 2015, the Florida Supreme Court denied PM USA's rehearing petition in Hess. In February 2016, the Florida Supreme Court upheld the trial court's decision in favor of plaintiff and, in March 2016, clarified that its February 2016 order reinstated the trial court's decision on the statute of repose only. In August 2016, the Florida Fourth District Court of Appeal reinstated the jury's punitive damages verdict and reaffirmed that the compensatory damages award was excessive, remanding the case to the trial court to reduce the compensatory damages.

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Plaintiff: Naugle
Date: November 2009

Verdict:
A Broward County jury returned a verdict in favor of plaintiff and against PM USA. The jury awarded approximately $56.6 million in compensatory damages and $244 million in punitive damages. The jury allocated 90% of the fault to PM USA.

Post-Trial Developments:
In March 2010, the trial court entered final judgment reflecting a reduced award of approximately $13 million in compensatory damages and $26 million in punitive damages, but without any deduction for plaintiff’s comparative fault. In April 2010, PM USA filed its notice of appeal and posted a $5 million bond. In June 2012, the Fourth District Court of Appeal affirmed the final judgment (as amended to correct a clerical error) in the amount of approximately $12.3 million in compensatory damages and approximately $24.5 million in punitive damages. In December 2012, the Fourth District withdrew its prior decision, reversed the verdict as to compensatory and punitive damages and returned the case to the trial court for a new trial on the question of damages. Upon retrial, in October 2013, the new jury awarded approximately $3.7 million in compensatory damages and $7.5 million in punitive damages. PM USA filed post-trial motions, which the trial court denied in April 2014. In May 2014, PM USA filed a notice of appeal to the Fourth District Court of Appeal and plaintiff cross-appealed. Also in May 2014, PM USA filed a rider with the Florida Supreme Court to make the previously-posted Naugle bond applicable to the retrial judgment. In January 2016, the Fourth District Court of Appeal reversed the trial court’s decision and remanded the case to the trial court to conduct a juror interview. In April 2016, PM USA moved for a new trial following the juror interview, which the court denied. In May 2016, PM USA filed a notice of appeal to the Fourth District Court of Appeal.

Engle Cases Concluded Within Past 12 Months

Plaintiff: Hancock
Date: August 2012

Verdict:
A Broward County jury returned a verdict in the amount of zero damages and allocated 5% of the fault to each of the defendants (PM USA and R.J. Reynolds). The trial court granted an additur of approximately $110,000, which is subject to the jury’s comparative fault finding.

Post-Trial Developments:
In August 2012, defendants moved to set aside the verdict and to enter judgment in accordance with their motion for directed verdict. Defendants also moved to reduce damages, which motion the court granted. The trial court granted defendants’ motion to set off the damages award by the amount of economic damages paid by third parties, which will reduce further any final award. In October 2012, the trial court entered final judgment with a deduction for plaintiff’s comparative fault (PM USA’s portion of the damages was approximately $700) and PM USA filed a motion to amend the judgment to award PM USA attorneys’ fees of approximately $20,000. In November 2012, both sides filed notices of appeal to the Florida Fourth District Court of Appeal. Plaintiff agreed to waive the bond for the appeal. In April 2015, the Florida Fourth District Court of Appeal affirmed the trial court’s verdict. In May 2015, plaintiff filed a motion for rehearing and for a written opinion and rehearing en banc, which the Court of Appeal denied in June 2015. In December 2016, plaintiff agreed not to pursue the judgment in exchange for PM USA not pursuing its fee award,

thereby resolving the case.

Plaintiff: R. Cohen
Date: March 2010

Verdict:
A Broward County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds. The jury awarded $10 million in compensatory damages and allocated 33 1/3% of the fault to PM USA (an amount of approximately $3.3 million). The jury also awarded a total of $20 million in punitive damages, assessing separate $10 million awards against each defendant.

Post-Trial Developments:
In July 2010, the trial court entered final judgment with a deduction for plaintiff's comparative fault. In August 2010, PM USA filed its notice of appeal. In October 2010, PM USA posted a $2.5 million bond. In September 2012, the Florida Fourth District Court of Appeal affirmed the compensatory damages award but reversed and remanded the punitive damages verdict. The Fourth District returned the case to the trial court for a new jury trial on plaintiff's fraudulent concealment claim. In January 2013, plaintiff and defendants each

filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court. In February 2013, the Fourth District granted defendants' motion to stay the mandate. In March 2013, plaintiff filed a motion for review of the stay order with the Florida Supreme Court, which was denied in April 2013. In June 2013, plaintiff moved to consolidate with Hess and Kayton, which defendants did not oppose, but in October 2013, plaintiff withdrew the motion for consolidation. In February 2014, the Florida Supreme Court stayed the appeal pending the outcome of the Hess case. In April 2015, the Florida Supreme Court rejected the statute of repose defense in Hess, and PM USA moved for a rehearing. In September 2015, the Florida Supreme Court denied PM USA's rehearing petition in Hess. In the third quarter of 2015, PM USA recorded a provision on its condensed consolidated balance sheet of approximately $17.9 million for the judgment plus interest and associated costs. In January 2016, the Florida Supreme Court upheld the trial court's decision in favor of plaintiff. In February 2016, PM USA posted a rider increasing the amount of its bond to $7.5 million. In April 2016, PM USA filed a motion in the trial court with regard to Florida's bond cap statute, seeking to confirm that the stay on executing the judgment remains in effect through the completion of United States Supreme Court writ of certiorari review or until the time for moving for such review has expired, which the court granted. See additional discussion below under Florida Bond Statute. In June 2016, PM USA paid the judgment plus interest and associated costs in the amount of approximately $19.1 million.

Plaintiff: Buchanan
Date: December 2012

Verdict:
A Leon County jury returned a verdict in favor of plaintiff and against PM USA and Liggett Group. The jury awarded $5.5 million in compensatory damages and allocated 37% of the fault to each of the defendants.

Post-Trial Developments:
In December 2012, defendants filed several post-trial motions, including motions for a new trial and to set aside the verdict. In March 2013, the trial court denied all motions and entered final judgment against PM USA and Liggett Group without any deduction for plaintiff's comparative fault. In April 2013, defendants filed a notice of appeal to the Florida First District Court of Appeal, and PM USA posted a bond in the amount of $2.5 million. In July 2014, the Florida First District Court of Appeal affirmed the judgment, but certified to the Florida Supreme Court the issue of the statute of repose, which was before the court in Hess. In August 2014, defendants filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court. In September 2014, the Florida Supreme Court stayed the case pending the outcome of Hess. In April 2015, the Florida Supreme Court rejected the statute of repose defense in Hess, and PM USA moved for a rehearing. In September 2015, the Florida Supreme Court denied PM USA's rehearing petition in Hess. In the third quarter of 2015, PM USA recorded a provision on its condensed consolidated balance sheet of approximately $4.1 million for the judgment plus interest and associated costs. In February 2016, the Florida Supreme Court declined to accept jurisdiction of PM USA's petition for review and PM USA posted a rider increasing the amount of its bond to $5.5 million. In June 2016, PM USA paid the judgment plus interest and associated costs in the amount of approximately $4.4 million.

Plaintiff: Hallgren
Date: January 2012

Verdict:
A Highland County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds. The jury awarded approximately $2 million in compensatory damages and allocated 25% of the fault to PM USA (an amount of approximately $500,000). The jury also awarded $750,000 in punitive damages against each of the defendants.

Post-Trial Developments:
The trial court entered final judgment in March 2012 with a deduction for plaintiff's comparative fault. In April 2012, PM USA posted a bond in an amount of approximately $1.25 million. In May 2012, defendants filed a notice of appeal to the Florida Second District Court of Appeal. In October 2013, the Second District Court of Appeal affirmed the judgment. In November 2013, defendants filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court. In June 2014, the Florida Supreme Court stayed the case pending the outcome of Russo (presenting the same statute of repose issue as Hess). In April 2015, the Florida Supreme Court rejected the statute of repose defense in the Hess and Russo cases, and defendants moved for a rehearing. Additionally, in April 2015, the Florida Supreme Court stayed the case pending the outcome of Soffer, discussed below under Engle Progeny Appellate Issues. In September 2015, the Florida Supreme Court denied PM USA's rehearing petition in Hess and Russo. In October 2015, the Florida Supreme Court lifted its stay of the case and ordered defendants to show cause why the court should not decline to exercise jurisdiction, to which defendants responded. In January 2016, the Florida Supreme Court denied defendants' petition for discretionary review, and PM USA amended its bond to post an additional amount of approximately $500,000. In the first quarter of 2016, PM USA recorded a provision on its condensed consolidated balance sheet of approximately $2.2 million for the judgment plus interest and associated costs. In June

2016, PM USA paid the judgment plus interest and associated costs in the amount of approximately $2.3 million.

Plaintiff: Kayton (formerly Tate)
Date: July 2010

Verdict:
A Broward County jury returned a verdict in favor of plaintiff and against PM USA. The jury awarded $8 million in compensatory damages and allocated 64% of the fault to PM USA (an amount of approximately $5.1 million). The jury also awarded approximately $16.2 million in punitive damages against PM USA.

Post-Trial Developments:
In August 2010, the trial court entered final judgment with a deduction for plaintiff's comparative fault, and PM USA filed its notice of appeal and posted a $5 million bond. In November 2012, the Florida Fourth District Court of Appeal reversed the punitive damages award and remanded the case for a new trial on plaintiff's conspiracy claim. PM USA filed a motion for rehearing, which was denied in January 2013. In January 2013, plaintiff and defendant each filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court. In June 2013, the Florida Supreme Court stayed the appeal pending the outcome of Hess. In April 2015, the Florida Supreme Court rejected the statute of repose defense in Hess, and PM USA moved for a rehearing. In September 2015, the Florida Supreme Court denied PM USA's rehearing petition in Hess. In the third quarter of 2015, PM USA recorded a provision on its condensed consolidated balance sheet of approximately $28.2 million for the judgment plus interest and associated costs. In February 2016, the Florida Supreme Court upheld the trial court's decision in favor of plaintiff, and PM USA posted a rider increasing the amount of its bond to $15 million. In April 2016, PM USA filed a motion in the trial court with regard to Florida's bond cap statute, seeking to confirm that the stay on executing the judgment remains in effect through the completion of United States Supreme Court writ of certiorari review or until the time for moving for such review has expired, which the court granted. See additional discussion below under Florida Bond Statute. In June 2016, PM USA paid the judgment plus interest and associated costs in the amount of approximately $30.1 million.

Plaintiff: Bowden
Date: March 2014

Verdict:
A Duval County jury returned a verdict in favor of plaintiff and against PM USA and R.J. Reynolds. The jury awarded plaintiff $5 million in compensatory damages and allocated 30% of the fault to PM USA (an amount of $1.5 million).

Post-Trial Developments:
The trial court entered final judgment in March 2014 with a deduction for plaintiff's comparative fault. In April 2014, defendants filed post-trial motions, including motions for a new trial and to set aside the verdict. In May 2014, the court denied defendants' post-trial motions. In June 2014, defendants filed a notice of appeal to the Florida First District Court of Appeal, and PM USA posted a bond in the amount of $1.5 million. In February 2016, the Florida First District Court of Appeal affirmed the trial court's decision in favor of plaintiff. In the first quarter of 2016, PM USA recorded a provision on its condensed consolidated balance sheet of approximately $1.6 million for the judgment plus interest. In June 2016, PM USA paid the judgment plus interest and associated costs in the amount of approximately $2.7 million.

Plaintiff: Hess
Date: February 2009

Verdict:
A Broward County jury found in favor of plaintiff and against PM USA. The jury awarded $3 million in compensatory damages and allocated 42% of the fault to PM USA (an amount of approximately $1.2 million). The jury also awarded $5 million in punitive damages.

Post-Trial Developments:
In June 2009, the trial court entered final judgment with a deduction for plaintiff's comparative fault. PM USA filed a notice of appeal to the Florida Fourth District Court of Appeal and posted a $7 million bond in July 2009. In May 2012, the Fourth District reversed and vacated the punitive damages award on the basis that it was barred by the statute of repose and affirmed the judgment in all other respects, upholding the compensatory damages award of $1.26 million. In June 2012, both parties filed rehearing motions with the Fourth District, which were denied in September 2012. In October 2012, PM USA and plaintiff filed notices to invoke the Florida

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Supreme Court's discretionary jurisdiction. In the first quarter of 2013, PM USA recorded a provision on its condensed consolidated balance sheet of approximately $3.2 million for the compensatory damages component of the judgment plus interest and associated costs. In June 2013, the Florida Supreme Court accepted jurisdiction of plaintiff's petition for review, but declined to accept jurisdiction of PM USA's petition. In April 2015, the Florida Supreme Court rejected the statute of repose defense and reinstated the punitive damages award against PM USA, and PM USA moved for a rehearing. In September 2015, the Florida Supreme Court denied PM USA's rehearing petition. In the third quarter of 2015, PM USA recorded an additional provision on its condensed consolidated balance sheet of approximately $6.6 million for the punitive damages component of the judgment plus interest and associated costs. In February 2016, PM USA paid the judgment plus interest and associated costs in the amount of approximately $10.6 million. In June 2016, PM USA paid an additional $843,261 in interest on the judgment, an amount that had been disputed between the parties.

Plaintiff: Greene (formerly Rizzuto)
Date: August 2013

Verdict:
A Hernando County jury returned a verdict in favor of plaintiff and against PM USA and Liggett Group. The jury awarded plaintiff $12.55 million in compensatory damages and allocated 55% of the fault to PM USA.

Post-Trial Developments:
In September 2013, defendants filed post-trial motions, including a motion to reduce damages. In September 2013, the trial court granted a remittitur in part on economic damages, which the court reduced from $2.55 million to $1.1 million for a total award of $11.1 million in compensatory damages. The trial court entered final judgment without a deduction for plaintiff's comparative fault. In July 2015, the Florida Fifth District Court of Appeal found that the trial court should have applied the comparative fault deduction to the compensatory damages award. As a result, the judgment against PM USA was reduced to approximately $6.1 million. In September 2015, the Fifth District Court of Appeal denied PM USA's motion for rehearing. In October 2015, PM USA posted a bond in the amount of $6.1 million. In the third quarter of 2015, PM USA recorded a provision on its condensed consolidated balance sheet of approximately $6.7 million for the judgment plus interest and associated costs. In February 2016, PM USA paid the judgment plus interest in the amount of approximately $6.8 million. In April 2016, PM USA paid fees of approximately $1.45 million.

Engle Progeny Appellate Issues: Three Florida federal district courts (in the Merlob, B. Brown and Burr cases) ruled in 2008 that the findings in the first phase of the Engle proceedings cannot be used to satisfy elements of plaintiffs' claims, and two of those rulings (B. Brown and Burr) were certified by the trial court for interlocutory review. The certification in both cases was granted by the U.S. Court of Appeals for the Eleventh Circuit and the appeals were consolidated. The appeal in Burr was dismissed for lack of prosecution, and the case was ultimately dismissed on statute of limitations grounds.
In July 2010, the Eleventh Circuit ruled in B. Brown that, as a matter of Florida law, plaintiffs do not have an unlimited right to use the findings from the original Engle trial to meet their burden of establishing the elements of their claims at trial. The Eleventh Circuit did not reach the issue of whether the use of the Engle findings violates defendants' due process rights. Rather, the court held that plaintiffs may only use the findings to establish those specific facts, if any, that they demonstrate with a reasonable degree of certainty were actually decided by the original Engle jury. The Eleventh Circuit remanded the case to the district court to determine what specific factual findings the Engle jury actually made.

After the remand of B. Brown, several state appellate rulings superseded the Eleventh Circuit's ruling on Florida state law. These cases include Martin, a case against R.J. Reynolds in Escambia County, and J. Brown, a case against R.J. Reynolds in Broward County. In December 2011, petitions for writ of

certiorari were filed with the United States Supreme Court by R.J. Reynolds in Campbell, Martin, Gray and Hall and by PM USA and Liggett Group in Campbell. The United States Supreme Court denied defendants' certiorari petitions in March 2012.

In Douglas, in March 2012, the Florida Second District Court of Appeal issued a decision affirming the judgment of the trial court in favor of the plaintiff and upholding the use of the Engle jury findings with respect to strict liability claims but certified to the Florida Supreme Court the question of whether granting res judicata effect to the Engle jury findings violates defendants' federal due process rights. In March 2013, the Florida Supreme Court affirmed the final judgment entered in favor of plaintiff upholding the use of the Engle jury findings with respect to strict liability and negligence claims. PM USA filed its petition for writ of certiorari with the United States Supreme Court in August 2013, which the court denied in October 2013.

Meanwhile, in the Waggoner case, the U.S. District Court for the Middle District of Florida ruled in December 2011 that application of the Engle findings to establish the wrongful conduct elements of plaintiffs' claims consistent with Martin or J. Brown did not violate defendants' due process rights. PM USA and the other defendants sought appellate review of the due process ruling. In February 2012, the district court denied the motion for interlocutory appeal, but did apply the ruling to all active pending federal Engle progeny cases. As a result, R.J. Reynolds appealed the rulings in the Walker and Duke cases to the Eleventh Circuit, which ultimately rejected the due process

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defense. In March 2014, R.J. Reynolds filed petitions for writ of certiorari to the United States Supreme Court in the Walker and Duke cases, as well as in J. Brown. Defendants filed petitions for writ of certiorari in eight other Engle progeny cases that were tried in Florida state courts, including one case, Barbanell, in which PM USA was the defendant. In these eight petitions, defendants asserted questions similar to those in Walker, Duke and J. Brown. In June 2014, the United States Supreme Court denied defendants' petitions for writ of certiorari in all 11 cases.
In Graham, an Engle progeny case against PM USA and R.J. Reynolds on appeal to the U.S. Court of Appeals for the Eleventh Circuit, in April 2015 the court, found in favor of defendants on the basis of federal preemption, reversing the trial court's denial of judgment as a matter of law. Thereafter, plaintiff filed a petition for rehearing en banc, which the Eleventh Circuit granted in January 2016. The Eleventh Circuit directed the parties to file briefs and argue both the federal preemption and due process issues. Also in January 2016, in Marotta, a case against R.J. Reynolds on appeal to the Florida Fourth District Court of Appeal, the court rejected R.J. Reynolds's federal preemption defense, but noted the conflict with Graham and certified the preemption question to the Florida Supreme Court. In March 2016, the Florida Supreme Court accepted review of Marotta. Argument was held in November 2016.
In Searcy, an Engle progeny case against PM USA and R.J. Reynolds on appeal to the Eleventh Circuit, defendants argued that application of the Engle findings to the Engle progeny plaintiffs' concealment and conspiracy claims violated defendants' due process rights. The appeal is pending.
In Soffer, an Engle progeny case against R.J. Reynolds, the Florida First District Court of Appeal held that Engle progeny plaintiffs can recover punitive damages only on their intentional tort claims. The Florida Supreme Court accepted jurisdiction over plaintiff's appeal from the Florida First District Court of Appeal's decision and, in March 2016, held that Engle progeny plaintiffs can recover punitive damages in connection with all of their claims. Plaintiffs have increasingly relied on this Florida Supreme Court decision at the trial and appellate court levels in seeking punitive damages in connection with all of their claims.
In Ciccone, an Engle progeny case against R.J. Reynolds, the Florida Fourth District Court of Appeal held that Engle progeny plaintiffs could establish class membership by showing that they developed symptoms during the Engle class period that could, in hindsight, be attributed to their smoking-related disease. The court certified a conflict with Castleman, a Florida First District Court of Appeal decision, which held that manifestation requires Engle progeny plaintiffs to have been aware during the class period that they had a disease caused by smoking in order to establish class membership. The Florida Supreme Court accepted jurisdiction in the Ciccone case and, in March 2016, ruled in favor of plaintiff, approving the Fourth District Court of Appeal's definition.
In Schoeff, an Engle progeny case against R.J. Reynolds, the Florida Fourth District Court of Appeal held that comparative fault findings should apply to reduce all compensatory damage awards, including awards based on intentional fraud claims. The

Florida Supreme Court accepted jurisdiction over plaintiff's appeal of the Florida Fourth District Court of Appeal's decision. Oral argument is scheduled for March 8, 2017.
Florida Bond Statute: In June 2009, Florida amended its existing bond cap statute by adding a $200 million bond cap that applies to all state Engle progeny lawsuits in the aggregate and establishes individual bond caps for individual Engle progeny cases in amounts that vary depending on the number of judgments in effect at a given time. Plaintiffs in three state Engle progeny cases against R.J. Reynolds in Alachua County, Florida (Alexander, Townsend and Hall) and one case in Escambia County (Clay) challenged the constitutionality of the bond cap statute. The Florida Attorney General intervened in these cases in defense of the constitutionality of the statute.
Trial court rulings were rendered in Clay, Alexander, Townsend and Hall rejecting the plaintiffs' bond cap statute challenges in those cases. The plaintiffs unsuccessfully appealed these rulings. In Alexander, Clay and Hall, the District Court of Appeal for the First District of Florida affirmed the trial court decisions and certified the decision in Hall for appeal to the Florida Supreme Court, but declined to certify the question of the constitutionality of the bond cap statute in Clay and Alexander. The Florida Supreme Court granted review of the Hall decision, but, in September

2012, the court dismissed the appeal as moot. In October 2012, the Florida Supreme Court denied the plaintiffs' rehearing petition. In August 2013, in Calloway, discussed further above, plaintiff filed a motion in the trial court to determine the sufficiency of the bond posted by defendants on the ground that the bond cap statute is unconstitutional, which was denied.

In February 2016, in the Sikes case against R.J. Reynolds, the trial court held that Florida's bond cap statute does not stay the execution of judgment after a case is final in the Florida judicial system and before the defendant files a petition for writ of certiorari in the United States Supreme Court. The District Court of Appeal for the First District of Florida issued an order staying execution of the judgment and requesting that plaintiff show cause why the stay should not remain in effect through the completion of United States Supreme Court writ of certiorari review or until the time for moving for such review has expired. In April 2016, the District Court of Appeal held that the bond cap applies to the period between a Florida Supreme Court ruling and completion of United States Supreme Court writ of certiorari review. In April 2016, PM USA filed motions in the trial court in the R. Cohen and Kayton cases seeking confirmation that the stay on executing the judgment remains in effect through the completion of United States Supreme Court writ of certiorari review or until the time for moving for such review has expired, which the court granted.

No federal court has yet addressed the constitutionality of the bond cap statute or the applicability of the bond cap to Engle progeny cases tried in federal court.

The Florida Legislature is considering legislation that would repeal the 2009 appeal bond cap statute.

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Other Smoking and Health Class Actions
Since the dismissal in May 1996 of a purported nationwide class action brought on behalf of allegedly addicted smokers, plaintiffs have filed numerous putative smoking and health class action suits in various state and federal courts. In general, these cases purport to be brought on behalf of residents of a particular state or states (although a few cases purport to be nationwide in scope) and raise addiction claims and, in many cases, claims of physical injury as well.
Class certification has been denied or reversed by courts in 60 smoking and health class actions involving PM USA in Arkansas (1), California (1), the District of Columbia (2), Florida (2), Illinois (3), Iowa (1), Kansas (1), Louisiana (1), Maryland (1), Michigan (1), Minnesota (1), Nevada (29), New Jersey (6), New York (2), Ohio (1), Oklahoma (1), Oregon (1), Pennsylvania (1), Puerto Rico (1), South Carolina (1), Texas (1) and Wisconsin (1).
As of January 27, 2017, PM USA and Altria Group, Inc. are named as defendants, along with other cigarette manufacturers, in seven class actions filed in the Canadian provinces of Alberta, Manitoba, Nova Scotia, Saskatchewan, British Columbia and Ontario. In Saskatchewan, British Columbia (two separate cases) and Ontario, plaintiffs seek class certification on behalf of individuals who suffer or have suffered from various diseases, including chronic obstructive pulmonary disease, emphysema, heart disease or cancer, after smoking defendants' cigarettes. In the actions filed in Alberta, Manitoba and Nova Scotia, plaintiffs seek certification of classes of all individuals who smoked defendants' cigarettes. See Guarantees and Other Similar Matters below for a discussion of the Distribution Agreement between Altria Group, Inc. and PMI that provides for indemnities for certain liabilities concerning tobacco products.
Medical Monitoring Class Actions
In medical monitoring actions, plaintiffs have sought to recover the cost for, or otherwise the implementation of, court-supervised programs for ongoing medical monitoring purportedly on behalf of a class of individual plaintiffs. Plaintiffs in these cases have sought to impose liability under various product-based causes of action and the creation of a court-supervised program providing members of the purported class Low Dose CT scanning in order to identify and diagnose lung cancer. Plaintiffs in these cases have not sought punitive damages, although plaintiffs in Donovan sought permission from the court to seek to treble any damages awarded, which the court denied. The defense of any future medical monitoring cases may be negatively impacted by evolving medical standards and practice.
In Donovan, filed in December 2006 in the U.S. District Court for the District of Massachusetts, plaintiffs purportedly brought the action on behalf of certain residents who had neither been diagnosed with lung cancer nor were under investigation by a physician for suspected lung cancer. The Supreme Judicial Court of Massachusetts, in answering questions certified to it by the district court, held that under certain circumstances state law recognizes a claim by individual smokers for medical monitoring despite the absence of an actual injury. The case was remanded to

federal court for further proceedings. The district court granted in part plaintiffs' motion for class certification, certifying the class as to plaintiffs' claims for breach of implied warranty and violation of the Massachusetts Consumer Protection Act. As a remedy, plaintiffs proposed a 28-year medical monitoring program with a cost in excess of $190 million.
Both parties filed various motions, including motions for partial summary judgment and to exclude certain evidence. The district court granted PM USA's motion for partial summary judgment holding that e-vapor products may not be deemed an alternative design for ordinary cigarettes. In 2016, PM USA ultimately prevailed at trial on the warranty claim and the Massachusetts Consumer Protection Act claim with final judgment entered in favor of PM USA in September 2016. Plaintiff did not appeal the judgment, concluding this litigation.
Health Care Cost Recovery Litigation
Overview: In the health care cost recovery litigation, governmental entities seek reimbursement of health care cost expenditures allegedly caused by tobacco products and, in some cases, of future expenditures and damages. Relief sought by some but not all plaintiffs includes punitive damages, multiple damages and other statutory damages and

penalties, injunctions prohibiting alleged marketing and sales to minors, disclosure of research, disgorgement of profits, funding of anti-smoking programs, additional disclosure of nicotine yields, and payment of attorney and expert witness fees.

The claims asserted include the claim that cigarette manufacturers were “unjustly enriched” by plaintiffs’ payment of health care costs allegedly attributable to smoking, as well as claims of indemnity, negligence, strict liability, breach of express and implied warranty, violation of a voluntary undertaking or special duty, fraud, negligent misrepresentation, conspiracy, public nuisance, claims under federal and state statutes governing consumer fraud, antitrust, deceptive trade practices and false advertising, and claims under federal and state anti-racketeering statutes. Defenses raised include lack of proximate cause, remoteness of injury, failure to state a valid claim, lack of benefit, adequate remedy at law, “unclean hands” (namely, that plaintiffs cannot obtain equitable relief because they participated in, and benefited from, the sale of cigarettes), lack of antitrust standing and injury, federal preemption, lack of statutory authority to bring suit and statutes of limitations. In addition, defendants argue that they should be entitled to “set off” any alleged damages to the extent the plaintiffs benefit economically from the sale of cigarettes through the receipt of excise taxes or otherwise. Defendants also argue that these cases are improper because plaintiffs must proceed under principles of subrogation and assignment. Under traditional theories of recovery, a payor of medical costs (such as an insurer) can seek recovery of health care costs from a third party solely by “standing in the shoes” of the injured party. Defendants argue that plaintiffs should be required to bring any actions as subrogees of individual health care recipients and should be subject to all defenses available against the injured party.

Although there have been some decisions to the contrary, most judicial decisions in the United States have dismissed all or most health care cost recovery claims against cigarette manufacturers. Nine federal circuit courts of appeals and eight state appellate courts, relying primarily on grounds that plaintiffs' claims were too remote, have ordered or affirmed dismissals of health care cost recovery actions. The United States Supreme Court has refused to consider plaintiffs' appeals from the cases decided by five circuit courts of appeals.

Individuals and associations have also sued in purported class actions or as private attorneys general under the Medicare as Secondary Payer ("MSP") provisions of the Social Security Act to recover from defendants Medicare expenditures allegedly incurred for the treatment of smoking-related diseases. Cases were brought in New York (2), Florida (2) and Massachusetts (1). All were dismissed by federal courts.

In addition to the cases brought in the United States, health care cost recovery actions have also been brought against tobacco industry participants, including PM USA and Altria Group, Inc., in Israel (dismissed), the Marshall Islands (dismissed) and Canada (10), and other entities have stated that they are considering filing such actions.

In September 2005, in the first of several health care cost recovery cases filed in Canada, the Canadian Supreme Court ruled that legislation passed in British Columbia permitting the lawsuit is constitutional, and, as a result, the case, which had previously been dismissed by the trial court, was permitted to proceed. PM USA's and other defendants' challenge to the British Columbia court's exercise of jurisdiction was rejected by the Court of Appeals of British Columbia and, in April 2007, the Supreme Court of Canada denied review of that decision.

Since the beginning of 2008, the Canadian Provinces of British Columbia, New Brunswick, Ontario, Newfoundland and Labrador, Quebec, Alberta, Manitoba, Saskatchewan, Prince Edward Island and Nova Scotia have brought health care reimbursement claims against cigarette manufacturers. PM USA is named as a defendant in the British Columbia and Quebec cases, while both Altria Group, Inc. and PM USA are named as defendants in the New Brunswick, Ontario, Newfoundland and Labrador, Alberta, Manitoba, Saskatchewan, Prince Edward Island and Nova Scotia cases. The Nunavut Territory and Northwest Territory have passed similar legislation. See Guarantees and Other Similar Matters below for a discussion of the Distribution Agreement between Altria Group, Inc. and PMI that provides for indemnities for certain liabilities concerning tobacco products.

Settlements of Health Care Cost Recovery Litigation: In November 1998, PM USA and certain other United States tobacco product manufacturers entered into the 1998 Master Settlement Agreement (the "MSA") with 46 states, the District of Columbia, Puerto Rico, Guam, the United States Virgin Islands, American Samoa and the Northern Marianas to settle asserted and unasserted health care cost recovery and other claims. PM USA and certain other United States tobacco product manufacturers had previously entered into agreements to settle similar claims

brought by Mississippi, Florida, Texas and Minnesota (together with the MSA, the "State Settlement Agreements"). The State Settlement Agreements require that the original participating manufacturers or "OPMs" (now PM USA and R.J. Reynolds and, with respect to the brands it acquired from R.J. Reynolds and Lorillard, ITG Brands, LLC ("ITG"), subject to a dispute discussed below with respect to some of the State Settlement Agreements) make annual payments of approximately $9.4 billion, subject to adjustments for several factors, including inflation, market share and industry volume. In addition, the OPMs are required to pay settling plaintiffs' attorneys' fees, subject to an annual cap of $500 million. For the years ended December 31, 2016, 2015 and 2014, the aggregate amount recorded in cost of sales with respect to the State Settlement Agreements and the Fair and Equitable Tobacco Reform Act of 2004, which expired after the third quarter of 2014, was approximately $4.6 billion, $4.5 billion and $4.6 billion, respectively.

The State Settlement Agreements also include provisions relating to advertising and marketing restrictions, public disclosure of certain industry documents, limitations on challenges to certain tobacco control and underage use laws, restrictions on lobbying activities and other provisions.

NPM Adjustment Disputes: PM USA is participating in proceedings regarding potential downward adjustments (the "NPM Adjustment") to MSA payments made by manufacturers that are signatories to the MSA (the "participating manufacturers" or "PMs") for 2003-2015. The NPM Adjustment is a reduction in MSA payments that applies if the PMs collectively lose at least a specified level of market share to non-participating manufacturers ("NPMs") between 1997 and the year at issue, subject to certain conditions and defenses. The independent auditor appointed under the MSA calculates the maximum amount, if any, of the NPM Adjustment for any year in respect of which such NPM Adjustment is potentially applicable.

2003-2014 NPM Adjustment Disputes - Settlement with 24 States and Territories and Settlement with New York: PM USA has settled the NPM Adjustment disputes for the years 2003-2012 with 24 of the 52 MSA states and territories (these 24 states and territories are referred to as the "signatory states," and the remaining MSA states and territories are referred to as the "non-signatory states"). Pursuant to the settlement with these 24 signatory states, PM USA has received a total of $599 million for 2003-2012 in the form of reductions to its MSA payments in 2013, 2014 and 2015. In addition, the settlement provides that the NPM Adjustment provision will be revised and streamlined as to the signatory states for the years after 2012. Under the revised provision, the 2013 and 2014 NPM Adjustments were "transition years," for which the PMs received specified payments in settlement of the NPM Adjustments for those years. PM USA received $38 million for the 2013 transition year and $41 million for the 2014 transition year pursuant to this revised provision in the form of reductions to its MSA payments in 2014 and 2015, respectively.

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The revised NPM Adjustment provision in the settlement provides that, for 2015 and subsequent years, there is a potential downward adjustment to the PMs' MSA payment relating to NPM sales on which state excise tax ("SET") is paid. Pursuant to such adjustment, each signatory state will pay an amount to the OPMs tied to the number of NPM cigarettes sold during the year at issue on which that state collected its SET (or, potentially, on which a comparable tax was collected) but on which that state did not collect escrow ("non-compliant NPM sales"). These payments will be made in the form of future reductions to MSA payments by the OPMs. This adjustment for SET-paid NPM sales is subject to certain exceptions and to a "safe harbor" under which a state does not owe any payment if the number or percentage of non-compliant NPM sales is below certain stated benchmarks. In addition, the settlement further provides that the NPM Adjustment for 2015 and subsequent years will continue to apply to the signatory states, subject to certain defenses, but that those states will receive a partial liability reduction tied to the percentage of NPM sales nationwide during the year at issue on which either an MSA state has collected SET (or potentially a comparable tax is collected) or, potentially, Mississippi, Florida, Texas or Minnesota collected an equity fee (as defined in the settlement) on cigarettes sold by NPMs in those respective states. The amount (if any) of the potential adjustments relating to SET-paid NPM sales for 2015 and 2016 and the amount of the partial liability reductions for 2015 and 2016 have not yet been determined. In addition, proceedings to determine the availability of and defenses to the 2015 and 2016 NPM Adjustments as to the signatory states will likely not take place for a considerable period of time. In the meantime, pursuant to the settlement, the OPMs and the signatory states have agreed to split the NPM Adjustment amount for 2015 and each subsequent year thereafter pending the ultimate outcome of the applicable proceedings. As a result, in the second quarter of 2016, approximately $43 million was returned to PM USA related to the 2015 NPM Adjustment. This amount was included in other liabilities on the condensed consolidated balance sheet at June 30, 2016 and, once the proceedings to determine the amount of the 2015 NPM Adjustment are concluded, it will either be paid to the signatory states or retained by PM USA (in each case, without interest) as part of the ultimately determined amount payable. The OPMs have agreed that the amounts they receive under the settlement for the 2013-2014 transition years and for subsequent years from the signatory states will be allocated among them pursuant to a formula that modifies the MSA allocation formula in a manner favorable to PM USA. The extent to which it remains favorable to PM USA will depend upon future developments, as well as upon the resolution of certain disputes among the OPMs discussed below.

Many of the non-signatory states objected to the settlement before the arbitration panel hearing the 2003 NPM Adjustment dispute. In March 2013, the panel issued a stipulated partial settlement and award (the "Stipulated Award") rejecting the objections and permitting the settlement to proceed. In the Stipulated Award, the arbitration panel also ruled that the total 2003 NPM Adjustment would be reduced pro rata by the aggregate allocable share of the signatory states to determine the

maximum amount of the 2003 NPM Adjustment potentially available from the non-signatory states whose diligent enforcement claims the PMs continued to contest (the "pro rata judgment reduction").

Fourteen of the non-signatory states filed motions in their state courts to vacate and/or modify the Stipulated Award in whole or part. Decisions by the Pennsylvania, Missouri, Maryland and New Mexico courts on such motions, and the subsequent appeals of those rulings, are discussed below. One state's motion was denied without an appeal by the state. As for the remaining states, rulings rejecting their motions to vacate the Stipulated Award have been affirmed on appeal, or the motions have been voluntarily dismissed or stayed pending further state action.

In October 2015, PM USA, along with the other PMs, settled the 2004-2014 NPM Adjustment disputes with New York. The New York settlement is separate from the settlement with the 24 signatory states and is different from that settlement in certain respects. Pursuant to the New York settlement, PM USA received approximately $126 million for 2004-2014 in the form of a reduction to its MSA payment in 2016. PM USA previously recorded $126 million as a reduction to cost of sales in the third quarter of 2015 to reflect the New York settlement in its estimate of MSA expenses related to prior years. In addition, the New York settlement provides that the NPM Adjustment provision will be revised as to New York for the years after 2014. The revised provision with respect to NPM cigarettes on which New York SET is paid is largely similar to the revised provision in the settlement with the 24 signatory states with respect to an adjustment relating to SET-paid NPM sales. Based on the information provided by New York, no such adjustment is due for 2015.

As to other NPM cigarettes, the New York settlement provides that, in lieu of the NPM Adjustment provision for years after 2014, New York will make annual payments to the PMs tied to the number of NPM cigarettes on which New York did not collect SET that were sold on or through Native American reservations located in New York (or otherwise met the standard in the settlement agreement) during the year at issue to New York consumers ("Tribal NPM Packs"). These annual payments will be made in the form of reductions to future MSA payments by the PMs, beginning with the MSA payment in 2017. The OPMs have agreed that the amounts they receive under the New York settlement for the years after 2014 will be allocated among them pursuant to a formula that modifies the MSA allocation formula in a manner favorable to PM USA, although the extent to which it remains favorable to PM USA will depend upon future developments, as well as upon the resolution of certain disputes among the OPMs discussed below. Under the New York settlement, in return for the payments described above and other consideration described in the New York settlement, the PMs have released New York from the NPM Adjustment provision for all years except as provided in the New York settlement.

The number of Tribal NPM Packs sold in a given year will be determined by an investigative firm based on information provided by the PMs and New York and by the investigative firm's own research and activities (the "investigative proceeding"). The investigative firm's determination of the number of Tribal NPM Packs sold in a given year will apply for that year as well as for the following year, with the result that an investigative proceeding is expected to be held every two years. Accordingly, the number of Tribal NPM Packs determined by the investigative firm to have been sold during 2015 (which is expected to result in a reduction of the PMs' MSA payments due in April 2017) will also apply to 2016 (which is expected to result in a reduction of the PMs' MSA payments due in April 2018). While an investigative proceeding to determine the number of Tribal NPM Packs sold during 2015 has been commenced, PM USA does not expect a determination by the investigative firm until later in the first quarter of 2017.

In connection with the investigative proceeding, PM USA recorded for the years 2015 and 2016 a $58 million reduction to cost of sales in the fourth quarter of 2016. This amount represents PM USA's estimate, based on information submitted by the PMs and New York to the investigative firm, of the minimum number of Tribal NPM Packs that the investigative firm is likely to find were sold during 2015 and the related reductions to PM USA's MSA payments in April 2017 and April 2018. Depending upon whether the investigative firm's determination of the number of Tribal NPM Packs sold during 2015 is greater or lower than PM USA's estimate, PM USA will respectively record later in 2017 either an additional reduction in cost of sales or an increase in cost of sales.

2003 and Subsequent NPM Adjustment Disputes - Continuing Disputes with Non-Signatory States other than New York: PM USA has continued to pursue the NPM Adjustments for 2003 and subsequent years with respect to the non-signatory states other than New York. Under the MSA, once all conditions for the NPM Adjustment for a particular year are met (including the condition that the disadvantages of the MSA were a "significant factor" contributing to the PMs' collective loss of market share), each state may avoid an NPM Adjustment to its share of the PMs' MSA payments for that year by establishing that it diligently enforced a qualifying escrow statute during the entirety of that year. Such a state's share of the NPM Adjustment would then be reallocated to any states that are found not to have diligently enforced for that year. For 2003-2014, all conditions for the NPM Adjustment have been met, either by determination or agreement among the parties (although the parties' agreement provides that the "significant factor" condition for 2014 will become effective in February 2017). Whether the "significant factor" condition for 2015 has been met has not yet been resolved.

2003 NPM Adjustment. With one exception (Montana), the courts have ruled that the states' claims of diligent enforcement are to be submitted to arbitration. PM USA and other PMs entered into an agreement with most of the MSA states and territories concerning the 2003 NPM Adjustment, under which such states and territories would receive a partial liability reduction of 20% for the 2003 NPM Adjustment in the event the arbitration panel determined that they did not diligently enforce during 2003. The Montana state courts ruled that Montana may litigate its diligent enforcement claims in state court, rather than in arbitration. In June 2012, the PMs and Montana entered a consent decree pursuant to which Montana would not be subject to the 2003 NPM Adjustment.

In September 2013, the arbitration panel issued rulings regarding the 15 states and territories whose diligent enforcement the PMs contested that had not as of that time joined the settlement, ruling that six of them (Indiana, Kentucky, Maryland, Missouri, New Mexico and Pennsylvania) did not diligently enforce during 2003 and that nine of them did. Based on this ruling, the PMs were entitled to receive from the six non-diligent states the entire 2003 NPM Adjustment remaining after the pro rata judgment reduction. PM USA believed it was entitled to receive an NPM Adjustment for 2003 based on this ruling, after reflecting the 20% partial liability reduction noted above, of approximately $145 million. PM USA recorded this $145 million as a reduction to cost of sales, which increased its reported pre-tax earnings in the third quarter of 2013. In addition, PM USA believed it would be entitled to interest on this amount of approximately $89 million. PM USA recorded $64 million of this amount as interest income, which reduced interest and other debt expense, net in the first quarter of 2014, but did not record the remaining $25 million based on its assessment of certain disputes concerning interest discussed below.

After PM USA recorded these amounts, two of the six non-diligent states (Indiana and Kentucky) joined the settlement and became signatory states. Those two states account for (i) $37 million of the $145 million NPM Adjustment for 2003 that PM USA recorded and (ii) $17 million of the interest that PM USA recorded. PM USA has retained those amounts from the two states, and has received additional amounts as part of the settlement recoveries for the 2003-2012 NPM Adjustment disputes described above. The remaining four states account for approximately (i) $108 million of the $145 million 2003 NPM Adjustment that PM USA recorded and (ii) $66 million of the $89 million of interest to which PM USA believed it would be entitled on the $145 million (and $47 million of the $64 million of interest that PM USA recorded). Each of these four states filed a motion in its state court to (i) vacate the panel's ruling as to its diligence and (ii) modify the pro rata judgment reduction and to substitute a reduction method more favorable to the state. These four states also raised a dispute concerning the independent auditor's calculation of interest. In addition, another OPM has raised a dispute concerning the allocation of the interest and disputed payments account earnings among the OPMs.

In April 2014, a Pennsylvania state trial court denied Pennsylvania's motion to vacate the arbitration panel's ruling that Pennsylvania had not diligently enforced, but granted Pennsylvania's motion to modify, with respect to Pennsylvania, the pro rata judgment reduction. In April 2015, a Pennsylvania intermediate appellate court affirmed the trial court's modification, with respect to Pennsylvania, of the pro rata judgment reduction. In December 2015, the Supreme Court of Pennsylvania denied PM USA's petition for further judicial review of the Pennsylvania intermediate appellate court decision. Because the Pennsylvania state trial court ruling preceded PM

USA's 2014 MSA payment date, the total 2014 MSA payment credit PM USA received on account of the 2003 NPM Adjustment from the four states was reduced from $108 million to $79 million, and the interest PM USA received from the four states was $48 million rather than the $66 million in interest to which PM USA believed it would be entitled from those four states. As a result of the denial by the Supreme Court of Pennsylvania of PM USA's petition for review of the intermediate appellate court ruling on the modification of the pro rata judgment reduction method, PM USA reversed $29 million of the reduction to cost of sales and $13 million of the interest income that had been previously recorded in respect of Pennsylvania for the 2003 NPM Adjustment, which reduced its reported pre-tax earnings by approximately $42 million in the fourth quarter of 2015. In April 2016, PM USA filed a petition for writ of certiorari with the United States Supreme Court, which was denied in October 2016.

In July 2014, a Maryland state trial court denied both Maryland's motion to vacate the arbitration panel's ruling that Maryland had not diligently enforced and Maryland's motion to vacate or modify the pro rata judgment reduction. In October 2015, a Maryland intermediate appellate court reversed the Maryland trial court's ruling on the pro rata judgment reduction method and applied a judgment reduction method that is more favorable to the state. PM USA sought further discretionary review of this decision in the Maryland Court of Appeals but, in February 2016, the Court of Appeals denied PM USA's petition. As a result, PM USA returned approximately $12 million of the 2003 NPM Adjustment and $7 million of the interest it received (plus interest on those amounts). In addition, PM USA recorded a corresponding reduction to its pre-tax earnings in the first quarter of 2016. In June 2016, PM USA filed a petition for writ of certiorari with the United States Supreme Court, which was denied in October 2016.

In May 2014, a Missouri state trial court denied Missouri's motion to vacate the arbitration panel's ruling that Missouri had not diligently enforced, but granted Missouri's motion to modify, with respect to Missouri, the pro rata judgment reduction. In September 2015, however, a Missouri intermediate appellate court reversed the Missouri state trial court's ruling that modified the pro rata judgment reduction, effectively reinstating the application of that reduction method to Missouri. The Supreme Court of Missouri granted Missouri's request for review of the intermediate appellate court decision. If Missouri is successful on further judicial review of the Missouri intermediate appellate court's ruling reversing the Missouri trial court ruling, PM USA will be required to return approximately $12 million of the 2003 NPM Adjustment and $7 million of the interest it received (in each case subject to confirmation by the independent auditor), plus applicable interest, and would need to make corresponding reversals to amounts previously recorded. In connection with its appeal of the Missouri state trial court's ruling, PM USA posted a bond in the amount of $22 million, which will remain in place despite the reversal of the Missouri state trial court's ruling by the intermediate appellate court until all appeals are exhausted.

In September 2016, a New Mexico state trial court denied New Mexico's motion to vacate the arbitration panel's ruling that

New Mexico had not diligently enforced, but granted New Mexico's motion to modify, with respect to New Mexico, the pro rata judgment reduction. PM USA is appealing the New Mexico trial court's decision regarding the pro rata judgment reduction. If PM USA is not successful on further judicial review of the trial court's ruling on the judgment reduction issue, PM USA will have to return $3 million of the 2003 NPM Adjustment and $2 million of the interest it received (plus interest on those amounts) and would need to make corresponding revisions to amounts previously recorded. This and the other litigation and disputes discussed above could further reduce PM USA's recovery on the 2003 NPM Adjustment or recovery of interest and potentially require PM USA to return amounts previously received and/or reverse amounts previously recorded. No assurance can be given that the litigation and disputes discussed above will be resolved in a manner favorable to PM USA.

2004 and Subsequent NPM Adjustments. PM USA believes that the MSA requires the states' diligent enforcement claims for 2004 and thereafter to be determined in multi-state arbitrations, although a number of non-signatory states filed motions in their state courts contending that the claims are to be determined in separate arbitrations for individual states or that there is no arbitrable dispute for 2004. In September 2015, a Missouri intermediate appellate court ruled that Missouri was entitled to a single-state arbitration to determine whether Missouri diligently enforced for 2004. PM USA appealed this ruling, and the Supreme Court of Missouri granted review. No assurance can be given that the outcome of such appeal will be favorable to PM USA. In December 2015, a Wisconsin trial court ruled that Wisconsin must arbitrate its claim of diligent enforcement for 2004, and Wisconsin has since agreed to join the 2004 diligent enforcement arbitration.

In June 2015, PM USA entered into an agreement with 17 of the non-signatory states to form an arbitration panel to conduct an arbitration regarding the 2004 NPM Adjustment. Pursuant to that agreement, in July 2015 PM USA and the 17 states each appointed its respective side's arbitrator for that arbitration panel. In December 2015, the two appointed arbitrators selected the third arbitrator for a three-arbitrator panel required by the MSA. Other PMs declined to participate in appointing the arbitrators, and instead filed motions in courts in each of the 17 states seeking to compel these states to participate in an arbitration of the 2004 NPM Adjustment dispute between the states and the PMs that would also include disputes solely between the OPMs regarding the allocation of NPM Adjustments as between them (the "inter-company disputes"). Several of the 17 states and PM USA filed cross-motions objecting to the motions filed by the other PMs and seeking to confirm the arbitrators selected by them in July 2015 as properly selected pursuant to the MSA to resolve the 2004 NPM Adjustment dispute between the 17 states and the PMs. PM USA, the 17 states and the other PMs resolved these disputes, and the 2004 diligent enforcement arbitration is underway before two separate arbitration panels, with certain states' claims of diligent enforcement to be decided by one panel and certain other states' claims of diligent enforcement decided by the other panel. These

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two arbitration panels have two arbitrators in common. As part of the resolution of these disputes, the OPMs have agreed that the inter-company disputes will be heard by a separate arbitration panel. In addition, Wisconsin, Pennsylvania and Maryland have agreed to join in the 2004 diligent enforcement arbitration. In November 2016, New Mexico was ordered by its trial court to join the arbitration. New Mexico has appealed the decision.
Proceedings regarding diligent enforcement claims for 2005 and subsequent years have not yet been scheduled. No assurance can be given as to when proceedings for 2005 and subsequent years will be scheduled or the precise form those proceedings will take.
The independent auditor has calculated that PM USA’s share of the maximum potential NPM Adjustments for 2004-2015 is (exclusive of interest or earnings): $388 million for 2004, $181 million for 2005, $154 million for 2006, $185 million for 2007, $250 million for 2008, $211 million for 2009, $218 million for 2010, $166 million for 2011, $210 million for 2012, $218 million for 2013, $241 million for 2014 and $289 million for 2015. These maximum amounts will be reduced by a judgment reduction to reflect the settlement with the signatory states (for 2004-2014) and the New York settlement. The judgment reduction for the 2004 and subsequent NPM Adjustments has not yet been determined. In addition, these maximum amounts may also be further reduced by other developments, including agreements that may be entered in the future, disputes that may arise or recalculation of the NPM Adjustment amounts by the independent auditor. Further, the maximum amount for 2004 may also be reduced due to a dispute raised by another OPM regarding the allocation of the maximum potential 2004 NPM Adjustment among the OPMs. In addition, as discussed below, PM USA believes that the amount shown above as PM USA’s share of the maximum potential NPM Adjustment for 2015 was incorrectly calculated by the independent auditor, and that PM USA’s correct share is higher. Finally, PM USA’s recovery of these amounts, even as reduced, is dependent upon subsequent determinations of state diligent enforcement claims, and is subject (in the case of signatory states found non-diligent) to the partial liability reduction under the settlement. The availability and amount of any NPM Adjustment for 2004 and subsequent years will not be finally determined in the near term. There is no assurance that PM USA will ultimately receive any adjustment as a result of these proceedings. PM USA’s receipt of amounts on account of the 2003 NPM Adjustment and interest from non-signatory states does not provide any assurance that PM USA will receive any NPM Adjustment amounts (or associated interest or earnings) for 2004 or any subsequent year. PM USA may enter into settlement discussions regarding the NPM Adjustment disputes with any state if PM USA believes it is in its best interests to do so.

Other Disputes Under the State Settlement Agreements: The payment obligations of the tobacco product manufacturers that are parties to the State Settlement Agreements, as well as the allocations of any NPM Adjustments received by them pursuant to the MSA or the settlements of NPM Adjustment disputes with certain states described above, as calculated by the independent auditor, have been and may continue to be affected by R.J. Reynolds’s acquisition of Lorillard and the related assignment of certain cigarette brands by R.J. Reynolds to ITG (the “RJR-Lorillard-ITG transaction”). For example, R.J. Reynolds and ITG have taken the position that they do not have to make payments on those brands under the Florida, Minnesota and Texas State Settlement Agreements or include those brands in their reported volumes or profits for purposes of certain calculations under the State Settlement Agreements. PM USA believes that the position taken by R.J. Reynolds and ITG violates the State Settlement Agreements and applicable law. In that regard, PM USA disputes several calculations made by the independent auditor since the RJR-Lorillard-ITG transaction. In particular, PM USA believes that the independent auditor’s calculations incorrectly increased PM USA’s payments for 2015 due to Mississippi, Florida, Texas and Minnesota under their State Settlement Agreements by at least $42 million and for 2016 by an amount that cannot yet be determined because the final 2016 payment amounts have not been calculated by the independent auditor (see below for a discussion of the portion of these improperly increased payments attributable to the Florida Settlement Agreement). PM USA further believes that such payments due to those states for subsequent years may also be incorrectly increased by amounts that will depend on the independent auditor’s future calculations.

In January 2017, PM USA and the State of Florida each filed in Florida state court a motion against R.J. Reynolds and ITG to enforce the Florida State Settlement Agreement with respect to their failure to make payments to Florida on the assigned brands and failure to include those brands in their reported volumes and profits for purposes of certain calculations under the Florida State Settlement Agreement. PM USA believes that, as a result of these failures by R.J. Reynolds and ITG, its settlement payments to Florida have been improperly increased by over $13 million.

In addition to the disputes noted above, PM USA believes that the calculations by the independent auditor have resulted in an improper decrease of PM USA's share of the 2015 NPM Adjustment pursuant to the MSA and the settlements of the NPM Adjustment disputes and may result in improper decreases of its share for subsequent years, although the amounts of such decreases depend on a number of factors that cannot be determined at this time. PM USA cannot provide any assurance that it will be successful in any such disputes that it has raised or may raise.

Other MSA-Related Litigation: Since the MSA's inception, NPMs and/or their distributors or customers have filed a number of challenges to the MSA and related legislation. They have named as defendants the states and their officials, in an effort to enjoin enforcement of important parts of the MSA and related legislation, and/or participating manufacturers, in an effort to obtain damages. To date, no such challenge has been successful, and the U.S. Courts of Appeals for the Second, Third, Fourth, Fifth, Sixth, Eighth, Ninth and Tenth Circuits have affirmed judgments in favor of defendants in 16 such cases.

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Federal Government's Lawsuit: In 1999, the United States government filed a lawsuit in the U.S. District Court for the District of Columbia against various cigarette manufacturers, including PM USA, and others, including Altria Group, Inc., asserting claims under three federal statutes, namely the Medical Care Recovery Act ("MCRA"), the MSP provisions of the Social Security Act and the civil provisions of RICO. Trial of the case ended in June 2005. The lawsuit sought to recover an unspecified amount of health care costs for tobacco-related illnesses allegedly caused by defendants' fraudulent and tortious conduct and paid for by the government under various federal health care programs, including Medicare, military and veterans' health benefits programs, and the Federal Employees Health Benefits Program. The complaint alleged that such costs total more than $20 billion annually. It also sought what it alleged to be equitable and declaratory relief, including disgorgement of profits that arose from defendants' allegedly tortious conduct, an injunction prohibiting certain actions by defendants, and a declaration that defendants are liable for the federal government's future costs of providing health care resulting from defendants' alleged past tortious and wrongful conduct. The case ultimately proceeded only under the civil provisions of RICO.

The government alleged that disgorgement by defendants of approximately $280 billion is an appropriate remedy and the trial court agreed. In February 2005, however, a panel of the U.S. Court of Appeals for the District of Columbia Circuit held that disgorgement is not a remedy available to the government under the civil provisions of RICO. In October 2005, the United States Supreme Court denied the government's petition for writ of certiorari.

In August 2006, the federal trial court entered judgment in favor of the government. The court held that certain defendants, including Altria Group, Inc. and PM USA, violated RICO and engaged in seven of the eight "sub-schemes" to defraud that the government had alleged. Specifically, the court found that:

- defendants falsely denied, distorted and minimized the significant adverse health consequences of smoking;
- defendants hid from the public that cigarette smoking and nicotine are addictive;
- defendants falsely denied that they control the level of nicotine delivered to create and sustain addiction;
- defendants falsely marketed and promoted "low tar/light" cigarettes as less harmful than full-flavor cigarettes;
- defendants falsely denied that they intentionally marketed to youth;
- defendants publicly and falsely denied that ETS is hazardous to non-smokers; and
- defendants suppressed scientific research.

The court did not impose monetary penalties on defendants, but ordered the following relief: (i) an injunction against "committing any act of racketeering" relating to the

manufacturing, marketing, promotion, health consequences or sale of cigarettes in the United States; (ii) an injunction against participating directly or indirectly in the management or control of the Council for Tobacco Research, the Tobacco Institute, or the Center for Indoor Air Research, or any successor or affiliated entities of each; (iii) an injunction against "making, or causing to be made in any way, any material false, misleading, or deceptive statement or representation or engaging in any public relations or marketing endeavor that is disseminated to the United States public and that misrepresents or suppresses information concerning cigarettes"; (iv) an injunction against conveying any express or implied health message or health descriptors on cigarette packaging or in cigarette advertising or promotional material, including "lights," "ultra lights" and "low tar," which the court found could cause consumers to believe one cigarette brand is less hazardous than another brand; (v) the issuance of "corrective statements" in various media regarding the adverse health effects of smoking, the addictiveness of smoking and nicotine, the lack of any significant health benefit from smoking "low tar" or "light" cigarettes, defendants' manipulation of cigarette design to ensure optimum nicotine delivery and the adverse health effects of exposure to ETS; (vi) the disclosure on defendants' public document websites and in the Minnesota document repository of all documents produced to the government in the lawsuit or produced in any future court or administrative action concerning smoking and health until 2021, with certain additional requirements as to documents withheld from production under a claim of privilege or confidentiality; (vii) the disclosure of disaggregated marketing data to the government in the same form and on the same schedule as defendants now follow in disclosing such data to the Federal Trade Commission ("FTC") for a period of 10 years; (viii) certain restrictions on the sale or transfer by defendants of any cigarette brands, brand names, formulas or cigarette businesses within the United States; and (ix) payment of the government's costs in bringing the action.

Defendants appealed and, in May 2009, a three judge panel of the Court of Appeals for the District of Columbia Circuit issued a per curiam decision largely affirming the trial court's judgment against defendants and in favor of the government. Although the panel largely affirmed the remedial order that was issued by the trial court, it vacated the following aspects of the order:

its application to defendants' subsidiaries;

the prohibition on the use of express or implied health messages or health descriptors, but only to the extent of extraterritorial application;

its point-of-sale display provisions; and

its application to Brown & Williamson Holdings.

The Court of Appeals panel remanded the case for the trial court to reconsider these four aspects of the injunction and to reformulate its remedial order accordingly. Furthermore, the Court of Appeals panel rejected all of the government's and intervenors' cross-appeal arguments and refused to broaden the

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remedial order entered by the trial court. The Court of Appeals panel also left undisturbed its prior holding that the government cannot obtain disgorgement as a permissible remedy under RICO.

In July 2009, defendants filed petitions for a rehearing before the panel and for a rehearing by the entire Court of Appeals. Defendants also filed a motion to vacate portions of the trial court's judgment on the grounds of mootness because of the passage of the Family Smoking Prevention and Tobacco Control Act ("FSPTCA"), granting the U.S. Food and Drug Administration (the "FDA") broad authority over the regulation of tobacco products. In September 2009, the Court of Appeals entered three per curiam rulings. Two of them denied defendants' petitions for panel rehearing or for rehearing en banc. In the third per curiam decision, the Court of Appeals denied defendants' suggestion of mootness and motion for partial vacatur. In February 2010, PM USA and Altria Group, Inc. filed their certiorari petitions with the United States Supreme Court. In addition, the federal government and the intervenors filed their own certiorari petitions, asking the court to reverse an earlier Court of Appeals decision and hold that civil RICO allows the trial court to order disgorgement as well as other equitable relief, such as smoking cessation remedies, designed to redress continuing consequences of prior RICO violations. In June 2010, the United States Supreme Court denied all of the parties' petitions. In July 2010, the Court of Appeals issued its mandate lifting the stay of the trial court's judgment and remanding the case to the trial court. As a result of the mandate, except for those matters remanded to the trial court for further proceedings, defendants are now subject to the injunction discussed above and the other elements of the trial court's judgment.

In February 2011, the government submitted its proposed corrective statements and the trial court referred issues relating to a document repository to a special master. Defendants filed a response to the government's proposed corrective statements and filed a motion to vacate the trial court's injunction in light of the FSPTCA, which motion was denied in June 2011. Defendants appealed the trial court's ruling to the U.S. Court of Appeals for the District of Columbia Circuit. In July 2012, the Court of Appeals affirmed the district court's denial of defendants' motion to vacate the district court's injunction.

Remaining issues pending include: (i) the content of the court-ordered corrective communications and (ii) the requirements related to point-of-sale signage. In November 2012, the district court issued its order specifying the content of the corrective communications described above. The district court's order required the parties to engage in negotiations with the special master regarding implementation of the corrective communications remedy for television, newspapers, cigarette pack onserts and websites. In January 2013, defendants filed a notice of appeal from the order on the content and vehicles of the corrective communications and a motion to hold the appeal in abeyance pending completion of the negotiations, which the U.S. Court of Appeals granted in February 2013. In January 2014, the parties submitted a motion for entry of a consent order in the district court, setting forth their agreement on the implementation details of the corrective communications remedy. The agreement

provides that the "trigger date" for implementation is after the appeal on the content of the communications has been exhausted. Also in January 2014, the district court convened a hearing and ordered further briefing. A number of amici who sought modification or rejection of the agreement for a variety of reasons were given leave to appear. In April 2014, the parties filed an amended proposed consent order and accompanying submission in the district court seeking entry of a revised agreement on the implementation details of the corrective communications remedy. In June 2014, the district court approved the April 2014 proposed consent order. Also in June 2014, defendants filed a notice of appeal of the consent order solely for the purpose of perfecting the U.S. Court of Appeals' jurisdiction over the pending appeal relating to the content and vehicles of the corrective communications and, in July 2014, defendants moved to consolidate this appeal with the appeal filed in January 2013. The U.S. Court of Appeals granted the motion to consolidate in August 2014.

In May 2015, the U.S. Court of Appeals affirmed in part and reversed in part, concluding that certain portions of the statements exceeded the district court's jurisdiction under RICO, but upheld other portions challenged by defendants. The Court of Appeals remanded the case to the trial court for further proceedings. In July 2015, the government filed a petition for panel rehearing, which the U.S. Court of Appeals denied on August 2015. In October 2015, the district court ordered further briefing on the content of the corrective communications reversed by the U.S. Court of Appeals and any implementation changes the parties propose. In February 2016, the U.S. District Court for the District of Columbia issued an order on the content of the corrective communications and ordered the parties to submit proposed changes to the consent order on the implementation details, which the parties jointly submitted and the court approved in April 2016. Also in April 2016, defendants filed a notice of appeal to the U.S. Court of Appeals for the District of Columbia Circuit on the content of the corrective communications. In May 2016, defendants filed a notice of appeal of the consent order for the purpose of perfecting the appeal of the district court's February 2016 order on the content of the corrective communications. Oral argument is scheduled for February 14, 2017 on defendants' appeal.

In the second quarter of 2014, Altria Group, Inc. and PM USA recorded provisions on each of their respective balance sheets totaling $31 million for the estimated costs of implementing the corrective communications remedy. This estimate is subject to change due to several factors, including the outcome of further proceedings, though Altria Group, Inc. and PM USA do not expect any change in this estimate to be material.

The consent order approved by the district court in June 2014 did not address the requirements related to point-of-sale signage. In May 2014, the district court ordered further briefing by the parties on the issue of corrective statements on point-of-sale signage, which was completed in June 2014.

In December 2011, the parties to the lawsuit entered into an agreement as to the issues concerning the document repository. Pursuant to this agreement, PM USA agreed to deposit an amount

of approximately $3.1 million into the district court in installments over a five-year period.
“Lights/Ultra Lights” Cases
Overview: Plaintiffs in certain pending matters seek certification of their cases as class actions and allege, among other things, that the uses of the terms “Lights” and/or “Ultra Lights” constitute deceptive and unfair trade practices, common law or statutory fraud, unjust enrichment or breach of warranty, and seek injunctive and equitable relief, including restitution and, in certain cases, punitive damages. These class actions have been brought against PM USA and, in certain instances, Altria Group, Inc. or its other subsidiaries, on behalf of individuals who purchased and consumed various brands of cigarettes, including Marlboro Lights, Marlboro Ultra Lights, Virginia Slims Lights and Superslims, Merit Lights and Cambridge Lights. Defenses raised in these cases include lack of misrepresentation, lack of causation, injury and damages, the statute of limitations, non-liability under state statutory provisions exempting conduct that complies with federal regulatory directives, and the First Amendment. As of January 27, 2017, a total of 8 such cases are pending in various U.S. state courts.
The Good Case and Federal Multidistrict Proceeding: In Good, a purported “Lights” class action, the United States Supreme Court ruled in December 2008 that plaintiffs’ claims are not preempted by the Federal Cigarette Labeling and Advertising Act (“FCLAA”). The case was returned to federal court in Maine and consolidated with other federal cases in a multidistrict litigation (“MDL”) proceeding. In June 2011, the plaintiffs voluntarily dismissed the Good case without prejudice. The other multidistrict cases were either voluntarily dismissed or resolved in a manner favorable to PM USA.
“Lights” Cases Dismissed, Not Certified or Ordered De-Certified: As of January 27, 2017, in addition to the federal MDL proceeding discussed above, 20 courts in 21 “Lights” cases have refused to certify class actions, dismissed class action allegations, reversed prior class certification decisions or have entered judgment in favor of PM USA.
State Trial Court Class Certifications: State trial courts have certified classes against PM USA in several jurisdictions. Over time, several such cases have been dismissed by the courts at the summary judgment stage. One certified class action remains pending on appeal.
Larsen: In August 2005, a Missouri Court of Appeals affirmed the class certification order. In December 2009, the trial court denied plaintiffs’ motion for reconsideration of the period during which potential class members can qualify to become part of the class. The class period remains 1995-2003. In June 2010, PM USA’s motion for partial summary judgment regarding plaintiffs’ request for punitive damages was denied. In April 2010, plaintiffs moved for partial summary judgment as to an element of liability in the case, claiming collateral estoppel from the findings in the case brought by the Department of Justice (see Health Care Cost Recovery Litigation - Federal Government’s Lawsuit described above). The plaintiffs’ motion was denied in December 2010. In

June 2011, PM USA filed various summary judgment motions challenging the plaintiffs’ claims. In August 2011, the trial court granted PM USA’s motion for partial summary judgment, ruling that plaintiffs could not present a damages claim based on allegations that Marlboro Lights are more dangerous than Marlboro Reds. The trial court denied PM USA’s remaining summary judgment motions. Trial in the case began in September 2011 and, in October 2011, the court declared a mistrial after the jury failed to reach a verdict. In January 2014, the trial court reversed its prior ruling granting partial summary judgment against plaintiffs’ “more dangerous” claim and allowed plaintiffs to pursue that claim. In October 2014, PM USA filed motions to decertify the class and for partial summary judgment on plaintiffs’ “more dangerous” claim, which the court denied in June 2015. Upon retrial, in April 2016, the jury returned a verdict in favor of PM USA. In May 2016, plaintiffs filed a motion for a new trial, which PM USA opposed in June 2016. In August 2016, the trial court denied plaintiffs’ motion for a new trial, plaintiffs filed a notice of appeal and PM USA cross-appealed. In November 2016, the court of appeals dismissed PM USA’s cross-appeal without prejudice upon joint motion of the parties.
State Trial Court Class Certifications Concluded in 2016:

Aspinall: In August 2004, the Massachusetts Supreme Judicial Court affirmed the class certification order. In September 2013, plaintiffs filed a motion for partial summary judgment on the scope of remedies available in the case, which the Massachusetts Superior Court denied in February 2014, concluding that plaintiffs cannot obtain disgorgement of profits as an equitable remedy and that their recovery is limited to actual damages or $25 per class member if they cannot prove actual damages greater than $25. Trial began in October 2015 and concluded in November 2015. In February 2016, the trial court issued its "Findings of Fact and Conclusions of Law," and awarded statutory damages of $25 per class member, for a total of $4.9 million, plus interest, attorneys' fees and costs. In April 2016, subject to the court's approval, the parties agreed to settle all claims for approximately $32 million. In the first quarter of 2016, PM USA recorded a provision on its condensed consolidated balance sheet of approximately $32 million for the judgment plus interest and associated costs. In May 2016, PM USA paid approximately $32 million to plaintiffs' escrow agent. In September 2016, the court approved the settlement in which PM USA agreed to pay approximately $15.3 million to the class and $16.5 million in attorneys' fees and costs, and dismissed the case with prejudice, concluding this litigation.

Miner: In March 2013, plaintiffs filed a class certification motion. In November 2013, the trial court granted class certification. The certified class includes those individuals who, from November 1, 1971 through June 22, 2010, purchased Marlboro Lights and Marlboro Ultra Lights for personal consumption in Arkansas. PM USA filed a notice of appeal of the class certification ruling to the Arkansas Supreme Court in December 2013. In February 2015, the Arkansas Supreme Court affirmed the trial court's class certification order. In May 2015, PM USA filed a motion for partial summary judgment seeking to foreclose any recovery for cigarette purchases prior to 1999, when a private right of action was added to the consumer protection statute under which plaintiffs are suing. The trial court denied the motion in July 2015. In June 2016, the trial court granted PM USA's motion for partial summary judgment to limit any damages claimed by the plaintiffs' class to purchases made prior to May 2003. In July 2016, the parties agreed to settle all claims for $45 million. In the third quarter of 2016, PM USA recorded a provision on its condensed consolidated balance sheet of $45 million. In November 2016, the trial court granted final approval of the settlement, concluding this litigation. In December 2016, PM USA paid $45 million to plaintiff's escrow agent.

Price: Trial in Price commenced in state court in Illinois in January 2003 and, in March 2003, the judge found in favor of the plaintiff class and awarded $7.1 billion in compensatory damages and $3 billion in punitive damages against PM USA. In December 2005, the Illinois Supreme Court reversed the trial court's judgment in favor of the plaintiffs. In November 2006, the United States Supreme Court denied plaintiffs' petition for writ of certiorari and, in December 2006, the Circuit Court of Madison County dismissed the case with prejudice. In December 2008, plaintiffs filed with the trial court a petition for relief from the final judgment that was entered in favor of PM USA. In February 2012, plaintiffs filed an amended petition asking the trial court to reinstate the original judgment, which the court denied in December 2012. On appeal, in April 2014, the Fifth Judicial District reversed and ordered reinstatement of the original $10.1 billion trial court judgment against PM USA. In September 2014, the Illinois Supreme Court granted PM USA's motion for leave to appeal. In November 2015, the Illinois Supreme Court vacated the Fifth Judicial District's decision and dismissed the cause of action without prejudice to plaintiffs to file a motion to recall the mandate in the Illinois Supreme Court. In November 2015, the plaintiffs filed a motion in the Illinois Supreme Court seeking to recall the 2005 mandate issued in PM USA's favor, which the court denied. The litigation concluded in June 2016 after the United States Supreme Court denied plaintiffs' petition for writ of certiorari.

Other Developments: In Oregon (Pearson), a state court in October 2006 denied plaintiffs' motion for interlocutory review of the trial court's refusal to certify a class. The denial was ultimately affirmed on appeal and the case was remanded to the trial court to adjudicate the claims of the individual plaintiffs. In April 2016, the parties agreed to settle plaintiffs' individual claims for an aggregate amount of $30,000 and, pursuant to that settlement, the parties filed a stipulation of voluntary dismissal with prejudice with the Circuit Court of Multnomah County. This litigation has concluded.

In December 2009, the state trial court in Carroll (formerly known as Holmes) (pending in Delaware) denied PM USA's motion for summary judgment based on an exemption provision in the Delaware Consumer Fraud Act. In January 2011, the trial court allowed the plaintiffs to file an amended complaint substituting class representatives and naming Altria Group, Inc. and PMI as additional defendants. In February 2013, the trial court approved the parties' stipulation to the dismissal without prejudice of Altria Group, Inc. and PMI, leaving PM USA as the sole defendant in the case. In March 2015, plaintiffs moved for class certification and, in July 2015, PM USA filed a summary judgment motion seeking to dismiss plaintiffs' claims in their entirety on preemption grounds.

Certain Other Tobacco-Related Litigation

Ignition Propensity Cases: PM USA and Altria Group, Inc. are currently facing litigation alleging that a fire caused by cigarettes led to individuals' deaths. In a Kentucky case (Walker), the federal district court denied plaintiffs' motion to remand the case to state court and dismissed plaintiffs' claims in February 2009. Plaintiffs subsequently filed a notice of appeal. In October 2011, the U.S. Court of Appeals for the Sixth Circuit reversed the portion of the district court decision that denied remand of the case to Kentucky state court and remanded the case to Kentucky state court. The Sixth Circuit did not address the merits of the district court's dismissal order. Defendants' petition for rehearing with the Sixth Circuit was denied in December 2011. Defendants filed a renewed motion to dismiss in state court in March 2013. Based on new evidence, in June 2013, defendants removed the case for a second time to the U.S. District Court for the Western District of Kentucky and re-filed their motion to dismiss in June 2013. In July 2013, plaintiffs filed a motion to remand the case to Kentucky state court, which was granted in March 2014. In November 2016, defendants filed renewed motions to dismiss the case.

False Claims Act Case: PM USA is a defendant in a qui tam action filed in the U.S. District Court for the District of Columbia (United States ex rel. Anthony Oliver) alleging violation of the False Claims Act in connection with sales of cigarettes to the U.S. military. The relator contends that PM USA violated “most favored customer” provisions in government contracts and regulations by selling cigarettes to non-military customers in overseas markets at more favorable prices than it sold to the U.S. military exchange services for resale on overseas military bases in those same markets. The relator has dropped Altria Group, Inc. as a defendant and has dropped claims related to post-MSA price increases on cigarettes sold to the U.S. military. In July 2012, PM USA filed a motion to dismiss, which was granted on jurisdictional grounds in June 2013, and the case was dismissed with prejudice. In July 2013, the relator appealed the dismissal to the U.S. Court of Appeals for the District of Columbia Circuit. In August 2014, the U.S. Court of Appeals reversed the jurisdictional issue and remanded the case to the district court for further proceedings, including consideration of PM USA’s alternative grounds for dismissal. In October 2014, PM USA filed a second motion to dismiss in the U.S. District Court for the District of Columbia for lack of subject matter jurisdiction based on issues left unresolved by the opinion of the U.S. Court of Appeals for the District of Columbia Circuit. In April 2015, the district court granted PM USA’s second motion to dismiss for lack of subject matter jurisdiction and again dismissed the case with prejudice. The relator appealed the latest dismissal to the U.S. Court of Appeals for the District of Columbia Circuit in May

2015. In June 2016, the U.S. Court of Appeals for the District of Columbia Circuit affirmed the dismissal of the case on jurisdictional grounds. In July 2016, the relator filed a petition for rehearing or rehearing en banc. In September 2016, the U.S. Court of Appeals for the District of Columbia Circuit denied the petition for rehearing. Plaintiffs did not file a certiorari petition in the United States Supreme Court within the required time, and the case is thus concluded.

Argentine Grower Cases: PM USA and Altria Group, Inc. were sued in six cases (Hupan, Chalanuk, Rodriguez Da Silva, Aranda, Taborda and Biglia) filed in Delaware state court against multiple defendants by the parents of Argentine children born with alleged birth defects. Plaintiffs in these cases allege that they grew tobacco in Argentina under contract with Tabacos Norte S.A., an alleged subsidiary of PMI, and that they and their infant children were exposed directly and in utero to Monsanto Company's ("Monsanto") Roundup herbicide during the production and cultivation of tobacco. Plaintiffs seek compensatory and punitive damages against all defendants. Altria Group, Inc. and certain other defendants were dismissed from the Hupan, Chalanuk, Rodriguez Da Silva, Aranda, Taborda and Biglia cases. The three remaining defendants in the six cases were PM USA, Philip Morris Global Brands Inc. (a subsidiary of PMI) and Monsanto. Following discussions regarding indemnification for these cases pursuant to the Distribution Agreement between PMI and Altria Group, Inc., PMI and PM USA agreed to resolve conflicting indemnity demands after final judgments are entered. See Guarantees and Other Similar Matters below for a discussion of the Distribution Agreement. In April 2014, all three defendants in the Hupan case filed motions to dismiss for failure to state a claim, and PM USA and Philip Morris Global Brands filed separate motions to dismiss based on the doctrine of forum non conveniens. All proceedings in the other five cases were stayed pending the court's resolution of the motions to dismiss filed in Hupan. In November 2015, the trial court granted PM USA's motion to dismiss on forum non conveniens grounds. Plaintiffs filed a motion for clarification or re-argument in December 2015, which the court denied in August 2016. Later in August 2016, PM USA and Philip Morris Global Brands moved for entry of final judgment in the Hupan case and also moved to lift the stays in the other five cases for the limited purpose of entering final judgment of dismissal in those cases as well based on the forum non conveniens decision in Hupan. The court granted those motions in September 2016, and entered final judgment of dismissal in all six cases. In October 2016, plaintiffs filed their notice of appeal to the Delaware Supreme Court.

UST Litigation

Claims related to smokeless tobacco products generally fall within the following categories:

First, UST and/or its tobacco subsidiaries have been named in certain actions in West Virginia (See In re: Tobacco Litigation above) brought by or on behalf of individual plaintiffs against cigarette manufacturers, smokeless tobacco manufacturers and other organizations seeking damages and other relief in connection with injuries allegedly sustained as a result of tobacco usage, including smokeless tobacco products. Included among the plaintiffs are three individuals alleging use of USSTC's smokeless tobacco products and alleging the types of injuries claimed to be associated with the use of smokeless tobacco products. USSTC, along with other non-cigarette manufacturers, has remained severed from such proceedings since December 2001.

Second, UST and/or its tobacco subsidiaries have been named in a number of other individual tobacco and health suits over time. Plaintiffs' allegations of liability in these cases are based on various theories of recovery, such as negligence, strict liability, fraud, misrepresentation, design defect, failure to warn, breach of implied warranty, addiction and breach of consumer protection statutes. Plaintiffs seek various forms of relief, including compensatory and punitive damages, and certain equitable relief, including but not limited to disgorgement. Defenses raised in these cases include lack of causation, assumption of the risk, comparative fault and/or contributory negligence, and statutes of limitations. In July 2016, USSTC and Altria Group, Inc. were named as defendants, along with other named defendants, in one such case in California (Gwynn). In August 2016, defendants removed the case to federal court. In September 2016, plaintiffs filed a motion to remand the case back to state court, which the court granted in January

2017.

Nu Mark Patent Litigation

In April 2016, Fontem Ventures B.V. and Fontem Holdings 1 B.V., both subsidiaries of ITG, sued Nu Mark for alleged patent infringement in the U.S. District Court for the Central District of California. The suit alleged that Nu Mark's MarkTen, MarkTen XL and Green Smoke products infringe one or more claims under eight separate Fontem patents for e-vapor products. The suit sought recovery of an unspecified amount of money damages for alleged past infringement and an injunction against future infringement, which injunction may have resulted in Nu Mark being enjoined from marketing one or more of the products at issue in the suit. In June and July 2016, Nu Mark filed multiple inter partes review petitions with the U.S. Patent Trial and Appeal Board challenging the validity of all patents and claims asserted against it in the lawsuit on multiple grounds.

In June 2016, the same Fontem entities filed a second lawsuit against Nu Mark in the U.S. District Court for the Central District of California asserting infringement of eight additional e-vapor patents that have issued since the filing of the first case in April 2016. The second case involved the same Nu Mark products as the first case, and likewise sought recovery of an unspecified amount of money damages for alleged past infringement and an injunction against future infringement. In June 2016, Nu Mark filed a motion to transfer venue of both lawsuits from California to the Middle District of North Carolina, which the court granted in August 2016. Between August and November 2016, Nu Mark filed multiple inter partes review petitions with the U.S. Patent Trial and Appeal Board challenging the validity of all patents and claims asserted against it in the second lawsuit. In December 2016, the parties entered into a settlement and license agreement, resulting in the dismissal of the litigation and termination of all pending inter partes review proceedings. Under the terms of the agreement, in January 2017, Nu Mark made an upfront payment of $21 million and will make future royalty payments in amounts that Altria Group, Inc. does not expect to be material. In the fourth quarter of 2016, Nu Mark recorded a provision on its consolidated balance sheet of $21 million.

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.

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.

Guarantees and Other Similar Matters

In the ordinary course of business, certain subsidiaries of Altria Group, Inc. have agreed to indemnify a limited number of third parties in the event of future litigation. At December 31, 2016, Altria Group, Inc. and certain of its subsidiaries (i) had $59 million of unused letters of credit obtained in the ordinary course of business; (ii) were contingently liable for $25 million of guarantees, consisting primarily of surety bonds, related to their own performance; and (iii) had a redeemable noncontrolling interest of $38 million recorded on its consolidated balance sheet. In addition, from time to time, subsidiaries of Altria Group, Inc. issue lines of credit to affiliated entities. These items have not had, and are not expected to have, a significant impact on Altria Group, Inc.'s liquidity.

Under the terms of a distribution agreement between Altria Group, Inc. and PMI (the "Distribution Agreement"), entered into as a result of Altria Group, Inc.'s 2008 spin-off of its former subsidiary PMI, liabilities concerning tobacco products will be

allocated based in substantial part on the manufacturer. PMI will indemnify Altria Group, Inc. and PM USA for liabilities related to tobacco products manufactured by PMI or contract manufactured for PMI by PM USA, and PM USA will indemnify PMI for liabilities related to tobacco products manufactured by PM USA, excluding tobacco products contract manufactured for PMI. Altria Group, Inc. does not have a related liability recorded on its consolidated balance sheet at December 31, 2016 as the fair value of this indemnification is insignificant.

As more fully discussed in Note 20. Condensed Consolidating Financial Information, PM USA has issued guarantees relating to Altria Group, Inc.'s obligations under its outstanding debt securities, borrowings under the Credit Agreement and amounts outstanding under its commercial paper program.

Redeemable Noncontrolling Interest

In September 2007, Ste. Michelle completed the acquisition of Stag's Leap Wine Cellars through one of its consolidated subsidiaries, Michelle-Antinori, LLC ("Michelle-Antinori"), in which Ste. Michelle holds an 85% ownership interest with a 15% noncontrolling interest held by Antinori California ("Antinori"). In connection with the acquisition of Stag's Leap Wine Cellars, Ste. Michelle entered into a put arrangement with Antinori. The put arrangement, as later amended, provides Antinori with the right to require Ste. Michelle to purchase its 15% ownership interest in Michelle-Antinori at a price equal to Antinori's initial investment of $27 million. The put arrangement became exercisable in September 2010 and has no expiration date. As of December 31, 2016, the redemption value of the put arrangement did not exceed the noncontrolling interest balance. Therefore, no adjustment to the value of the redeemable noncontrolling interest was recognized on the consolidated balance sheet for the put arrangement.

The noncontrolling interest put arrangement is accounted for as mandatorily redeemable securities because redemption is outside of the control of Ste. Michelle. As such, the redeemable noncontrolling interest is reported in the mezzanine equity section on the consolidated balance sheets at December 31, 2016 and 2015.

Note 20. Condensed Consolidating Financial Information

PM USA, which is a 100% owned subsidiary of Altria Group, Inc., has guaranteed Altria Group, Inc.'s obligations under its outstanding debt securities, borrowings under its Credit Agreement and amounts outstanding under its commercial paper program (the "Guarantees"). Pursuant to the Guarantees, PM USA fully and unconditionally guarantees, as primary obligor, the payment and performance of Altria Group, Inc.'s obligations under the guaranteed debt instruments (the "Obligations"), subject to release under certain customary circumstances as noted below.

The Guarantees provide that PM USA guarantees the punctual payment when due, whether at stated maturity, by acceleration or otherwise, of the Obligations. The liability of PM USA under the Guarantees is absolute and unconditional irrespective of: any lack of validity, enforceability or genuineness of any provision of any agreement or instrument relating thereto; any change in the time, manner or place of payment of, or in any other term of, all or any of the Obligations, or any other amendment or waiver of or any consent to departure from any agreement or instrument relating thereto; any exchange, release or non-perfection of any collateral, or any release or amendment or waiver of or consent to departure from any other guarantee, for all or any of the Obligations; or any other circumstance that might otherwise constitute a defense available to, or a discharge of, Altria Group, Inc. or PM USA.

The obligations of PM USA under the Guarantees are limited to the maximum amount as will not result in PM USA's obligations under the Guarantees constituting a fraudulent transfer or conveyance, after giving effect to such maximum amount and all other contingent and fixed liabilities of PM USA that are relevant under Bankruptcy Law, the Uniform Fraudulent Conveyance Act, the Uniform Fraudulent Transfer Act or any similar federal or state law to the extent applicable to the Guarantees. For this purpose, "Bankruptcy Law" means Title 11, U.S. Code, or any similar federal or state law for the relief of debtors.

PM USA will be unconditionally released and discharged from the Obligations upon the earliest to occur of:

- the date, if any, on which PM USA consolidates with or merges into Altria Group, Inc. or any successor;
- the date, if any, on which Altria Group, Inc. or any successor consolidates with or merges into PM USA;
- the payment in full of the Obligations pertaining to such Guarantees; and
- the rating of Altria Group, Inc.'s long-term senior unsecured debt by Standard & Poor's of A or higher.

At December 31, 2016, the respective principal 100% owned subsidiaries of Altria Group, Inc. and PM USA were not limited by long-term debt or other agreements in their ability to pay cash dividends or make other distributions with respect to their equity interests.

The following sets forth the condensed consolidating balance sheets as of December 31, 2016 and 2015, condensed consolidating statements of earnings and comprehensive earnings for the years ended December 31, 2016, 2015 and 2014, and condensed consolidating statements of cash flows for the years ended December 31, 2016, 2015 and 2014 for Altria Group, Inc., PM USA and, collectively, Altria Group, Inc.'s other subsidiaries that are not guarantors of Altria Group, Inc.'s debt instruments (the "Non-Guarantor Subsidiaries"). The financial information is based on Altria Group, Inc.'s understanding of the Securities and Exchange Commission ("SEC") interpretation and application of Rule 3-10 of SEC Regulation S-X.

The financial information may not necessarily be indicative of results of operations or financial position had PM USA and the Non-Guarantor Subsidiaries operated as independent entities. Altria Group, Inc. and PM USA account for investments in their subsidiaries under the equity method of accounting.

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Altria Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Condensed Consolidating Balance Sheets
(in millions of dollars)

at December 31, 2016	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Assets					
Cash and cash equivalents	$ 4,521	$ 1	$ 47	$ —	$ 4,569
Receivables	—	8	143	—	151
Inventories:					
Leaf tobacco	—	541	351	—	892
Other raw materials	—	111	53	—	164
Work in process	—	3	509	—	512
Finished product	—	112	371	—	483
	—	767	1,284	—	2,051
Due from Altria Group, Inc. and subsidiaries	—	3,797	1,511	(5,308)	—
Other current assets	170	118	201	—	489
Total current assets	4,691	4,691	3,186	(5,308)	7,260
Property, plant and equipment, at cost	—	2,971	1,864	—	4,835
Less accumulated depreciation	—	2,073	804	—	2,877
	—	898	1,060	—	1,958
Goodwill	—	—	5,285	—	5,285
Other intangible assets, net	—	2	12,034	—	12,036
Investment in AB InBev	17,852	—	—	—	17,852
Investment in consolidated subsidiaries	11,636	2,632	—	(14,268)	—
Finance assets, net	—	—	1,028	—	1,028
Due from Altria Group, Inc. and subsidiaries	4,790	—	—	(4,790)	—
Other assets	18	1,748	131	(1,384)	513
Total Assets	$ 38,987	$ 9,971	$ 22,724	$ (25,750)	$ 45,932

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Altria Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Condensed Consolidating Balance Sheets (Continued)
(in millions of dollars)

at December 31, 2016	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Liabilities					
Accounts payable	$ 1	$ 92	$ 332	$ —	$ 425
Accrued liabilities:					
Marketing	—	619	128	—	747
Employment costs	104	14	171	—	289
Settlement charges	—	3,696	5	—	3,701
Other	261	438	326	—	1,025
Dividends payable	1,188	—	—	—	1,188
Due to Altria Group, Inc. and subsidiaries	5,030	237	41	(5,308)	—
Total current liabilities	6,584	5,096	1,003	(5,308)	7,375
Long-term debt	13,881	—	—	—	13,881
Deferred income taxes	5,424	—	4,376	(1,384)	8,416
Accrued pension costs	207	—	598	—	805
Accrued postretirement health care costs	—	1,453	764	—	2,217
Due to Altria Group, Inc. and subsidiaries	—	—	4,790	(4,790)	—
Other liabilities	121	146	160	—	427
Total liabilities	26,217	6,695	11,691	(11,482)	33,121
Contingencies					
Redeemable noncontrolling interest	—	—	38	—	38
Stockholders' Equity					
Common stock	935	—	9	(9)	935
Additional paid-in capital	5,893	3,310	11,585	(14,895)	5,893
Earnings reinvested in the business	36,906	237	1,118	(1,355)	36,906
Accumulated other comprehensive losses	(2,052)	(271)	(1,720)	1,991	(2,052)
Cost of repurchased stock	(28,912)	—	—	—	(28,912)
Total stockholders' equity attributable to Altria Group, Inc.	12,770	3,276	10,992	(14,268)	12,770
Noncontrolling interests	—	—	3	—	3
Total stockholders' equity	12,770	3,276	10,995	(14,268)	12,773
Total Liabilities and Stockholders' Equity	$ 38,987	$ 9,971	$ 22,724	$ (25,750)	$ 45,932

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Altria Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Condensed Consolidating Balance Sheets
(in millions of dollars)

at December 31, 2015	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Assets					
Cash and cash equivalents	$ 2,313	$ —	$ 56	$ —	$ 2,369
Receivables	—	7	117	—	124
Inventories:					
Leaf tobacco	—	562	395	—	957
Other raw materials	—	123	58	—	181
Work in process	—	5	439	—	444
Finished product	—	121	328	—	449
	—	811	1,220	—	2,031
Due from Altria Group, Inc. and subsidiaries	—	3,821	1,807	(5,628)	—
Other current assets	284	65	112	(74)	387
Total current assets	2,597	4,704	3,312	(5,702)	4,911
Property, plant and equipment, at cost	—	3,102	1,775	—	4,877
Less accumulated depreciation	—	2,157	738	—	2,895
	—	945	1,037	—	1,982
Goodwill	—	—	5,285	—	5,285
Other intangible assets, net	—	2	12,026	—	12,028
Investment in SABMiller	5,483	—	—	—	5,483
Investment in consolidated subsidiaries	11,648	2,715	—	(14,363)	—
Finance assets, net	—	—	1,239	—	1,239
Due from Altria Group, Inc. and subsidiaries	4,790	—	—	(4,790)	—
Other assets	20	1,804	138	(1,431)	531
Total Assets	$ 24,538	$ 10,170	$ 23,037	$ (26,286)	$ 31,459

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Altria Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Condensed Consolidating Balance Sheets (Continued)
(in millions of dollars)

at December 31, 2015	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Liabilities					
Current portion of long-term debt	$ —	$—	$ 4	$ —	$ 4
Accounts payable	3	104	293	—	400
Accrued liabilities:					
Marketing	—	586	109	—	695
Employment costs	18	11	169	—	198
Settlement charges	—	3,585	5	—	3,590
Other	255	616	276	(74)	1,073
Dividends payable	1,110	—	—	—	1,110
Due to Altria Group, Inc. and subsidiaries	5,427	191	10	(5,628)	—
Total current liabilities	6,813	5,093	866	(5,702)	7,070
Long-term debt	12,831	—	12	—	12,843
Deferred income taxes	1,646	—	4,452	(1,431)	4,667
Accrued pension costs	215	—	1,062	—	1,277
Accrued postretirement health care costs	—	1,460	785	—	2,245
Due to Altria Group, Inc. and subsidiaries	—	—	4,790	(4,790)	—
Other liabilities	153	126	168	—	447
Total liabilities	21,658	6,679	12,135	(11,923)	28,549
Contingencies					
Redeemable noncontrolling interest	—	—	37	—	37
Stockholders' Equity					
Common stock	935	—	9	(9)	935
Additional paid-in capital	5,813	3,310	11,456	(14,766)	5,813
Earnings reinvested in the business	27,257	436	1,099	(1,535)	27,257
Accumulated other comprehensive losses	(3,280)	(255)	(1,692)	1,947	(3,280)
Cost of repurchased stock	(27,845)	—	—	—	(27,845)
Total stockholders' equity attributable to Altria Group, Inc.	2,880	3,491	10,872	(14,363)	2,880
Noncontrolling interests	—	—	(7)	—	(7)
Total stockholders' equity	2,880	3,491	10,865	(14,363)	2,873
Total Liabilities and Stockholders' Equity	$ 24,538	$ 10,170	$ 23,037	$ (26,286)	$ 31,459

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

for the year ended December 31, 2016	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Net revenues	$ —	$ 22,146	$ 3,633	$ (35)	$ 25,744
Cost of sales	—	6,628	1,153	(35)	7,746
Excise taxes on products	—	6,187	220	—	6,407
Gross profit	—	9,331	2,260	—	11,591
Marketing, administration and research costs	165	1,996	489	—	2,650
Asset impairment and exit costs	5	97	77	—	179
Operating (expense) income	(170)	7,238	1,694	—	8,762
Interest and other debt expense, net	519	10	218	—	747
Loss on early extinguishment of debt	823	—	—	—	823
Earnings from equity investment in SABMiller	(795)	—	—	—	(795)
Gain on AB InBev/SABMiller business combination	(13,865)	—	—	—	(13,865)
Earnings before income taxes and equity earnings of subsidiaries	13,148	7,228	1,476	—	21,852
Provision for income taxes	4,453	2,631	524	—	7,608
Equity earnings of subsidiaries	5,544	268	—	(5,812)	—
Net earnings	14,239	4,865	952	(5,812)	14,244
Net earnings attributable to noncontrolling interests	—	—	(5)	—	(5)
Net earnings attributable to Altria Group, Inc.	$ 14,239	$ 4,865	$ 947	$ (5,812)	$ 14,239
Net earnings	$ 14,239	$ 4,865	$ 952	$ (5,812)	$ 14,244
Other comprehensive earnings (losses), net of deferred income taxes	1,228	(16)	(28)	44	1,228
Comprehensive earnings	15,467	4,849	924	(5,768)	15,472
Comprehensive earnings attributable to noncontrolling interests	—	—	(5)	—	(5)
Comprehensive earnings attributable to Altria Group, Inc.	$ 15,467	$ 4,849	$ 919	$ (5,768)	$ 15,467

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Altria Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Condensed Consolidating Statements of Earnings and Comprehensive Earnings
(in millions of dollars)

for the year ended December 31, 2015	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Net revenues	$ —	$22,133	$ 3,342	$ (41)	$ 25,434
Cost of sales	—	6,664	1,117	(41)	7,740
Excise taxes on products	—	6,369	211	—	6,580
Gross profit	—	9,100	2,014	—	11,114
Marketing, administration and research costs	189	2,094	425	—	2,708
Reduction of PMI tax-related receivable	41	—	—	—	41
Asset impairment and exit costs	—	—	4	—	4
Operating (expense) income	(230)	7,006	1,585	—	8,361
Interest and other debt expense, net	560	33	224	—	817
Loss on early extinguishment of debt	228	—	—	—	228
Earnings from equity investment in SABMiller	(757)	—	—	—	(757)
Gain on AB InBev/SABMiller business combination	(5)	—	—	—	(5)
(Loss) earnings before income taxes and equity earnings of subsidiaries	(256)	6,973	1,361	—	8,078
(Benefit) provision for income taxes	(184)	2,536	483	—	2,835
Equity earnings of subsidiaries	5,313	268	—	(5,581)	—
Net earnings	5,241	4,705	878	(5,581)	5,243
Net earnings attributable to noncontrolling interests	—	—	(2)	—	(2)
Net earnings attributable to Altria Group, Inc.	$ 5,241	$4,705	$ 876	$ (5,581)	$ 5,241
Net earnings	$ 5,241	$4,705	$ 878	$ (5,581)	$ 5,243
Other comprehensive (losses) earnings, net of deferred income taxes	(598)	86	(69)	(17)	(598)
Comprehensive earnings	4,643	4,791	809	(5,598)	4,645
Comprehensive earnings attributable to noncontrolling interests	—	—	(2)	—	(2)
Comprehensive earnings attributable to Altria Group, Inc.	$ 4,643	$4,791	$ 807	$ (5,598)	$ 4,643

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Altria Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Condensed Consolidating Statements of Earnings and Comprehensive Earnings
(in millions of dollars)

for the year ended December 31, 2014	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Net revenues	$ —	$21,298	$ 3,267	$ (43)	$ 24,522
Cost of sales	—	6,722	1,106	(43)	7,785
Excise taxes on products	—	6,358	219	—	6,577
Gross profit	—	8,218	1,942	—	10,160
Marketing, administration and research costs	231	1,889	419	—	2,539
Reduction of Mondelēz tax-related receivable	2	—	—	—	2
Asset impairment and exit costs	—	(6)	5	—	(1)
Operating (expense) income	(233)	6,335	1,518	—	7,620
Interest and other debt expense (income), net	614	(46)	240	—	808
Loss on early extinguishment of debt	—	—	44	—	44
Earnings from equity investment in SABMiller	(1,006)	—	—	—	(1,006)
Earnings before income taxes and equity earnings of subsidiaries	159	6,381	1,234	—	7,774
(Benefit) provision for income taxes	(119)	2,381	442	—	2,704
Equity earnings of subsidiaries	4,792	244	—	(5,036)	—
Net earnings	5,070	4,244	792	(5,036)	5,070
Net earnings attributable to noncontrolling interests	—	—	—	—	—
Net earnings attributable to Altria Group, Inc.	$ 5,070	$4,244	$ 792	$ (5,036)	$ 5,070
Net earnings	$ 5,070	$4,244	$ 792	$ (5,036)	$ 5,070
Other comprehensive losses, net of deferred income taxes	(1,304)	(110)	(642)	752	(1,304)
Comprehensive earnings	3,766	4,134	150	(4,284)	3,766
Comprehensive earnings attributable to noncontrolling interests	—	—	—	—	—
Comprehensive earnings attributable to Altria Group, Inc.	$ 3,766	$4,134	$ 150	$ (4,284)	$ 3,766

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Altria Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Condensed Consolidating Statements of Cash Flows
(in millions of dollars)

for the year ended December 31, 2016	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Cash Provided by Operating Activities					
Net cash provided by operating activities	$ 4,326	$5,138	$ 319	$ (5,992)	$ 3,791
Cash Provided by (Used in) Investing Activities					
Capital expenditures	—	(45)	(144)	—	(189)
Proceeds from finance assets	—	—	231	—	231
Proceeds from AB InBev/SABMiller business combination	4,773	—	—	—	4,773
Purchase of AB InBev ordinary shares	(1,578)	—	—	—	(1,578)
Payment for derivative financial instrument	(3)	—	—	—	(3)
Proceeds from derivative financial instruments	510	—	—	—	510
Other	—	—	(36)	—	(36)
Net cash provided by (used in) investing activities	3,702	(45)	51	—	3,708
Cash Provided by (Used in) Financing Activities					
Long-term debt issued	1,976	—	—	—	1,976
Long-term debt repaid	(933)	—	—	—	(933)
Repurchases of common stock	(1,030)	—	—	—	(1,030)
Dividends paid on common stock	(4,512)	—	—	—	(4,512)
Changes in amounts due to/from Altria Group, Inc. and subsidiaries	(530)	(28)	558	—	—
Premiums and fees related to early extinguishment of debt	(809)	—	—	—	(809)
Cash dividends paid to parent	—	(5,064)	(928)	5,992	—
Other	18	—	(9)	—	9
Net cash used in financing activities	(5,820)	(5,092)	(379)	5,992	(5,299)
Cash and cash equivalents:					
Increase (decrease)	2,208	1	(9)	—	2,200
Balance at beginning of year	2,313	—	56	—	2,369
Balance at end of year	$ 4,521	$1	$ 47	$ —	$ 4,569

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

for the year ended December 31, 2015	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Cash Provided by Operating Activities					
Net cash provided by operating activities	$ 5,085	$5,204	$ 961	$ (5,440)	$ 5,810
Cash Provided by (Used in) Investing Activities					
Capital expenditures	—	(51)	(178)	—	(229)
Proceeds from finance assets	—	—	354	—	354
Payment for derivative financial instrument	(132)	—	—	—	(132)
Other	—	10	(18)	—	(8)
Net cash (used in) provided by investing activities	(132)	(41)	158	—	(15)
Cash Provided by (Used in) Financing Activities					
Long-term debt repaid	(1,793)	—	—	—	(1,793)
Repurchases of common stock	(554)	—	—	—	(554)
Dividends paid on common stock	(4,179)	—	—	—	(4,179)
Changes in amounts due to/from Altria Group, Inc. and subsidiaries	814	(495)	(319)	—	—
Premiums and fees related to early extinguishment of debt	(226)	—	—	—	(226)
Cash dividends paid to parent	—	(4,671)	(769)	5,440	—
Other	17	—	(12)	—	5
Net cash used in financing activities	(5,921)	(5,166)	(1,100)	5,440	(6,747)
Cash and cash equivalents:					
(Decrease) increase	(968)	(3)	19	—	(952)
Balance at beginning of year	3,281	3	37	—	3,321
Balance at end of year	$ 2,313	$—	$ 56	$ —	$ 2,369

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

for the year ended December 31, 2014	Altria Group, Inc.	PM USA	Non-Guarantor Subsidiaries	Total Consolidating Adjustments	Consolidated
Cash Provided by Operating Activities					
Net cash provided by operating activities	$ 4,924	$4,451	$ 707	$ (5,419)	$ 4,663
Cash Provided by (Used in) Investing Activities					
Capital expenditures	—	(44)	(119)	—	(163)
Acquisition of Green Smoke, net of acquired cash	—	—	(102)	—	(102)
Proceeds from finance assets	—	—	369	—	369
Other	—	70	3	—	73
Net cash provided by investing activities	—	26	151	—	177
Cash Provided by (Used in) Financing Activities					
Long-term debt issued	999	—	—	—	999
Long-term debt repaid	(525)	—	(300)	—	(825)
Repurchases of common stock	(939)	—	—	—	(939)
Dividends paid on common stock	(3,892)	—	—	—	(3,892)
Changes in amounts due to/from Altria Group, Inc. and subsidiaries	(411)	(351)	762	—	—
Premiums and fees related to early extinguishment of debt	—	—	(44)	—	(44)
Cash dividends paid to parent	—	(4,124)	(1,295)	5,419	—
Other	11	—	(4)	—	7
Net cash used in financing activities	(4,757)	(4,475)	(881)	5,419	(4,694)
Cash and cash equivalents:					
Increase (decrease)	167	2	(23)	—	146
Balance at beginning of year	3,114	1	60	—	3,175
Balance at end of year	$ 3,281	$3	$ 37	$ —	$ 3,321

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Altria Group, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

Note 21. Quarterly Financial Data (Unaudited)

	2016 Quarters			
(in millions, except per share data)	1st	2nd	3rd	4th [(1)]
Net revenues	$6,066	$6,521	$6,905	$6,252
Gross profit	$2,656	$2,957	$3,150	$2,828
Net earnings	$1,218	$1,654	$1,094	$10,278
Net earnings attributable to Altria Group, Inc.	$1,217	$1,653	$1,093	$10,276
Per share data:				
Basic and diluted EPS attributable to Altria Group, Inc.	$0.62	$0.84	$0.56	$5.27

	2015 Quarters			
(in millions, except per share data)	1st	2nd	3rd	4th
Net revenues	$5,804	$6,613	$6,699	$6,318
Gross profit	$2,475	$2,871	$3,046	$2,722
Net earnings	$1,018	$1,449	$1,528	$1,248
Net earnings attributable to Altria Group, Inc.	$1,018	$1,448	$1,528	$1,247
Per share data:				
Basic and diluted EPS attributable to Altria Group, Inc.	$0.52	$0.74	$0.78	$0.64

During 2016 and 2015, the following pre-tax charges or (gains) were included in net earnings attributable to Altria Group, Inc.:

	2016 Quarters			
(in millions)	1st	2nd	3rd	4th
NPM Adjustment Items	$18	$—	$—	$—
Tobacco and health litigation items, including accrued interest	38	5	45	17
Patent litigation settlement	—	—	—	21
Asset impairment, exit, implementation and acquisition-related costs	122	5	6	73
Loss on early extinguishment of debt	—	—	823	—
Gain on AB InBev/SABMiller business combination	(40)	(117)	(48)	(13,660)
SABMiller special items [(1)]	166	21	(40)	(236)
	$304	$(86)	$786	$(13,785)

	2015 Quarters			
(in millions)	1st	2nd	3rd	4th
NPM Adjustment Items	$—	$—	$(126)	$42
Tobacco and health litigation items, including accrued interest	43	5	67	35
Asset impairment, exit and integration costs	—	7	1	3
Loss on early extinguishment of debt	228	—	—	—
Gain on AB InBev/SABMiller business combination	—	—	—	(5)
SABMiller special items	86	2	8	30
	$357	$14	$(50)	$105

[(1)] During the fourth quarter of 2016, Altria Group, Inc. recorded a non-cash gain, reflecting its share of SABMiller's increase to shareholders' equity, resulting from the third quarter of 2016 completion of the SABMiller, The Coca-Cola Company and Gutsche Family Investments transaction, combining bottling operations in Africa. The gain was included in earnings from equity investment in SABMiller, and increased Altria Group, Inc.'s earnings before income taxes ($309 million), net earnings ($201 million), net earnings attributable to Altria Group, Inc. ($201 million) and diluted EPS attributable to Altria Group, Inc. ($0.10) in the fourth quarter of 2016. The impact of recording the gain in the fourth quarter of 2016 rather than the third quarter of 2016 was not material to Altria Group, Inc.'s financial statements in either quarter.

As discussed in Note 15. Income Taxes, Altria Group, Inc. has recognized income tax benefits and charges in the consolidated statements of earnings during 2016 and 2015 as a result of various tax events.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and
Stockholders of Altria Group, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of earnings, comprehensive earnings, stockholders' equity, and cash flows, present fairly, in all material respects, the financial position of Altria Group, Inc. and its subsidiaries at December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, Altria Group, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Altria Group, Inc.'s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on Altria Group, Inc.'s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable

assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Richmond, Virginia
February 1, 2017

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Report of Management On Internal Control Over Financial Reporting

Management of Altria Group, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Altria Group, Inc.'s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes those written policies and procedures that:

n pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of Altria Group, Inc.;

n provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America;

n provide reasonable assurance that receipts and expenditures of Altria Group, Inc. are being made only in accordance with the authorization of management and directors of Altria Group, Inc.; and

n provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the consolidated financial statements.

Internal control over financial reporting includes the controls themselves, monitoring and internal auditing practices and actions taken to correct deficiencies as identified.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of Altria Group, Inc.'s internal control over financial reporting as of December 31, 2016. Management based this assessment on criteria for effective internal control over financial reporting described in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Management's assessment included an evaluation of the design of Altria Group, Inc.'s internal control over financial reporting and testing of the operational effectiveness of its internal control over financial reporting. Management reviewed the results of its assessment with the Audit Committee of our Board of Directors.

Based on this assessment, management determined that, as of December 31, 2016, Altria Group, Inc. maintained effective internal control over financial reporting.

PricewaterhouseCoopers LLP, an independent registered public accounting firm, who audited and reported on the consolidated financial statements of Altria Group, Inc. included in this report, has audited the effectiveness of Altria Group, Inc.'s internal control over financial reporting as of December 31, 2016, as stated in their report herein.

February 1, 2017

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.
None.

Item 9A. Controls and Procedures.
Disclosure Controls and Procedures
Altria Group, Inc. carried out an evaluation, with the participation of Altria Group, Inc.'s management, including Altria Group, Inc.'s Chief Executive Officer and Chief Financial Officer, of the effectiveness of Altria Group, Inc.'s disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of the end of the period covered by this Annual Report on Form 10-K. Based upon that evaluation, Altria Group, Inc.'s Chief Executive Officer and Chief Financial Officer concluded

that Altria Group, Inc.'s disclosure controls and procedures are effective.
There have been no changes in Altria Group, Inc.'s internal control over financial reporting during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, Altria Group, Inc.'s internal control over financial reporting.
The Report of Independent Registered Public Accounting Firm and the Report of Management on Internal Control over Financial Reporting are included in Item 8.
Item 9B. Other Information.
None.

Part III
Except for the information relating to the executive officers set forth in Item 10, the information called for by Items 10-14 is hereby incorporated by reference to Altria Group, Inc.'s definitive proxy statement for use in connection with its Annual Meeting of Shareholders to be held on May 18, 2017 that will be filed with the SEC on or about April 6, 2017 (the "proxy statement"), and, except as indicated therein, made a part hereof.

Item 10. Directors, Executive Officers and Corporate Governance.
Refer to "Proposals Requiring Your Vote - Proposal 1 - Election of Directors," "Ownership of Equity Securities of Altria - Section 16(a) Beneficial Ownership Reporting Compliance" and "Board and Governance Matters - Committees of the Board of Directors" sections of the proxy statement.
Executive Officers as of February 13, 2017:

Name	Office	Age
Martin J. Barrington	Chairman, Chief Executive Officer and President	63
Daniel J. Bryant	Vice President and Treasurer	47
James E. Dillard III	Senior Vice President, Research, Development and Regulatory Affairs	53
Ivan S. Feldman	Vice President and Controller	50
Clifford B. Fleet	President and Chief Executive Officer, Philip Morris USA Inc.	46
William F. Gifford, Jr.	Executive Vice President and Chief Financial Officer	46
Craig A. Johnson	President and Chief Executive Officer, Altria Group Distribution Company	64
Denise F. Keane	Executive Vice President and General Counsel	64
Salvatore Mancuso	Senior Vice President, Strategy, Planning and Procurement	51
Brian W. Quigley	President and Chief Executive Officer, U.S. Smokeless Tobacco Company LLC	43
W. Hildebrandt Surgner, Jr.	Corporate Secretary and Senior Assistant General Counsel	51
Charles N. Whitaker	Senior Vice President, Human Resources, Compliance and Information Services and Chief Compliance Officer	50
Howard A. Willard III	Executive Vice President and Chief Operating Officer	53

All of the above-mentioned officers have been employed by Altria Group, Inc. or its subsidiaries in various capacities during the past five years.

Effective February 15, 2016, Mr. Mancuso, previously Senior Vice President, Strategy, Planning and Accounting of

Altria Group, Inc., was appointed Senior Vice President, Strategy, Planning and Procurement of Altria Group, Inc.

Mr. Whitaker’s wife and Mr. Surgner’s wife are first cousins.

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Codes of Conduct and Corporate Governance

Altria Group, Inc. has adopted the Altria Code of Conduct for Compliance and Integrity, which complies with requirements set forth in Item 406 of Regulation S-K. This Code of Conduct applies to all of its employees, including its principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions. Altria Group, Inc. has also adopted a code of business conduct and ethics that applies to the members of its Board of Directors. These documents are available free of charge on Altria Group, Inc.'s website at www.altria.com.

Any waiver granted by Altria Group, Inc. to its principal executive officer, principal financial officer or controller under the Code of Conduct, and certain amendments to the Code of

Conduct, will be disclosed on Altria Group, Inc.'s website at www.altria.com within the time period required by applicable rules.

In addition, Altria Group, Inc. has adopted corporate governance guidelines and charters for its Audit, Compensation and Nominating, Corporate Governance and Social Responsibility Committees and the other committees of the Board of Directors. All of these documents are available free of charge on Altria Group, Inc.'s website at www.altria.com.

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 Annual Report on Form 10-K or incorporated into any other filings Altria Group, Inc. makes with the SEC.

Item 11. Executive Compensation.

Refer to "Executive Compensation," "Compensation Committee Matters - Compensation Committee Interlocks and Insider Participation," "Compensation Committee Matters - Compensation Committee Report for the Year Ended December 31, 2016" and "Board and Governance Matters - Directors - Director Compensation" sections of the proxy statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The number of shares to be issued upon exercise or vesting and the number of shares remaining available for future issuance under Altria Group, Inc.'s equity compensation plans at December 31, 2016, were as follows:

Number of Shares to be Issued upon Exercise of Outstanding Options and Vesting of Deferred Stock (a)	Weighted Average Exercise Price of Outstanding Options (b)	Number of Shares Remaining Available for Future Issuance Under Equity