

ALTRIA GROUP, INC.
Form 11-K
June 11, 2015

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

FORM 11-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2014

OR

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

For the transition period from to

Commission file number 1-08940

Deferred Profit-Sharing Plan for Hourly Employees
(Full title of the plan)

ALTRIA GROUP, INC.

6601 West Broad Street

Richmond, Virginia 23230

(Name of issuer of the securities held pursuant to the plan
and address of its principal executive office.)

DEFERRED PROFIT-SHARING PLAN FOR HOURLY EMPLOYEES
ANNUAL REPORT ON FORM 11-K
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014
TABLE OF CONTENTS

	Page (s)
<u>Report of Independent Registered Public Accounting Firm</u>	<u>3</u>
Financial Statements	
<u>Statements of Net Assets Available for Benefits at December 31, 2014 and 2013</u>	<u>4</u>
<u>Statement of Changes in Net Assets Available for Benefits for the Year Ended December 31, 2014</u>	<u>5</u>
<u>Notes to Financial Statements</u>	<u>6 - 17</u>
Supplemental Schedule*	
<u>Schedule H – Line 4i – Schedule of Assets (Held at End of Year)</u>	<u>18</u>
<u>Signature</u>	<u>19</u>

Exhibit

23. Consent of Independent Registered Public Accounting Firm

* Other schedules required by 29 CFR 2520.103-10 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, as amended, are omitted because they are not applicable.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Administrator of the Deferred Profit-Sharing Plan for Hourly Employees:

In our opinion, the accompanying statements of net assets available for benefits and the related statement of changes in net assets available for benefits present fairly, in all material respects, the net assets available for benefits of the Deferred Profit-Sharing Plan for Hourly Employees (the "Plan") at December 31, 2014 and 2013 and the changes in net assets available for benefits for the year ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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. We believe that our audits provide a reasonable basis for our opinion.

The supplemental Schedule of Assets (Held at End of Year) as of December 31, 2014 has been subjected to audit procedures performed in conjunction with the audit of the Plan's financial statements. The supplemental schedule is the responsibility of the Plan's management. Our audit procedures included determining whether the supplemental schedule reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental schedule. In forming our opinion on the supplemental schedule, we evaluated whether the supplemental schedule, including its form and content, is presented in conformity with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. In our opinion, the Schedule of Assets (Held at End of Year) is fairly stated, in all material respects, in relation to the financial statements as a whole.

/s/ PRICEWATERHOUSECOOPERS LLP
Richmond, Virginia
June 11, 2015

Table of ContentsDEFERRED PROFIT-SHARING PLAN FOR HOURLY EMPLOYEES
STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

(in thousands of dollars)

At December 31,	2014	2013
Investments at fair value:		
Investment in Master Trust A	\$485,672	\$478,774
Investment in Master Trust B	732,808	671,183
Total investments	1,218,480	1,149,957
Receivables:		
Employer's contribution	20,774	22,718
Participants' contributions	178	171
Notes receivable from participants	21,625	17,968
Total receivables	42,577	40,857
Net assets reflecting investments at fair value	1,261,057	1,190,814
Adjustment from fair value to contract value for Investment in Master Trust A relating to fully benefit-responsive investment contracts	(8,166) (8,088
Net assets available for benefits	\$1,252,891	\$1,182,726

The accompanying notes are an integral part of these financial statements.

Table of Contents

DEFERRED PROFIT-SHARING PLAN FOR HOURLY EMPLOYEES
 STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
 (in thousands of dollars)

For the year ended December 31,	2014
Additions to net assets attributed to:	
Investment income:	
Investment income from Master Trust A	\$21,812
Investment income from Master Trust B	142,946
Total investment income	164,758
Interest income on notes receivable from participants	729
Contributions to the Plan:	
By employer	22,694
By participants	12,626
Total contributions	35,320
Total additions	200,807
Deductions from net assets attributed to:	
Withdrawals and distributions	(130,642)
Total deductions	(130,642)
Net increase	70,165
Net assets available for benefits:	
Beginning of year	1,182,726
End of year	\$1,252,891

The accompanying notes are an integral part of these financial statements.

Table of Contents

DEFERRED PROFIT-SHARING PLAN FOR HOURLY EMPLOYEES
NOTES TO FINANCIAL STATEMENTS

1. Description of the Plan

The following description of the Deferred Profit-Sharing Plan for Hourly Employees (the “Plan”) provides only general information. Participants should refer to the Summary Plan Description or the Plan document for a more complete description of the Plan’s provisions.

General

The Plan is a defined contribution plan maintained for the benefit of eligible union hourly-paid employees, as discussed below in Plan Participation, of Philip Morris USA Inc. (“PM USA”), U.S. Smokeless Tobacco Company LLC (“USSTC”) (before May 1, 2014, USSTC was named U.S. Smokeless Tobacco Manufacturing LLC) and Ste. Michelle Wine Estates Ltd. (“SMWE”) (individually, a “Participating Company”; collectively, the “Participating Companies”), all of which are subsidiaries of Altria Group, Inc. The Plan is designed to provide eligible employees with an opportunity to share in the profits of Altria Group, Inc. and their Participating Company, to invest certain of their funds in a tax-advantaged manner and, for Match-Eligible Participants, USSTC Match-Eligible Participants and SMWE Match-Eligible Participants (as such terms are defined below), to receive company match contributions if they make contributions to the Plan on a before-tax and/or after-tax basis. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”).

Plan Administration

The administration of the Plan has generally been delegated to the Administrator, as defined in the Plan. The Altria Group Benefits Investment Committee (the “Investment Committee”) is the named fiduciary responsible for the operation and management of the investment options in the Plan, other than the investment options (the “Altria Stock Investment Option”, the “Mondelēz Stock Investment Option”, the “PMI Stock Investment Option” and the “KFG Stock Investment Option”; collectively, the “Common Stock Investment Options”) invested exclusively in the common stock of Altria Group, Inc. (“Altria Stock”), the Class A common stock of Mondelēz International, Inc. (“Mondelēz Stock”), the common stock of Philip Morris International Inc. (“PMI Stock”) and the common stock of Kraft Foods Group, Inc. (“KFG Stock”), respectively (collectively, the “Common Stocks”). Fiduciary Counselors Inc. (“Fiduciary Counselors”) is the named fiduciary with respect to the management of the investment of the Common Stock Investment Options. The Administrator, the Investment Committee and Fiduciary Counselors are hereinafter collectively referred to as the “Fiduciaries”.

Plan Participation

Eligibility for benefits under the Plan depends on an employee’s hire date and Participating Company affiliation, as follows:

• “Non-Match-Eligible Participants” (eligible to make employee contributions and to receive a company contribution):

- Employees of PM USA, other than Match-Eligible Participants, USSTC Match-Eligible Participants and SMWE Match-Eligible Participants, as defined below;

• “Match-Eligible Participants” (eligible to make employee contributions and to receive a company contribution and company match contributions):

- Employees of PM USA hired or rehired on or after specified dates based on their union affiliation, as defined in the Plan document;

• “USSTC Match-Eligible Participants” (eligible to make employee contributions and to receive company match contributions):

- Union hourly-paid employees of USSTC; and

•

“SMWE Match-Eligible Participants” (eligible to make employee contributions and to receive company match contributions):

- o Non-agricultural union hourly-paid employees of SMWE.

6

Table of Contents

DEFERRED PROFIT-SHARING PLAN FOR HOURLY EMPLOYEES
NOTES TO FINANCIAL STATEMENTS

Employee Contributions

Each eligible employee may make before-tax and after-tax contributions to the Plan as soon as administratively feasible after his or her date of hire.

No contribution is required from any participant under the Plan. However, employees hired or rehired after a date specific to their employee group are automatically enrolled in the Plan to make before-tax contributions of three percent (3%) of their eligible compensation beginning with the first payroll period after the completion of 90 days of service. Employees who are automatically enrolled can elect not to make contributions or to contribute a different percentage of their eligible compensation.

The Internal Revenue Code of 1986, as amended (the "Code"), imposes a dollar limitation on the amount of before-tax contributions for a calendar year. A participant's before-tax contribution was limited to \$17,500 in 2014 and 2013, with a Plan limitation effective July 1, 2014 of thirty-five percent (35%) of eligible compensation on the total amount of before-tax and after-tax contributions. Prior to July 1, 2014, the Plan limitation was fifteen percent (15%) of eligible compensation.

Participants who are age 50 or older by the end of a Plan year are eligible to make before-tax catch-up contributions up to the limit prescribed in the Code. For 2014 and 2013, the catch-up contribution was limited to \$5,500.

The aggregate contributions actually made by participants may not cause the Plan to violate limitations on such contributions set forth in the Code.

Employer Contributions

Contributions by Participating Companies may consist of a company contribution and/or company match contributions as discussed below.

Company contribution – The company contribution on behalf of participants, other than USSTC Match-Eligible Participants and SMWE Match-Eligible Participants, who have completed twenty-four months of service (twelve months in the case of a Match-Eligible Participant), is fifteen percent (15%) of eligible compensation.

Effective January 1, 2014, the company contribution to the Plan cannot exceed three percent (3%) of Altria Group, Inc.'s Consolidated Earnings, as defined in the Plan document, allocated between the Plan and the Deferred Profit-Sharing Plan for Salaried Employees (the "Salaried Plan") proportionately based on the aggregate compensation of eligible participants in each plan. Before 2014, the company contribution to the Plan could not exceed three percent (3%) of Altria Group, Inc.'s Consolidated Earnings less the company contribution and the supplemental company contribution to participants in the Salaried Plan.

Notwithstanding the foregoing limitations, Match-Eligible Participants receive a company contribution of no less than ten percent (10%) of their eligible compensation.

Company match contributions – Match-Eligible Participants who make before-tax and/or after-tax contributions for a payroll period after completing 90 days of service will receive company match contributions, dollar for dollar, up to the first three percent (3%) of eligible compensation that is contributed for a payroll period.

USSTC Match-Eligible Participants and SMWE Match-Eligible Participants who make before-tax and/or after-tax contributions for a payroll period after completing one year of service will receive company match contributions. For USSTC Match-Eligible Participants and SMWE Match-Eligible Participants, the company match contributions are dollar for each dollar and \$.50 for each dollar, respectively, up to the first six percent (6%) of eligible compensation that is contributed for a payroll period.

Changes to Employer Contributions for Calendar Years Beginning in 2016

In December 2013, the unions for hourly-paid employees of PM USA ratified contractual agreements that modify the calculation of the company contribution and company match contributions. The changes, which go into effect for calendar years beginning in 2016, are described below. Other than these changes, which are only applicable to Non-Match-Eligible Participants and Match-Eligible Participants, the employer contributions remain as described above.

Table of Contents

DEFERRED PROFIT-SHARING PLAN FOR HOURLY EMPLOYEES

NOTES TO FINANCIAL STATEMENTS

Company contribution – In general, the formula to compute the company contribution for Non-Match-Eligible Participants who have completed twenty-four months of service and Match-Eligible Participants who have completed twelve months of service will be as follows:

If Altria Group, Inc.'s actual adjusted diluted EPS growth rate is:	Target adjusted diluted EPS growth rate *		
	Under the target range	Within the target range	Above the target range

Then the company contribution (expressed as a percentage of each eligible participant's compensation) is:	8%	10%	12%
---	----	-----	-----

* Target adjusted diluted earnings per share ("EPS") growth rate is announced by Altria Group, Inc., generally in late January of each year.

Supplemental company contribution – A supplemental company contribution will be made on behalf of Match-Eligible Participants equal to five percent (5%) of each such eligible participant's compensation.

Company match contributions – Non-Match-Eligible Participants who make before-tax and/or after-tax contributions for a payroll period will become eligible to receive company match contributions, dollar for dollar, up to the first five percent (5%) of eligible compensation that is contributed for a payroll period.

Participant Accounts

Each participant's Plan accounts are credited with any employee and employer contributions and the allocated share of the investment activities for each investment option in which he or she participates. Allocations are based on participant Plan account balances, as defined in the Plan document.

Vesting

Each participant is at all times fully vested in the balance held in each of his or her Plan accounts.

Investment Options

Participants can direct all contributions among ten investment options and may change their investment elections at any time, subject to excessive trading policy restrictions and short-term redemption fees that may be applicable to certain of the investment options. If a participant has not provided an investment election, any contributions are invested in the Balanced Fund Investment Option, for which the underlying investment is a common/collective trust. The Mondelēz Stock Investment Option, the PMI Stock Investment Option and the KFG Stock Investment Option (individually and collectively, the "Non-Altria Stock Investment Option") are "closed" to further investments so that participants are not permitted to purchase shares of Mondelēz Stock, PMI Stock and KFG Stock (individually and collectively, "Non-Altria Stock") in the Plan or to perform an exchange into a Non-Altria Stock Investment Option from any other investment option.

Employee Stock Ownership Plan

The employee stock ownership plan ("ESOP") portion of the Plan permits each participant who invests in the Altria Stock Investment Option to elect, no later than the business day immediately preceding an ex-dividend date with respect to a cash dividend payable on shares of Altria Stock, to have the dividend paid to them in cash or have the dividend reinvested in additional shares of Altria Stock. Altria Stock dividends paid in cash directly to participants for the year ended December 31, 2014 were approximately \$14 million. Altria Stock dividends payable in cash directly to participants as of December 31, 2014 and 2013 were approximately \$4 million and \$3 million, respectively.

Any cash dividends paid on Non-Altria Stock held in a Non-Altria Stock Investment Option cannot be reinvested in Non-Altria Stock, but instead will be invested according to the participant's current investment elections. If the participant has not provided an investment election, cash dividends are invested in the Balanced Fund Investment Option. The participant does not have the right to elect to have dividends for Non-Altria Stock paid to them in cash.

Table of Contents

DEFERRED PROFIT-SHARING PLAN FOR HOURLY EMPLOYEES

NOTES TO FINANCIAL STATEMENTS

Master Trusts

Certain assets of the Plan are co-invested with the assets of the Salaried Plan and the Savings Plan for Puerto Rico Employees, in a commingled investment fund known as the Altria Client Services Deferred Profit-Sharing Master Trust (“Master Trust A”) for which State Street Bank and Trust Company (“State Street”) serves as the trustee. Certain assets of the Plan are co-invested with the assets of the Salaried Plan in a commingled investment fund known as the Altria Client Services Deferred Profit-Sharing Trust for Altria Stock and Non-Altria Stock (“Master Trust B”) for which Fidelity Management Trust Company serves as the trustee.

Master Trust A and Master Trust B are hereinafter collectively referred to as the “Master Trusts”.

Withdrawals and Distributions

Participants may make in-service withdrawals in accordance with the provisions outlined in the Plan.

Participants may receive a distribution upon termination of employment, including retirement, in a lump sum, partial distributions, or installments.

Notes Receivable from Participants

Participants are permitted to borrow from their Plan accounts in accordance with the loan provisions and applicable interest rate as outlined in the Plan. Interest on participant loans is fixed for the term of the loan. The minimum loan amount is \$1,000 and the maximum loan amount is the lesser of one-half of a participant’s account balance at the time of the loan request or \$50,000, less the participant’s highest outstanding loan balance during the twelve-month period preceding the loan request. Loan repayment periods are up to twenty-five years depending on the type of loan.

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements are prepared using the accrual basis of accounting.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Plan’s management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, in the financial statements and related disclosures. Actual results could differ from those estimates.

Risks and Uncertainties

The Plan offers diversified investment options in investment securities, other than the Common Stock Investment Options. Investment securities, in general, are exposed to various risks, such as interest rate risk, credit risk and overall market volatility. The financial markets, both domestically and internationally, can experience significant volatility on a daily basis that affects the valuation of investments. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur and that such changes could materially affect participant account balances and the amounts reported in the financial statements. Substantially all of the assets of Master Trust B are invested in Common Stocks, each of which could be subject to significant market fluctuations.

Valuation of Investment in Master Trusts

The Plan’s investment in the Master Trusts and share of investment activities is based upon the total of the participants’ Plan accounts.

Table of Contents

DEFERRED PROFIT-SHARING PLAN FOR HOURLY EMPLOYEES

NOTES TO FINANCIAL STATEMENTS

Valuation of the Master Trusts' Investments and Income Recognition

The Master Trusts' investment assets are reported at fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 5 – Fair Value Measurements for a detailed discussion of fair value measurements.

Investment transactions are accounted for on the date the purchase or sale is executed. Dividend income is recorded on the ex-dividend date; interest income is recorded as earned on an accrual basis. In accordance with the policy of stating investments at fair value, the net appreciation (depreciation) in the fair value of investments reflects both realized gains or losses and the change in the unrealized appreciation (depreciation) of investments held at year-end.

Realized gains or losses from security transactions are reported on the average cost method.

The Statements of Net Assets Available for Benefits present the fair value of the investment in Master Trust A, as well as the adjustment of the investment from fair value to contract value relating to investment contracts, which have fully benefit-responsive features. Contract value represents contributions and reinvested income, less any withdrawals plus accrued interest. The Statement of Changes in Net Assets Available for Benefits is prepared on a contract value basis.

Withdrawals and Distributions

Withdrawals and distributions are recorded when paid.

Expenses

Investment management fees, fund manager administrative fees, brokerage commissions (excluding those for the Common Stocks held in Master Trust B) and other investment related expenses are part of the total operating expenses of an investment option, and are charged against the net asset value of the specific investment option and reduce investment return.

Plan administrative fees such as trustee fees, participant recordkeeping, communications, investment advisory, audit and certain legal fees are paid by the Master Trusts and charged directly to participant accounts.

Individual participant transaction fees (including fees associated with the trading of Common Stocks) and short-term redemption fees for sales of an investment option within a specified period of time after purchase are paid by the Master Trusts and are charged solely to the accounts of the participant who initiated the transaction.

Table of Contents

DEFERRED PROFIT-SHARING PLAN FOR HOURLY EMPLOYEES

NOTES TO FINANCIAL STATEMENTS

3. Master Trust A Investments

At December 31, 2014 and 2013, the Plan's interest in the net assets of Master Trust A was approximately 18% . The Plan's interest in Master Trust A represents over 5% of the Plan's net assets at December 31, 2014 and 2013.

At December 31, 2014 and 2013, the net assets of Master Trust A were as follows (in thousands of dollars):

	2014	2013
Investments at fair value:		
Common/collective trusts	\$1,308,733	\$1,235,799
Investment contracts	902,972	898,645
Registered investment companies	292,295	225,465
Government securities	158,295	170,783
Other	17,177	28,754
Total investments	2,679,472	2,559,446
Receivables:		
Interest and dividend income	2,989	2,543
Pending securities sold	4,417	18,270
Liabilities:		
Securities purchased	(29,536) (25,555
Net assets at fair value	2,657,342	2,554,704
Adjustment from fair value to contract value for fully benefit-responsive investment contracts	(27,102) (27,113
Net assets	\$2,630,240	\$2,527,591

Master Trust A investment activities for the year ended December 31, 2014 were as follows (in thousands of dollars):

Interest and dividends	\$30,298
Net appreciation in common/collective trusts	111,762
Net appreciation in registered investment companies	22,443
Net appreciation in government securities	1,370
Investment income	\$165,873

As discussed in Note 2 – Summary of Significant Accounting Policies – Valuation of Investment in Master Trusts, allocations of the investment activities are based on participant Plan account balances.

Investment contracts held in the Interest Income Fund Investment Option (a stable value investment option) may consist of traditional and/or synthetic guaranteed investment contracts (“GIC” or “GICs”) as determined by the investment manager for the Interest Income Fund.

A traditional GIC provides for a fixed return on principal over a specified period of time through fully benefit-responsive contracts issued by a third party, which are backed by assets owned by the third party. The interest rates for traditional GICs are either agreed to in advance with the issuer or vary based on agreed formulas, but cannot be less than zero. Master Trust A had no traditional GICs as of December 31, 2014 or 2013.

A synthetic GIC provides for the preservation of principal at a specified rate of interest over a specified period of time through fully benefit-responsive wrapper contracts issued by a third party, which are backed by underlying assets owned by Master Trust

Table of ContentsDEFERRED PROFIT-SHARING PLAN FOR HOURLY EMPLOYEES
NOTES TO FINANCIAL STATEMENTS

A. The wrapper contract provider guarantees, except in the case of the occurrence of certain events discussed below, that participant withdrawals are made at contract or book value.

The portfolio of assets, overall of investment grade quality, underlying the synthetic GICs includes fixed income securities such as mortgages, corporate bonds, and United States Treasury securities. The difference between the contract value and the fair market value of the investments of each contract is periodically amortized into each contract's crediting rate, which is the rate earned by participants in the Interest Income Fund. The amortization factor is calculated by dividing the difference between the fair market value of the investments and the contract value by the duration of the underlying asset portfolio covered by the investment contract. The crediting rates for the synthetic GICs are calculated on a quarterly basis (or more frequently, if necessary) using the contract value, and the fair market value, yield and duration of the underlying securities, but cannot be less than zero. The contract value of the synthetic GICs was approximately \$854 million and \$866 million at December 31, 2014 and 2013, respectively.

The relationship of future crediting rates and the adjustment to contract value reported on the Statements of Net Assets Available for Benefits is provided through the mechanism of the crediting rate formula, as discussed above. Key factors that could influence future average interest crediting rates include, but are not limited to: Plan cash flows, changes in interest rates, total return performance of the fair market value bond strategies underlying each synthetic GIC contract, default or credit failures of any of the securities, investment contracts, or other investments held in the fund, or the initiation of an extended termination (immunization) of one or more synthetic GIC contracts by the investment manager or the contract issuer.

The average yields for synthetic GICs were as follows:

	2014		2013	
Average yield earned	1.15	%	1.35	%
Average yield earned adjusted to reflect actual interest credited to Interest Income Fund participants	2.04	%	2.20	%

There are certain events not initiated by Plan participants that could limit the ability of the Plan to transact at contract value with the issuer. Specific coverage provided by each synthetic GIC may be different for each issuer, and can be found in the individual synthetic GIC contracts held by the Plan. Examples of such events include: the Plan's failure to qualify under the Code; full or partial termination of the Plan; involuntary termination of employment as a result of a corporate merger, divestiture, spin-off, or other significant business restructuring, which may include early retirement incentive programs or bankruptcy; changes to the administration of the Plan which decrease employee or employer contributions such as the establishment of a competing plan by the Plan sponsor, the introduction of a competing investment option, or other plan amendment that has not been approved by the contract issuers; dissemination of a participant communication that is designed to induce participants to transfer assets from a stable value option; or events resulting in a material and adverse financial impact on the contract issuer, including changes in the tax code, laws or regulations.

The Plan Fiduciaries do not believe that the occurrence of any such event that would limit the Plan's ability to transact at contract value with participants is probable.

Contract issuers are not allowed to terminate any of the above synthetic GICs and settle at an amount different from contract value unless there is a breach of the contract which is not corrected within the applicable cure period. Actions that will result in a breach (after any relevant cure period) include, but are not limited to: material misrepresentation; failure to pay synthetic GIC fees, or any other payment due under the contract; or failure to adhere to investment guidelines.

12

Table of Contents

DEFERRED PROFIT-SHARING PLAN FOR HOURLY EMPLOYEES

NOTES TO FINANCIAL STATEMENTS

4. Master Trust B Investments

At December 31, 2014 and 2013, the Plan's interest in the net assets of Master Trust B was approximately 30%. The Plan's interest in Master Trust B represents over 5% of the Plan's net assets at December 31, 2014 and 2013.

At December 31, 2014 and 2013, the net assets of Master Trust B were as follows (in thousands of dollars):

	2014	2013
Investments at fair value:		
Common stocks:		
Altria Stock	\$1,615,001	\$1,293,540
PMI Stock	616,585	742,903
Mondelēz Stock	87,942	94,173
KFG Stock	50,630	48,040
Cash and cash equivalents	15,434	14,803
Total investments	2,385,592	2,193,459
Receivable - dividend income	18,276	18,346
Net assets	\$2,403,868	\$2,211,805

Master Trust B investment activities for the year ended December 31, 2014 were as follows (in thousands of dollars):

Dividends on common stocks:		
Altria Stock		\$67,212
PMI Stock		30,409
Mondelēz Stock		1,406
KFG Stock		1,796
Net appreciation (depreciation) in common stocks:		
Altria Stock		357,387
PMI Stock		(45,791)
Mondelēz Stock		2,577
KFG Stock		7,337
Investment income, net		\$422,333

5. Fair Value Measurements

Financial Accounting Standards Board ("FASB") authoritative guidance provides a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs of valuation techniques used to measure fair value. The hierarchy 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 the fair value hierarchy are described as follows:

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.

Table of Contents

DEFERRED PROFIT-SHARING PLAN FOR HOURLY EMPLOYEES

NOTES TO FINANCIAL STATEMENTS

Following is a description of the valuation methodologies used for investments measured at fair value.

Level 3 holdings and transactions are immaterial to the total Master Trusts' investment assets at December 31, 2014 and 2013.

Common/Collective Trusts

Common/collective trusts consist of pools of investments used by institutional investors to obtain exposure to equity and fixed income markets. Master Trust A common/collective trust investments include equity index funds and a balanced fund, consisting of a mix of equities and fixed income securities, that are intended to mirror indices such as the Standard & Poor's 500 Index, Russell Small Cap Completeness Index, Morgan Stanley Capital International ("MSCI") All Countries World ex US Index, MSCI Europe, Australasia, and the Far East Index, and Barclays US Aggregate Bond 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 net asset value ("NAV") as provided by the investment account manager. There are no restrictions on redemptions of these investments.

Investment Contracts

The underlying fixed income assets of the synthetic guaranteed investment contracts are valued at a price that is based on a compilation of primarily observable market information, such as broker quotes or NAV as provided by the investment account manager. Matrix pricing, yield curves and indices are used when broker quotes are not available. These assets are classified in Level 2. There are no restrictions on redemption of the investments valued at NAV. Wrapper contracts are valued based on the replacement cost of the contract and are classified in Level 3.

Registered Investment Companies

Investments in mutual funds sponsored by a registered investment company are valued based on exchange listed prices.

Government Securities

Government securities consist of investments in U.S. Treasury 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.

Common Stocks

Common stocks are valued based on the price of the security as listed on an open active exchange on last trade date.

Cash & Cash Equivalents

Cash and cash equivalents are valued at cost that approximates fair value.

The methods described above are not necessarily indicative of net realizable value or reflective of future fair values, nor is categorization of a security in any particular valuation level necessarily an indication of the risk associated with an investment in that security. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Table of Contents

DEFERRED PROFIT-SHARING PLAN FOR HOURLY EMPLOYEES

NOTES TO FINANCIAL STATEMENTS

The fair values of the Master Trusts' investment assets by asset category as of December 31, 2014 are as follows (in thousands of dollars):

Master Trust A	Level 1	Level 2	Level 3	Totals
Common/collective trusts:				
U.S. equity index	\$—	\$928,176	\$—	\$928,176
International equity index		154,290		154,290
Balanced fund		226,267		226,267
Investment contracts:				
U.S. Treasuries and inflation protected securities		374,128		374,128
Other		528,563	281	528,844
Registered investment companies:				
Equity	207,877			207,877
Other	84,418			84,418
Government securities - U.S. Treasuries				