



Reynolds American Inc.

March 2015

To our fellow shareholders:

It seemed most fitting that in the same year that Reynolds American celebrated a successful decade of transformation, we also announced exciting plans to acquire Lorillard, Inc. and the powerful Newport brand. At the time of writing this letter, we're still awaiting a decision on the proposed transaction by the U.S. Federal Trade Commission, and we remain confident that the deal will close in the first half of this year.

As you know, our shareholders overwhelmingly approved our acquisition plan in January of this year — clearly, you agree that it represents a compelling strategic move for RAI, and one that we believe will mark the next stage of growth for our company. We look forward to giving you more details about our transition plans once the transaction has closed. In the meantime, our companies continue to make headway in their businesses, while leading the transformation of the tobacco industry.

We're happy to report that 2014 was a very successful year for RAI and our companies. That performance allowed us to deliver an excellent total shareholder return of almost 35 percent for the year, which included an increase in our quarterly cash dividend of 6.3 percent. Details on RAI's financial results, reflecting substantial investment on the expansion of VUSE Digital Vapor Cigarettes and equity-building initiatives on our companies' other key brands, are contained in our year-end earnings release, which can be found at [www.reynoldsamerican.com](http://www.reynoldsamerican.com).

RAI's strong results were driven by progress at our reportable business segments in both their marketplace and financial performance. Core profitability improved across the board, and operating companies' key brands did extremely well in a competitive environment. Our companies benefited from some favorable tailwinds in 2014, such as lower MSA cost and the end of the federal tobacco-quota buyout, but their success really boiled down to the efforts of their talented and dedicated employees and their effective execution of business strategies, keen eye on efficiencies and superior consumer and trade marketing engagement.

We'd like to highlight two major business factors that are driving our growth: the momentum on our companies' key brands and progress in creating meaningful revenue streams with innovative new products for an evolving marketplace.

R.J. Reynolds Tobacco Company's iconic Camel brand achieved a cigarette market share of more than 10 percent in 2014, its highest share in decades and up by more than 50 percent since RAI was formed in 2004. The brand's latest expansion, Camel White, features an innovative, two-piece inset filter and will be offered in 21 western states this April. Santa Fe Natural Tobacco Company's unique super-premium cigarette brand, Natural American Spirit, had another great year, with market share now approaching two share points. Natural American Spirit, now a Top 10 brand, grew share in all 50 states, and it still has plenty of room to grow. We're very pleased to note that Camel and Natural American Spirit were the only premium-priced cigarette brands that grew market share last year.

R.J. Reynolds's Pall Mall remained the number one brand in the cigarette value category, with a market share of more than 9 percent in 2014. In line with the company's desire to provide Pall Mall consumers with "genuinely more," the brand received a packaging upgrade with a premium look and feel.

American Snuff Company's Grizzly moist-snuff brand also performed well in a highly competitive environment, capturing more than 31 percent of the moist-snuff market in 2014. Grizzly holds the top spot in the two fastest growing segments of the category — wintergreen and pouch. American Snuff is investing in the brand's equity, and Grizzly Dark Wintergreen was recently expanded nationally.

Camel SNUS — a convenient smoke-free option for adult tobacco consumers considering alternatives to traditional cigarettes — turned in a steady performance, with a share of almost 80 percent of the U.S. snus market for the year.

Our companies are also advancing exciting innovations that are driving not only our transformation of the tobacco industry, but also our sustainable long-term growth. R.J. Reynolds Vapor Company's VUSE brand recently completed its successful national expansion and is now available in about 100,000 retail outlets. VUSE, the only e-cigarette designed and assembled in the U.S., holds the number one position in the convenience gas retail channel. REVO, R.J. Reynolds's "unconventional cigarette" that uses heat-not-burn technology, was distributed with full marketing support in Wisconsin early this year. Nicovum USA's nicotine replacement therapy gum, ZONNIC, expanded nationally last year, and the brand is now available in about 18,000 retail outlets. That expansion is continuing this year.

Sustainability in all its forms remained a key focus across our companies in 2014, and we're pleased to report that RAI was again selected to the Dow Jones Sustainability North America Index. A summary of our 2014 sustainability initiatives will be available on Reynolds American's website later this year.

Our companies also continue to meet their compliance obligations in the evolving regulatory environment, while maintaining their ability to compete effectively in the marketplace. We strongly believe that tobacco products should be regulated in a manner designed to achieve significant and measurable harm reduction.

So, as you can see, 2014 was a very eventful year, and a highly successful one. We have momentum in our favor that will help us navigate the inevitable challenges that lie ahead, and we're more than ready to take the next step-change in our growth with the acquisition of Lorillard.

On behalf of RAI, our companies and our employees, we thank you for your support.

Sincerely,



Thomas C. Wajnert  
Chairman of the Board



Susan M. Cameron  
President and CEO