



Reynolds American Inc.

March 2016

To our fellow shareholders:

Our transformation journey is gathering speed, due in large part to the successful acquisition of Lorillard, Inc. in 2015. This transaction was a pivotal point in Reynolds American's long-term growth strategy, and we're seeing the benefits already.

We're pleased to report that R.J. Reynolds Tobacco Company has made a strong start on the integration of the Newport brand. In addition, RAI and its operating companies delivered robust growth in 2015. The end result was an industry-leading total shareholder return of almost 50 percent for the year, which included an increase in our quarterly cash dividend of 7.5 percent. Details on RAI's financial results are contained in our year-end earnings release, which can be found at [www.reynoldsamerican.com](http://www.reynoldsamerican.com).

We've entered 2016 with considerable momentum, and continue to deliver against our commitment to enhancing shareholder value. RAI's \$5 billion sale of the Natural American Spirit business outside the U.S., completed in January, is allowing us to further pay down our debt, and we increased our dividend by a further 16.7 percent already this year.

Among the highlights of 2015, RAI's operating companies greatly strengthened their financial and marketplace position. The addition of Newport to R.J. Reynolds' cigarette portfolio drove much of this improvement, but our companies also benefited from favorable economic factors, such as lower gas prices, which increased adult tobacco consumers' disposable income.

Brand leadership could be seen across our companies. R.J. Reynolds' Newport, Camel and Pall Mall drive brands achieved a combined cigarette retail market share of more than 29 percent in 2015, while Santa Fe Natural Tobacco Company's distinctive super-premium cigarette brand, Natural American Spirit, ended the year at a milestone two share points. American Snuff Company's Grizzly moist-snuff brand continued to grow at twice the rate of the moist-snuff industry, achieving retail market share of more than 33 percent in 2015. These drive brands offer strong equity, and we're confident that R.J. Reynolds' superior trade and consumer marketing employees will capitalize on additional opportunities for growth in the coming year.

We also advanced our transforming tobacco vision and continued to invest in smoke-free growth platforms for the future.

In the vapor category, R.J. Reynolds Vapor Company's VUSE Digital Vapor Cigarette completed its national expansion in 2015 and is now available in more than 110,000 retail outlets. VUSE remains the best-selling e-cigarette in convenience-gas outlets, and the brand is rolling out a lineup of exciting new formats as well. VUSE Connect with Bluetooth technology and VUSE Fob were recently made available online, and later this year, the brand will offer VUSE Port — a revolutionary, liquid-based, closed vapor tank system — and VUSE Pro — an innovative closed-cartridge system.



In addition, Niconovum USA remained focused on the national distribution of ZONNIC nicotine gum last year. ZONNIC doubled its retail availability, and is now sold in about 33,000 convenience-gas outlets. Today, ZONNIC represents one in five nicotine gum products sold across all retail channels.

Both Reynolds Vapor and Niconovum now fall under the newly created RAI Innovations Company, which is tasked with driving speed-to-market with new products across a range of platforms. In addition, the vapor collaboration agreement that was reached last year between R.J. Reynolds and a subsidiary of British American Tobacco will facilitate RAI's companies' ability to more effectively and efficiently meet the preferences of adult tobacco consumers in a rapidly evolving marketplace.

Sustainability remains an integral part of our efforts to keep our businesses thriving over the long term. For the seventh year, RAI was selected to the Dow Jones Sustainability North America Index, and we posted the most comprehensive summary of our companies' sustainability initiatives to Reynolds American's website in 2015.

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 continue to strongly believe that tobacco products should be regulated consistently and fairly, based on sound science, and in a manner designed to achieve significant and measurable harm reduction.

All in all, 2015 was a game-changing year for RAI and its companies. Our priorities for the year ahead are to successfully complete the Newport integration, while delivering strong financial and marketplace performance, and further enhance shareholder value. We believe we have the right products, programs and people in place to accelerate our transformation journey.

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

A handwritten signature in black ink, appearing to read "T. Wajnert".

Thomas C. Wajnert  
Chairman of the Board

A handwritten signature in black ink, appearing to read "Susan M. Cameron".

Susan M. Cameron  
President and CEO