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# Reynolds American companies to consolidate manufacturing operations for VUSE Digital Vapor Cigarette

**WINSTON-SALEM, N.C. – Sept. 30, 2015 –** Addressing needed efficiencies and cost effectiveness in an evolving market, operating companies of Reynolds American Inc. (NYSE: RAI) are consolidating manufacturing operations for the VUSE Digital Vapor Cigarette. Currently, certain production of VUSE cartridges is done for R.J. Reynolds Vapor Company at a contractor's facility in Kansas, in addition to in-house production at R.J. Reynolds Tobacco Company's manufacturing facility in Tobaccoville, N.C. Effective today, all production of VUSE will occur at the Tobaccoville facility, pursuant to a services agreement between R.J. Reynolds Tobacco and RJR Vapor.

"VUSE is currently the top-selling electronic cigarette in the convenience store channel, and we are very pleased with its success to date," said Susan M. Cameron, president and chief executive officer of Reynolds American. "As the vapor category continues to develop, we need to make sure our manufacturing operations are efficient and cost-effective in meeting anticipated demand."

In May of last year, Reynolds American announced a multi-million dollar investment for higher-speed, more efficient e-cigarette manufacturing equipment at R.J. Reynolds Tobacco's Tobaccoville manufacturing center. The new equipment is now online, enabling R.J. Reynolds Tobacco to consolidate VUSE manufacturing, reducing its manufacturing footprint and generating cost efficiencies.

As a result of the consolidation, in the third quarter Reynolds American expects to take asset impairment and exit charges of approximately $100 million, on a pre-tax basis.

"We look forward to what the future holds for VUSE," Cameron added. "Reynolds American and its operating companies are shaping their future success through leadership in innovation, efficiency and speed to market – as we redefine enjoyment for adult tobacco consumers and achieve market leadership in a transformed industry."

## Web Disclosure

RAI's website, www.reynoldsamerican.com, is the primary source of publicly disclosed news about RAI and its operating companies. We use the website as our primary means of distributing quarterly earnings and other company news. We encourage investors and others to register at www.reynoldsamerican.com to receive alerts when news about the company has been posted.

## RISK FACTORS

Statements included in this press release that are not historical in nature are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. When used in this press release, forward-looking statements include, without limitation, statements regarding financial forecasts or projections, and RAI's and its subsidiaries' expectations, beliefs, intentions or future strategies that may be signified by the words "anticipate," "believe," "estimate," "expect," "intend," "may," "objective," "outlook," "plan," “project,” “possible,” “potential,” “should” and similar expressions. These statements regarding future events or the future performance or results of RAI and its subsidiaries inherently are subject to a variety of risks, contingencies and other uncertainties that could cause actual results, performance or achievements to differ materially from those described in or implied by the forward-looking statements. These risks, contingencies and other uncertainties include:

- the information appearing under the caption “Risk Factors” included in RAI’s most recent Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission (SEC) and in any updates to the risk factors in any quarterly or other report filed by RAI with the SEC subsequent to such Annual Report;

- the substantial and increasing taxation and regulation of tobacco products, including the regulation of tobacco products by the U.S. Food and Drug Administration (FDA);

- the effect of adverse governmental developments on RAI’s subsidiaries’ sales of products that contain menthol, including the possibility that the FDA will issue regulations prohibiting menthol, or restricting the use of menthol, in cigarettes;

- the possibility that the FDA will require the reduction of nicotine levels or the reduction or elimination of other constituents in cigarettes;

- the adverse effects (including decreased sales and recall costs) arising from an order of the FDA’s Center for Tobacco Products (CTP) (1) finding that a provisional product sold by an RAI operating subsidiary is not substantially equivalent to a predicate product, and (2) as a result, requiring that the provisional product be removed from the market;

- the possibility that the CTP fails to grant a marketing order allowing an RAI operating subsidiary to launch a new tobacco product or modify an existing product;

- the adverse effects (including decreased sales, and the incurrence of fines and costs) arising from an FDA enforcement action against Santa Fe Natural Tobacco Company, Inc. for the company’s use of the terms “natural” and “additive free” in the product labeling for Natural American Spirit cigarettes without a modified risk tobacco product authorization order from the agency;

- the possibility that the FDA will issue regulations extending the FDA’s authority over tobacco products to e-cigarettes, subjecting e-cigarettes to restrictions on, among other things, the manufacturing, marketing and sale of such products;

- decreased sales resulting from the future issuance of “corrective communications,” required by the order in the *U.S. Department of Justice* case on five subjects, including smoking and health, and addiction;

- various legal actions, proceedings and claims relating to the sale, distribution, manufacture, development, advertising, marketing and claimed health effects of tobacco products (including smokeless tobacco products and electronic cigarettes) that are pending or may be instituted against RAI or its subsidiaries;
- the possibility that reports from the U.S. Surgeon General regarding the negative health consequences associated with cigarette smoking and second-hand smoke may result in additional litigation and/or regulation;

- the possibility of being required to pay various adverse judgments in the *Engle* Progeny cases and/or other litigation;

- the substantial payment obligations with respect to cigarette sales, and the substantial limitations on the advertising and marketing of cigarettes (and of RJR Tobacco’s smoke-free tobacco products) under the Master Settlement Agreement and prior states’ settlement agreements;

- the possibility that the arbitration award partially resolving disputes relating to the NPM adjustment provision under the Master Settlement Agreement (2003 NPM adjustment) will be vacated or otherwise modified;

- the possibility that the arbitration award with respect to certain of the states found to be non-diligent in connection with the 2003 NPM adjustment will be vacated or otherwise modified;

- the continuing decline in volume in the U.S. cigarette industry and RAI's and its subsidiaries' dependence on the U.S. cigarette industry and premium and super-premium brands, a dependence which will increase if the proposed sale (Transaction) of the non-United States operations of RAI's subsidiaries' National American Spirit brand to JT International Holding BV (Buyer) is completed;

- concentration of a material amount of sales with a limited number of customers and potential loss of these customers;

- competition from other manufacturers, including those resulting from industry consolidations or any new entrants in the marketplace;

- increased promotional activities by competitors, including manufacturers of deep-discount cigarette brands;

- the success or failure of new product innovations, including the digital vapor cigarette, VUSE;

- the success or failure of acquisitions or dispositions, which RAI or its subsidiaries may engage in from time to time, including the acquisition of Lorillard (Merger) and the divestiture (Divestiture) of certain brands and other assets to ITG;

- the responsiveness of both the trade and consumers to new products, marketing strategies and promotional programs;

- the reliance on outside suppliers to manage certain non-core business processes;

- the reliance on a limited number of suppliers for certain raw materials;

- the cost of tobacco leaf, and other raw materials and commodities used in products;

- the passage of new federal or state legislation or regulations;

- the effect of market conditions on interest rate risk, foreign currency exchange rate risk and the return on corporate cash, or adverse changes in liquidity in the financial markets;

- the impairment of goodwill and other intangible assets, including trademarks;

- the effect of market conditions on the performance of pension assets or any adverse effects of any new legislation or regulations changing pension and postretirement benefits accounting or required pension funding levels;

- the substantial amount of RAI debt, including the additional debt incurred and assumed in connection with the Merger;

- the possibility of decreases in the credit ratings assigned to RAI, and to the senior unsecured long-term debt of RAI;

- the possibility of changes in RAI's historical dividend policy;

- the restrictive covenants imposed under RAI's debt agreements;

- the possibility of natural or man-made disasters or other disruptions, including disruptions in information technology systems or security breaches, that may adversely affect manufacturing or other operations and other facilities or data;
- the loss of key personnel or difficulties recruiting and retaining qualified personnel;
- the inability to adequately protect intellectual property rights;
- the significant ownership interest in RAI of British American Tobacco p.l.c. (BAT) and its subsidiaries, collectively RAI's largest beneficial owner, and their rights under the governance agreement among the companies;
- the potential consequences due to the expiration of the standstill provisions of the governance agreement, and the expiration of RAI's shareholder rights plan on July 30, 2014;
- a termination of the governance agreement or certain of its provisions in accordance with its terms, including the limitations on Brown & Williamson Holdings, Inc.'s representation on the RAI board of directors and its committees;
- the potential for increased competition between RAI and BAT and their respective subsidiaries due to expiration of the non-competition agreement between RAI and BAT on July 30, 2014; and
- additional risks, contingencies and uncertainties associated with the Merger and Divestiture that could result in an adverse effect on the results of operations, cash flows and financial position of RAI and its subsidiaries and/or the failure to realize any anticipated benefits of the Merger and Divestiture to RAI shareholders, including:
    - the effect of the Merger and Divestiture on the ability to maintain business relationships, and on operating results and businesses generally;
    - the reliance of RJR Tobacco on ITG to manufacture Newport on RJR Tobacco's behalf for a period of time after the Merger and Divestiture;
    - RAI's obligations to indemnify ITG for specified matters and to retain certain liabilities related to the transferred assets;
    - the failure to realize projected synergies and other benefits from the Merger and Divestiture;
    - the incurrence of significant post-transaction related costs in connection with the Merger and Divestiture; and
- additional risks, contingencies and uncertainties associated with the proposed Transaction that could result in the failure of the proposed Transaction to be consummated or, if consummated, could have an adverse effect on the results of operations, cash flows and financial position of RAI and its subsidiaries are the following:
    - the occurrence of any event, change or other circumstances giving rise to the right of a party to terminate the purchase agreement relating to the proposed Transaction and entered into by and among the Buyer, certain RAI subsidiaries and, for certain provisions of the agreement, the Buyer's parent (JT) and RAI (Purchase Agreement);
    - the failure to obtain necessary regulatory approvals for the proposed Transaction, or if obtained, the possibility of being subjected to conditions as a result of regulatory approval that could reduce the expected benefits of the proposed Transaction, result in a material delay in, or the abandonment of, the proposed Transaction or otherwise have an adverse effect on RAI;

- the failure to satisfy required closing conditions or complete the proposed Transaction in a timely manner;

- the effect of restrictions placed on RAI's and its subsidiaries' business activities, including restrictions associated with RAI's agreement not to compete with JT in the business of producing, selling, distributing and developing natural, organic and additive-free combustible tobacco cigarettes and roll your own or make your own tobacco products outside of the United States for a period of five years after the closing, and the limitations put on RAI's ability to pursue alternatives to the proposed Transaction pursuant to the Purchase Agreement;

- the possibility of delay or prevention of the proposed Transaction if lawsuits challenging the proposed Transaction are filed against RAI, the members of the RAI board of directors, JT and/or the members of the JT board of directors;

- RAI's obligation to indemnify JT for specified matters and to retain certain liabilities related to the acquired business;

- the incurrence of significant pre-and post-Transaction related costs in connection with the proposed Transaction; and

- the effect of the announcement of the proposed Transaction on the ability of RAI and its subsidiaries to retain and hire key personnel, maintain business relationships, and on operating results and business generally.

Due to these risks, contingencies and other uncertainties, you are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this press release. Except as provided by federal securities laws, RAI is not required to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

## ABOUT US

Reynolds American Inc. (NYSE: RAI) is the parent company of R.J. Reynolds Tobacco Company; Santa Fe Natural Tobacco Company, Inc.; American Snuff Company, LLC; Niconovum USA, Inc.; Niconovum AB; and R.J. Reynolds Vapor Company.

- R.J. Reynolds Tobacco Company is the second-largest U.S. tobacco company. R.J. Reynolds' brands include three of the best-selling cigarettes in the U.S.: Newport, Camel and Pall Mall. These brands, and its other brands, are manufactured in a variety of styles and marketed in the U.S.
- Santa Fe Natural Tobacco Company, Inc. manufactures and markets Natural American Spirit 100% additive-free natural tobacco products, including styles made with organic tobacco.
- American Snuff Company, LLC is the nation's second-largest manufacturer of smokeless tobacco products. Its leading brands are Grizzly and Kodiak.
- Niconovum USA, Inc. and Niconovum AB market innovative nicotine replacement therapy products in the U.S. and Sweden, respectively, under the ZONNIC brand name.
- R.J. Reynolds Vapor Company manufactures and markets VUSE e-cigarettes, a highly differentiated vapor product.

Copies of RAI's news releases, annual reports, SEC filings and other financial materials, including risk factors containing forward-looking information, are available at www.reynoldsamerican.com. To learn how RAI and its operating companies are transforming the tobacco industry, go to the RAI website, Transforming Tobacco.

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