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R.J. Reynolds Tobacco Company Confident It's Following Agreement Guidelines

Winston-Salem, N.C. – April 18, 2006 – R.J. Reynolds Tobacco Company is disappointed with the decision by some states to initiate court proceedings regarding a dispute over recent Master Settlement Agreement (MSA) payments.

“We tried very hard to work with the states to reach a negotiated settlement of this difficult matter, but an agreement could not be reached,” says Charles Blixt, executive vice president and general counsel for R.J. Reynolds Tobacco Company. “We are disappointed that some of the states have decided to seek legal action when it is clearly spelled out in the MSA that disputes over payments should be resolved through binding arbitration.”

The MSA is an agreement reached in 1998 among 46 states, the District of Columbia, Puerto Rico and four U.S. territories and the major tobacco companies. As agreed to by all the signatories, a tobacco company is due a credit against its annual payment if the disadvantages imposed by the MSA were a significant factor in the participating manufacturers losing market share. Last month, an independent economic consulting firm hired by the states and the tobacco companies made such a determination with respect to 2003.

The MSA provides that the independent determination is final and a credit is due. The states disagree. As a result, and following the process specified in the MSA, a portion of R.J. Reynolds' payment was deposited into a “disputed payments” account. The approximately \$647 million deposited into this special escrow account will remain there pending final resolution of application of the credit.

“We are following the process that all parties understood and agreed to when they signed the MSA in 1998,” Blixt says. “Additionally, state courts in New York and Connecticut have already ruled that these matters should indeed be arbitrated, not litigated.

“The states that will ultimately bear the impact of the reduction in their payments are those who have not fulfilled their MSA obligations,” Blixt adds. “Which states those are, if any, will be the issue before the arbitration panel.”

R.J. Reynolds Tobacco Company and its affiliated companies have made more than \$16 billion in settlement payments to the states since the agreement was signed in 1998. In addition, the MSA imposes substantial restrictions on the marketing, advertising and conduct of the participating tobacco companies.

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R.J. Reynolds Tobacco Company, an indirect subsidiary of Reynolds American Inc. (NYSE: RAI), is the second-largest tobacco company in the United States, manufacturing about one of every three cigarettes sold in the country. The company's brands include five of the 10 best-selling U.S. cigarette brands: Camel, Kool, Winston, Salem and Doral. For more information, visit www.RJRT.com.