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R.J. Reynolds receives favorable rulings from arbitration panel

WINSTON-SALEM, N.C., Sept. 11, 2013 — An arbitration panel has determined that R.J. Reynolds Tobacco Company is entitled to approximately \$266 million in disputed payments the company made under the terms of an agreement, known as the Master Settlement Agreement (MSA), between cigarette manufacturers and state governments and certain territories.

The jurisdictions found not to have upheld the enforcement requirement were: Indiana, Kentucky, Maryland, Missouri, New Mexico and Pennsylvania.

“We are pleased that the arbitration panel found that six jurisdictions failed to meet their diligent enforcement obligations under the MSA,” said Martin L. Holton III, executive vice president and general counsel for R.J. Reynolds. “Between today’s rulings and a settlement reached with 22 jurisdictions earlier this year, R.J. Reynolds should recover nearly \$549 million with respect to its 2003 NPM Adjustment claim.”

The panel’s award is the maximum remaining amount to which the company is entitled with respect to the 2003 adjustment.

The 2003 arbitration proceedings have been underway since July 2010. They involved a series of hearings focused on whether a given contested jurisdiction failed to “diligently enforce” certain statutes that required each jurisdiction to confirm that tobacco manufacturers that are not signatories to the MSA, known as Non-Participating Manufacturers (NPMs), made escrow payments on cigarette sales in their jurisdiction. Any jurisdiction that failed to diligently enforce its escrow statute would be exposed to a downward payment adjustment, known as the NPM Adjustment, provided for in the MSA.

Earlier in 2013, R.J. Reynolds and certain other tobacco manufacturers entered into a partial settlement of their NPM Adjustment claims relating to 2003 through 2014 with 22 jurisdictions. The amounts resulting from today’s rulings are in addition to the more than \$1 billion in credits already available to R.J. Reynolds by virtue of that earlier partial settlement, which was entered as a stipulated award by the arbitration panel on March 12, 2013.

The jurisdictions that lost in today’s rulings, as well as all of the other jurisdictions that did not join the earlier partial settlement, remain subject to more than \$6 billion in additional claims from the cigarette manufacturers relating to their enforcement efforts in 2004 and subsequent years. These additional claims will be the subject of future arbitration proceedings.

Holton added, “Our focus will now shift to pursuing arbitration of the company’s 2004 NPM Adjustment claim against those jurisdictions that did not join the settlement.”

Several jurisdictions have filed actions in their state courts seeking to vacate and/or modify the earlier settlement. One or more of the non-settling jurisdictions may now also file actions seeking to challenge the rulings issued today by the arbitration panel.

R.J. Reynolds Tobacco Company, an indirect subsidiary of Reynolds American Inc. (NYSE: RAI), is the second-largest tobacco company in the United States. To learn more about how Reynolds American and its operating companies are transforming the tobacco industry, visit TransformingTobacco.com.