

Business Update

Reynolds American Inc.

Overview

Susan Cameron President and CEO, RAI

Forward-looking information

This presentation contains forward-looking information. Future results or events can be impacted by a number of factors that could cause actual results to be materially different from our projections. These factors are listed in RAI's full-year 2015 earnings release and in the company's SEC filings. 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.

Web and Social Media Disclosure

RAI's website, <u>www.reynoldsamerican.com</u>, is the primary source of publicly disclosed news, including our quarterly earnings, about RAI and its operating companies. RAI also uses Twitter to publicly disseminate company news via <u>@RAI_News</u>. It is possible that the information we post could be deemed to be material information. We encourage investors and others to register at <u>www.reynoldsamerican.com</u> to receive alerts when news about the company has been posted, and to follow RAI on Twitter at <u>@RAI_News</u>.

Adjusted vs. GAAP

RAI management uses 'adjusted' (non-GAAP) measurements to set performance goals and to measure the performance of the overall company, and believes that investors' understanding of the underlying performance of the company's continuing operations is enhanced through the disclosure of these metrics. 'Adjusted' (non-GAAP) results are not, and should not be viewed as, substitutes for 'reported' (GAAP) results. A reconciliation of GAAP to Adjusted results is at the end of this presentation.

Agenda

- Overview
 - Susan Cameron President and Chief Executive Officer, RAI
- Operating companies' business and brand highlights
 - Debra Crew President and Chief Operating Officer, R.J. Reynolds Tobacco
- Financial and integration update
 - Andrew Gilchrist Chief Financial Officer, RAI
- Closing comments / Q&A
 - Susan Cameron



Successfully integrating Newport

Delivered strong 2015 performance

Increased dividend twice in past 6 months

Reduced debt, initiated tender offer for further repayment of outstanding debt

On track in capturing synergies

Other key developments

- Sale of Natural American Spirit business outside U.S. to JT Group
- Tender offer / redemption of RAI debt
- Creation of RAI Innovations Company
- R.J. Reynolds / BAT vapor collaboration agreement

Our vision and strategy, current environment performance drivers



Our Vision:

We will achieve market leadership by transforming the tobacco industry.

We are leading change in our industry by:

Driving innovation throughout our businesses



Redefining enjoyment for adult tobacco consumers



Reducing the harm caused by smoking



Accelerating the decline in youth tobacco use



Resolving controversial issues related to tobacco use



An all-star lineup

Brands positioned to win in key categories

- Cigarettes
- Moist
- Snus
- NRTs
- Vapor



Key competitive advantages

Strong brands in key categories

Leaders in developing innovations

Efficiency and productivity gains

Superior consumer and trade marketing

Highly engaged talent base

Delivering excellent total shareholder return

Since 2004 ...



Through January 31, 2016 Source: Bloomberg

Business & brand highlights

Debra Crew President and COO R.J. Reynolds



Agenda

- Industry dynamics
- RAI operating companies update
- Innovation review
- Summary

Competitive landscape

New 'Big 3' represent:

90% of combustibles

90% of moist snuff

85% of snus

35% of e-cigarettes







Cigarette industry dynamics

- Macroeconomic factors are positive for industry
 - Stronger volume trend in 2015: less than 1% decline
- Adult smokers' preference for menthol
- Migration and poly-use more prevalent
- Moderate up-trading

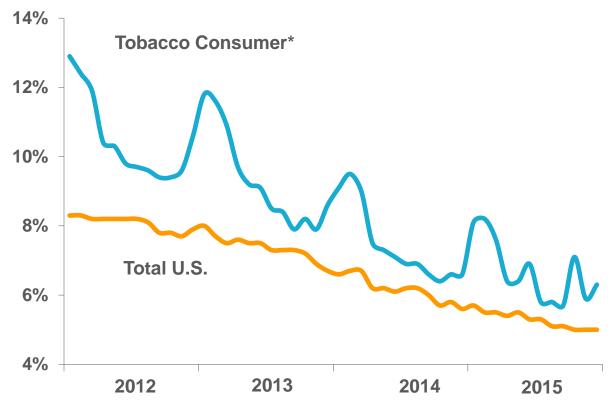
Positive macroenvironment

Retail Gasoline Prices

(National avg. price – regular unleaded)

\$3.60 \$3.49 \$3.34 \$2.40 \$1.90 Jan. 16 2012 2013 2014 2015

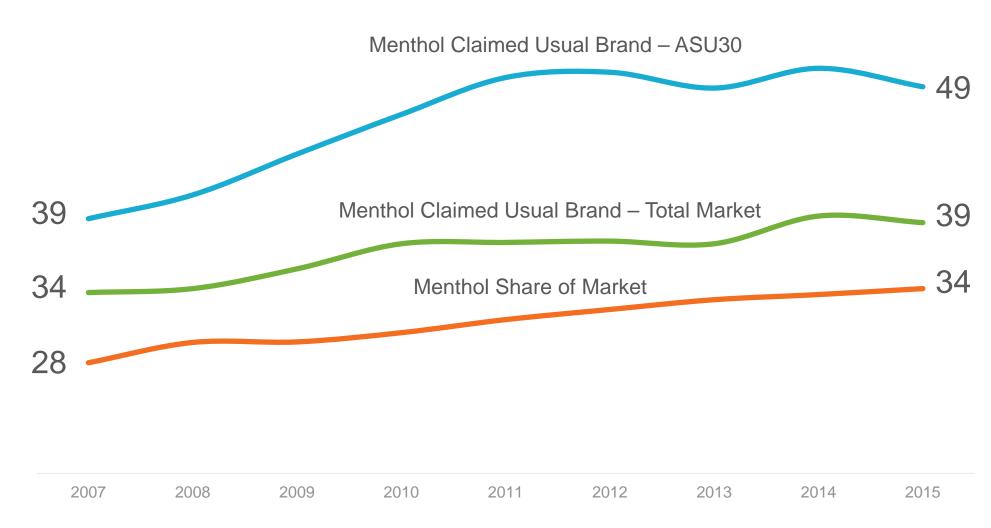
Unemployment Rates



^{*} Average of manufacturing, hospitality and construction industries Source: Bloomberg

Source: Bloomberg

Menthol share poised for long-term growth



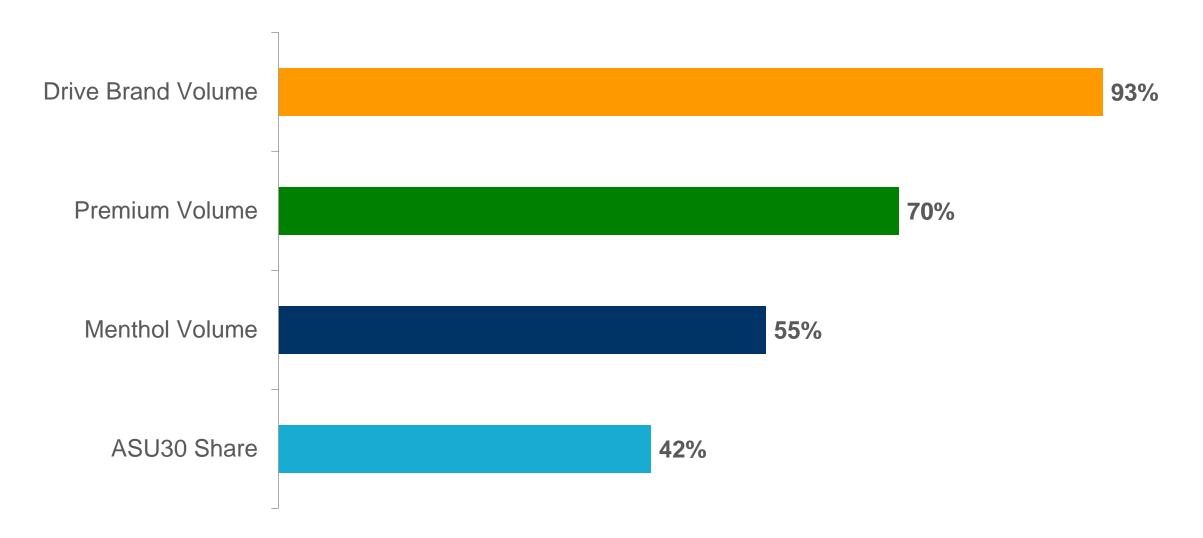
Source: MSA, Inc. shipments to retail, Tracker FY 2015

Operating companies update

Cigarette portfolio

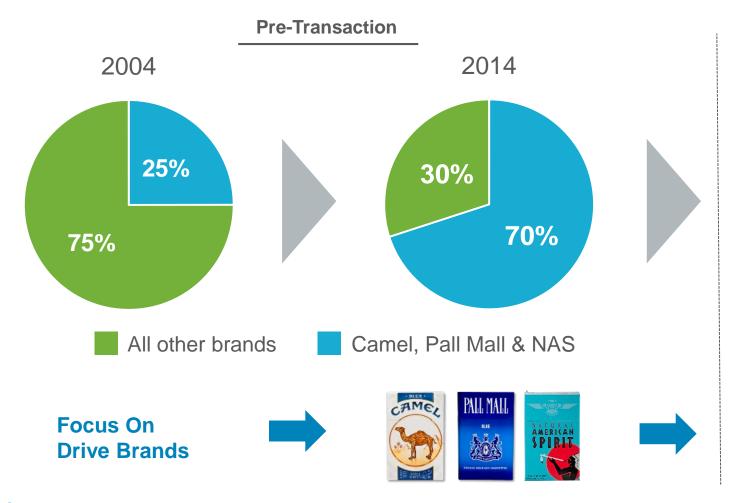


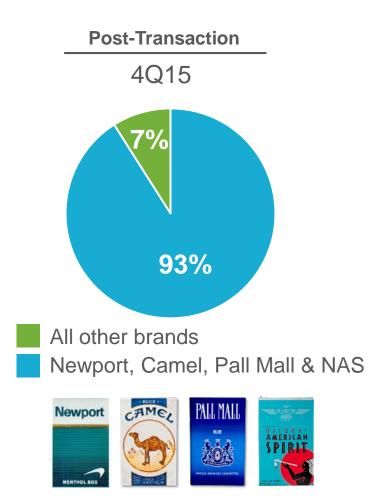
Cigarette portfolio strength



Enhanced growth profile

RAI Operating Companies' Portfolio Market Share

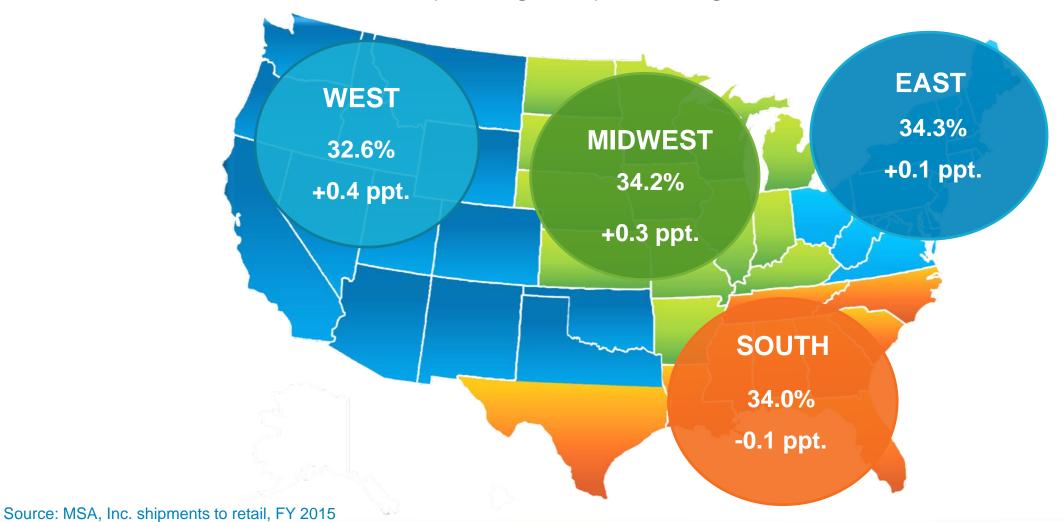




Source: MSA, Inc. shipments to retail

Complementary geographic strengths and momentum

RAI Operating Companies' Cigarette Share of Market



Commercial strength across all key areas

Non-Menthol

Unique brand proposition, on trend with growing consumer sentiment



Menthol



High menthol credibility Diverse, loyal buyer base Unique product Deep cultural connection



An American classic with rich heritage and mass appeal



CAMEL CRUSH HENTROL SILVER

Highly differentiated Increasing menthol credibility



A great value and experience for the money





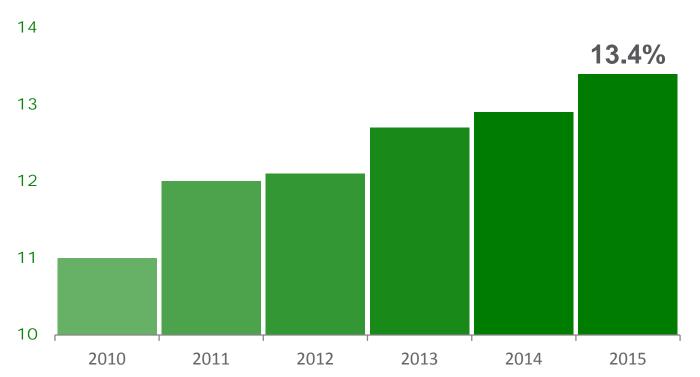
A great value and experience for the money

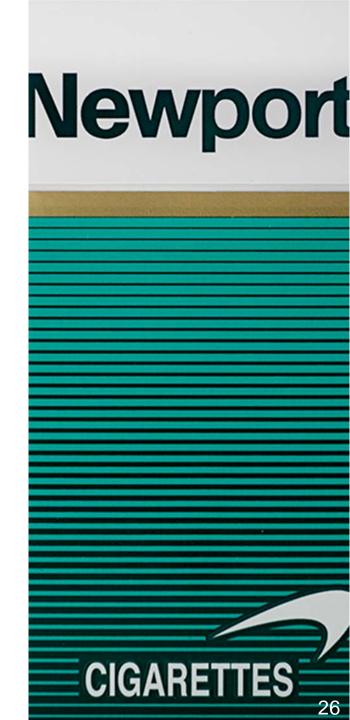
R.J. Reynolds 2015 performance

Volume	71.3 (BN)		+17.0%
Retail Market Share	32.1%		-0.1ppt.
	GAAP	Adjusted	Adjusted 2015 vs. 2014
Operating Income	\$3.4 (BN)	\$3.8 (BN)	+43.1%
Operating margin	38.9%	44.4%	+4.8ppt.

Newport growth momentum







Trade-marketing impact

Pre-Deal



Current

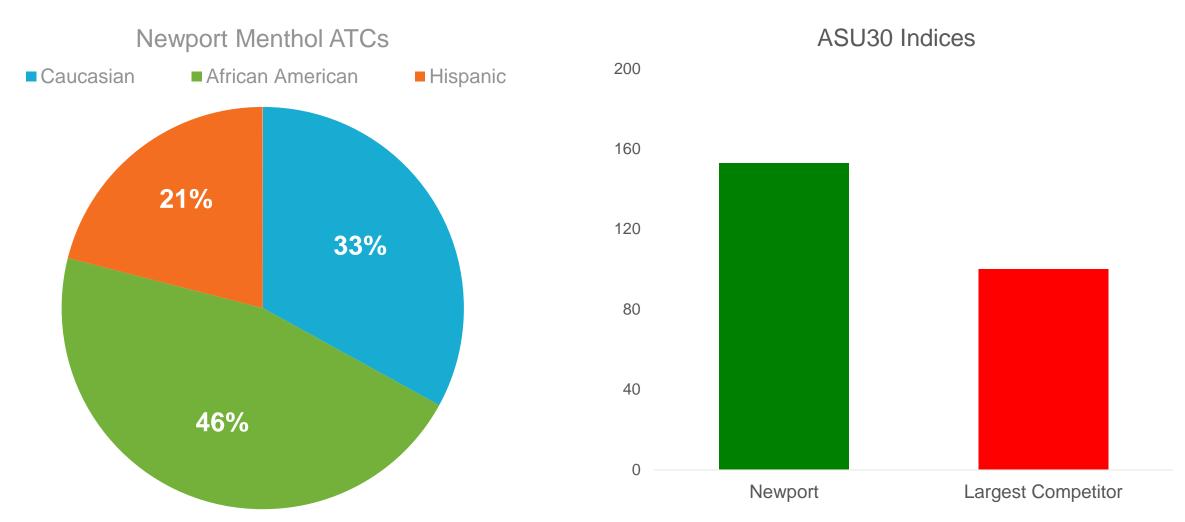


Enhanced equity programming



- National consumer engagement
- Enhanced database reach
- Strong, relevant programming

Demographics aligned with future



Source: Tracker FY 2015 – Past 7 Day AS 21+

Newport menthol portfolio opportunity

Awareness

Adult Smokers 21+



88%

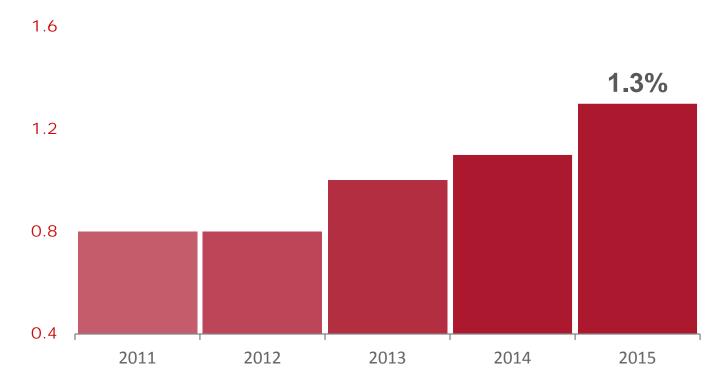
33%

36%

Source: Tracker FY 2015

Newport non-menthol

Share of Market



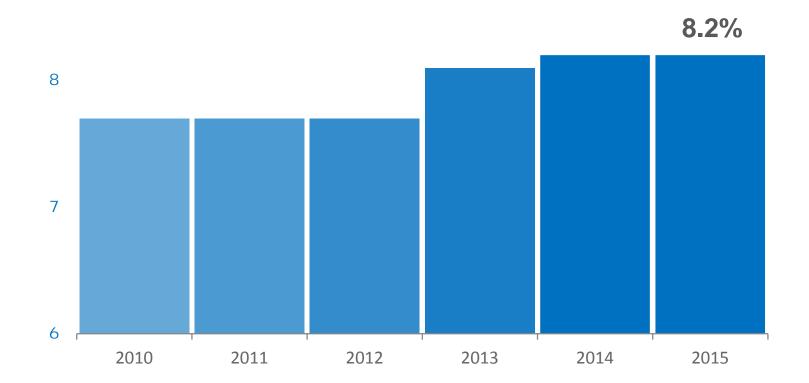




Camel

Share of Market



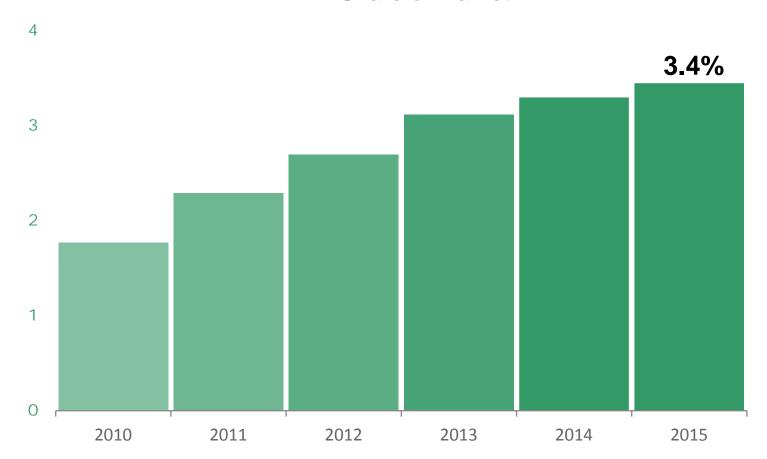


Source: MSA, Inc. shipments to retail



Camel Menthol

Share of Market



Source: MSA, Inc. shipments to retail

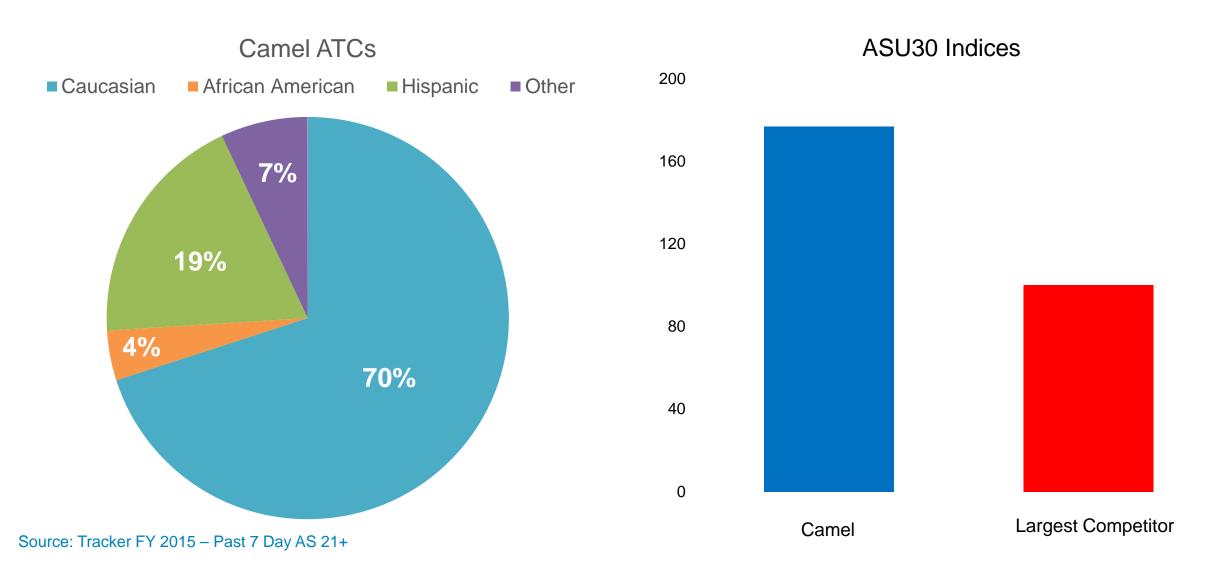


Powerful promotional programs

- Most engaging Camel promotion to date
- Submit mobile-device photos for prizes
 - More than 76,000 photos uploaded
 - Over 2.5 million visits to www.Camel.com

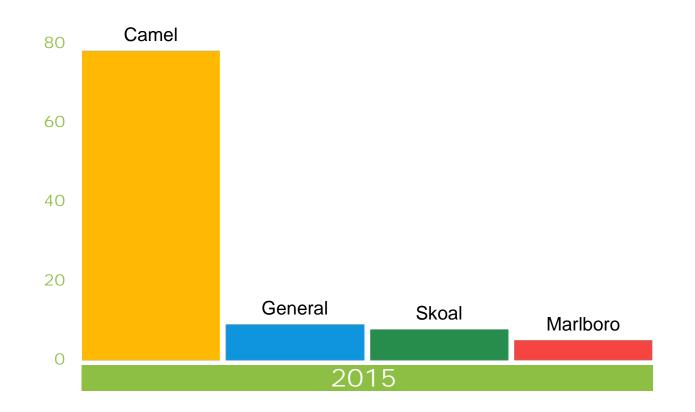


Favorable demographic profile



Camel SNUS



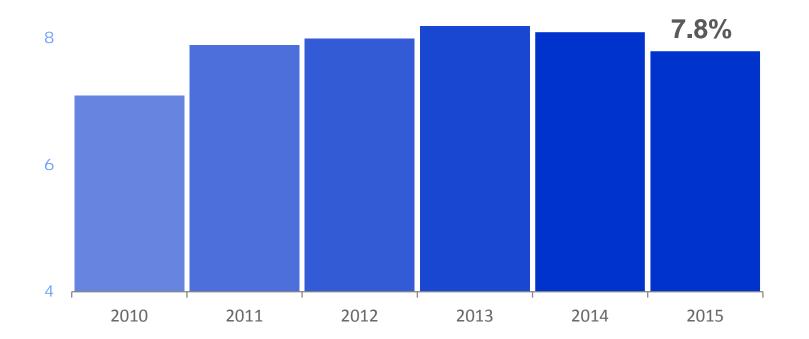




Pall Mall

Share of Market

10



Source: MSA, Inc. shipments to retail



Pall Mall performance

- Stable market share
- Growing financial contribution
- Unique and appealing brand equity



MADE WITH ORGANIC TOBACCO

100% ADDITIVE-FREE **U.S. GROWN TOBACCO** MADE WITH ORGANIC TOBACCO

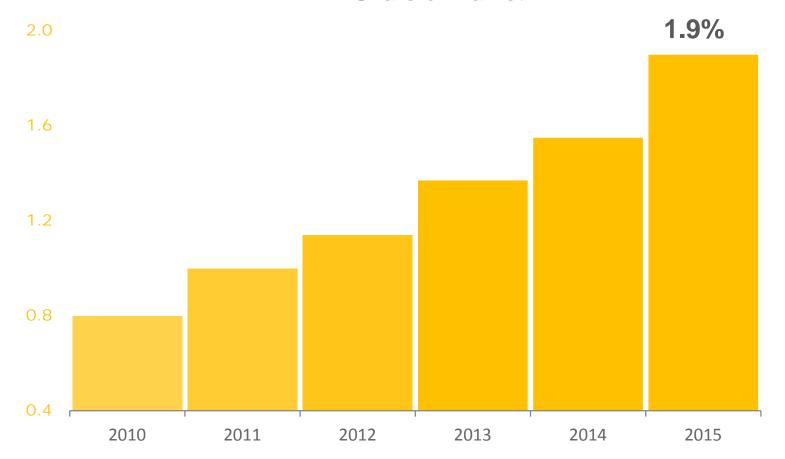
N A T U R A L
AMERICAN
SPIRIT

Santa Fe 2015 performance

Volume	4.8	+21.4%		
Retail Market Share	1.9%	1.9%		
	GAAP	Adjusted	Adjusted 2015 vs. 2014	
Operating Income	\$449 (MM)	\$448 (MM)	+33.1%	
Operating margin	54.9%	54.8%	+3.6 ^{ppt.}	

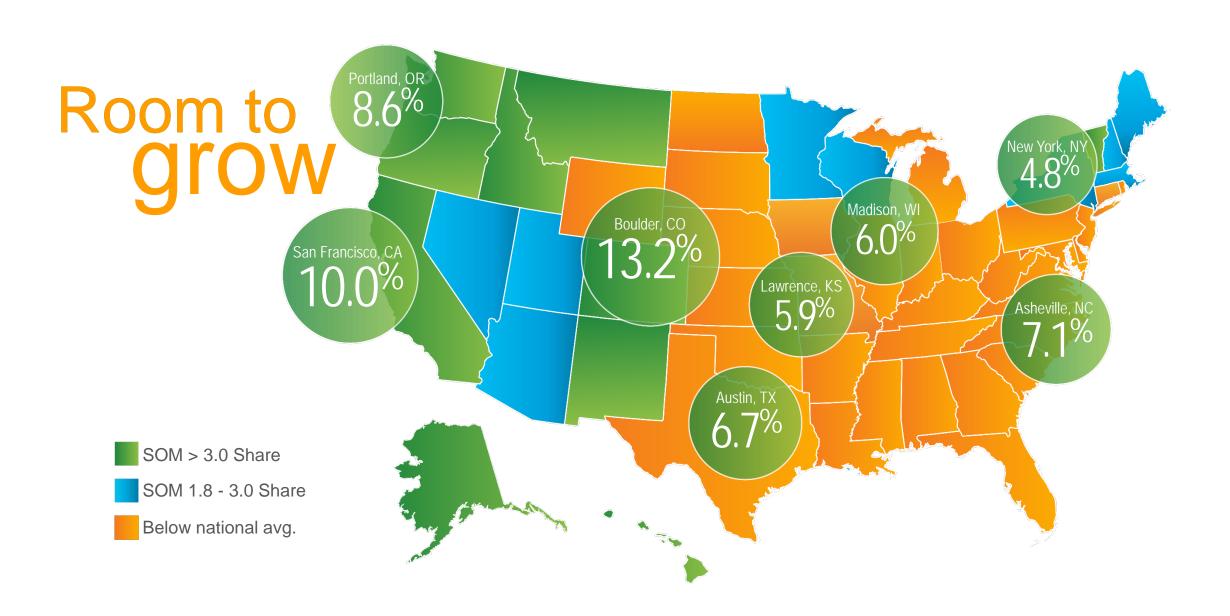
Natural American Spirit

Share of Market



Source: MSA, Inc. shipments to retail







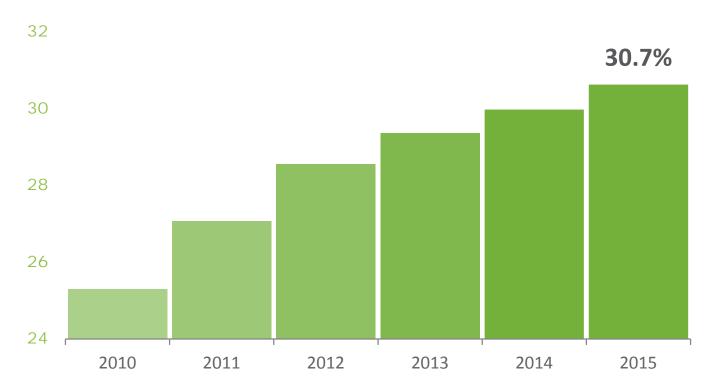
American Snuff 2015 performance

Volume	499.	+4.3%		
Retail Market Share	33.5	33.5%		
	GAAP	Adjusted	Adjusted 2015 vs. 2014	
Operating Income	\$502 (MM)	\$503 (мм)	+13.9%	
Operating margin	58.7%	58.8%	+2.4ppt.	



Grizzly leads moist snuff







Grizzly's competitive advantage





Preferred Wintergreen - No. 1 SKU in fastest growth area

Superior Pouch - Better mouth feel and convenience

Broader range - More Pouch and Wintergreen offerings

Consumer advantages - Positive switching, driven by ATU30

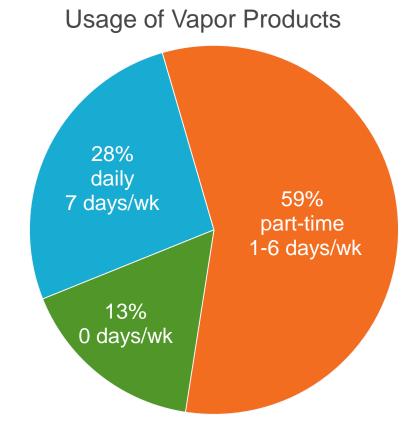


Innovation essential for category growth

 Adult Smokers 21+
 2012
 2013
 2014
 2015

 Trial - Vapor
 37%
 49%
 58%
 62%

 Loyal (Vapor Only)
 3%
 5%
 6%
 7%



BASE: 21+ Adult tobacco or e-cigarette consumers

Source: Tracker FY 2015

BASE: 18+ E-cigarette consumers

Source: Tracker FY 2015

Vapors are looking for performance of a tank With simplicity of a cig-a-like

VUSE evolution and innovation

Superior products

Superior performance

Trusted brand

Cig-A-Like Platform

Next Generation Innovation



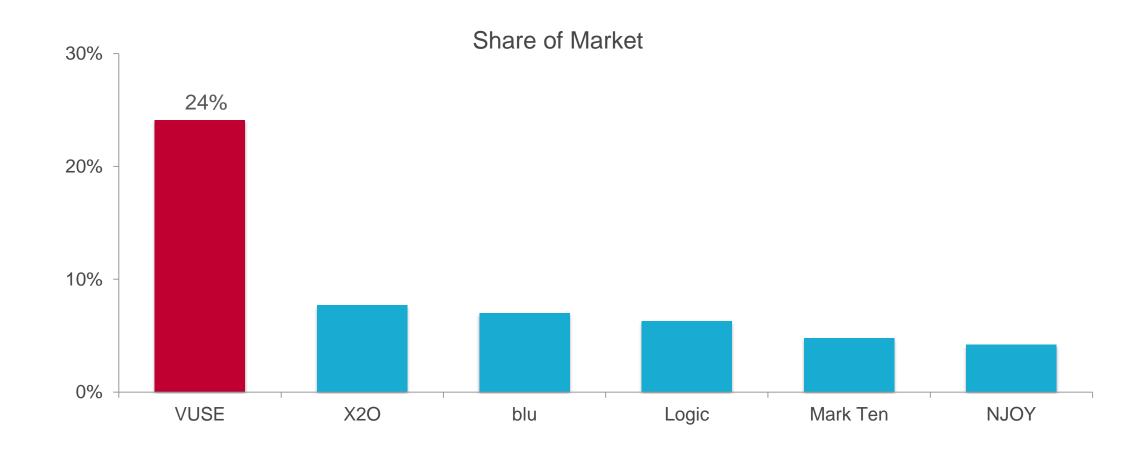








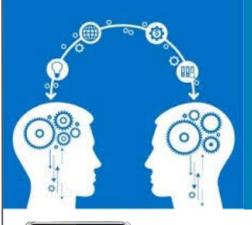
VUSE expanding market leadership



R.J. Reynolds / BAT vapor tech-sharing

Marriage of world-class vapor expertise and capability

- Competitive advantage in tobacco transformation
- Agreement signed Dec. 1, 2015
 - Collaboration / IP licensing of vapor technologies
 - Agreement runs through 2022







ZONNIC & Heat-not-Burn – Truly innovative products

Leveraging consumer desire for alternative products

Continue learnings from marketplace

Aligns with tobacco harm reduction





ZONNIC highlights

National distribution in more than 30,000 outlets

Building the NRT category in convenience / gas

Supported by merchandizing & TV advertising

1 in 5 purchases of NRT-coated gum is ZONNIC



Strongest portfolio dynamics in the industry

Newport

No. 1 menthol brand in the U.S.

СЯМЄL

- Leading total tobacco brand
- No. 3 brand in the U.S.

PALL MALL

No. 1 value brand in the U.S.



- No. 1 super-premium brand
- Fastest growing brand in the U.S.



• No. 1 brand in the moist-snuff industry



- No. 1 vapor brand
- Superior technology



Financial update

Andrew Gilchrist EVP & CFO, RAI



Focused on cost management

Strong balance sheet, cash flow

Commitment to investment-grade rating

Leveraging value-enhancing opportunities

Returning value to shareholders



De-leveraging is priority focus

Target leverage of 1.5 to 2.5 times

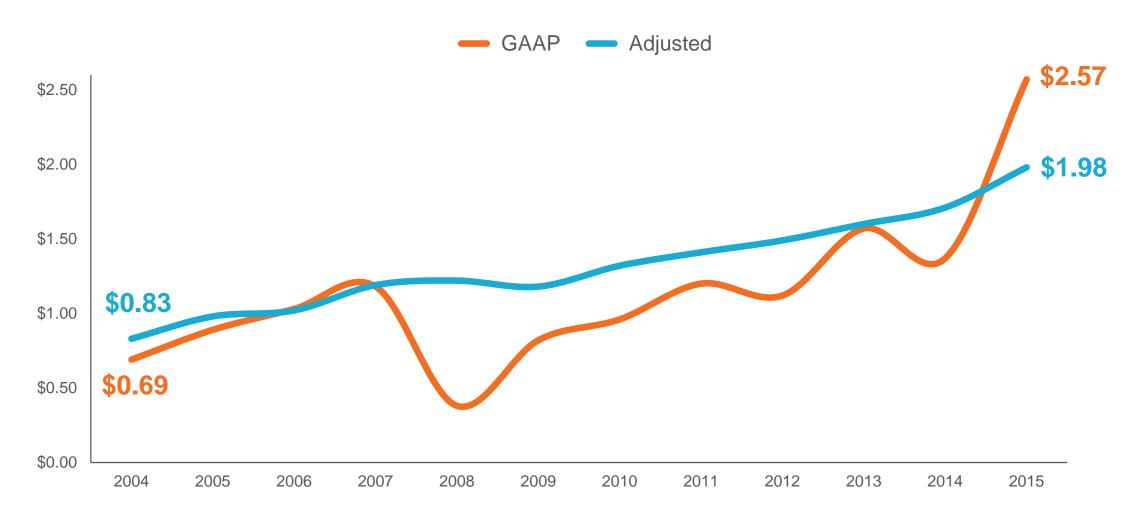
Target dividend payout ratio of 75%

Consistent operating income, EPS and dividend growth

Strong 2015 RAI performance

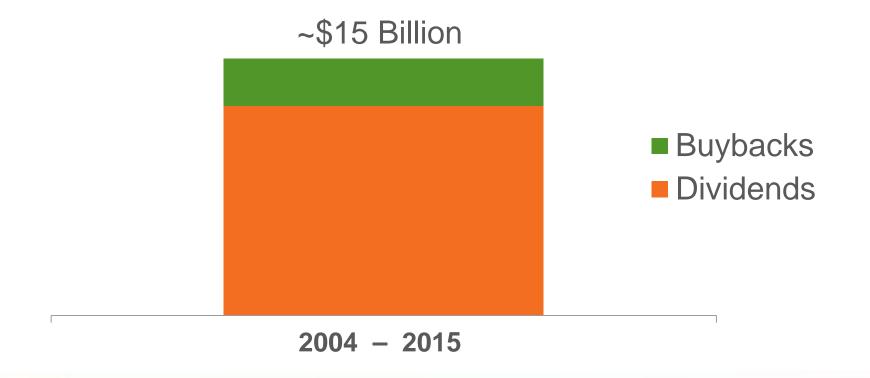
	GAAP	Adjusted	Adjusted 2015 vs. 2014
Operating income	\$6,953	\$4,438	+42.9%
Net income	\$3,253	\$2,509	+37.0%
EPS	\$2.57	\$1.98	+15.8%
Operating margin	65.1%	41.6%	+ 4.9 ppt.

EPS has doubled since 2004



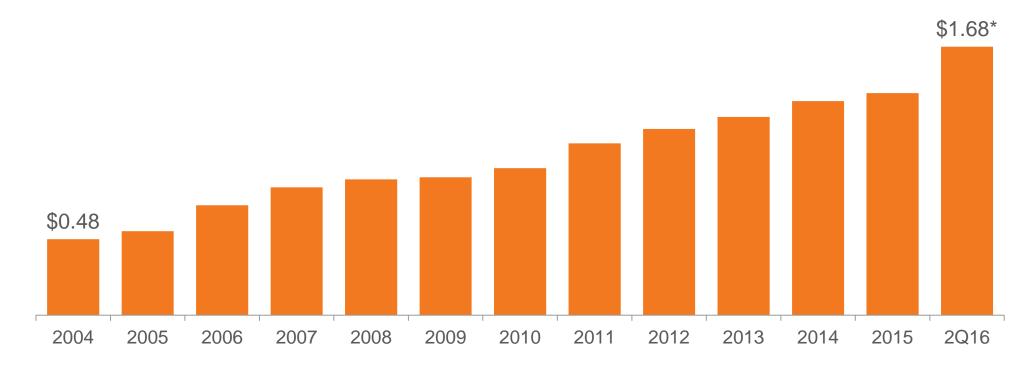
Returning value

- \$12 billion in dividends paid since 2004
- \$2.7 billion in share repurchases since 2004



Attractive dividend

- Annualized split-adjusted \$1.68 per share
- Up 35 percent in last three years, 250 percent since 2004







\$27B purchase price, closed on 6/12/2015

\$7.1B divestiture package to Imperial Tobacco

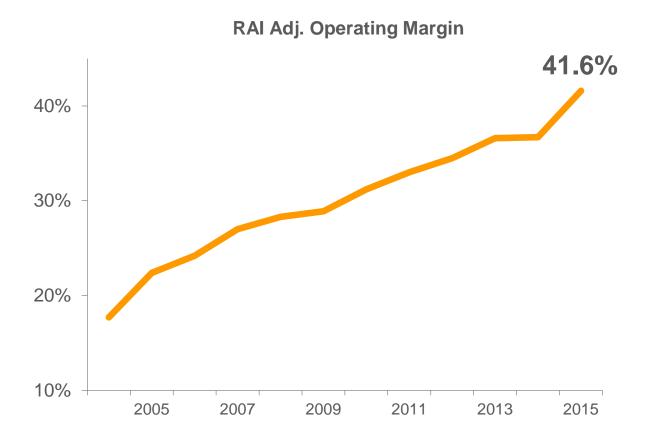
Synergy update

\$800M of identified synergies, \$500M on Day 1

18-month period to achieve synergy run-rate

Revenue synergies being realized

Proven track record of capturing cost savings



Intense focus on efficiency

Continued productivity improvements

Results reflected in strong adjusted operating margin improvement

Future impacts from international sale of Natural American Spirit

\$5B sale of NAS business outside U.S.

Approximately \$3.2B proceeds, net of tax

Minimal impact to ongoing operating income

Financial priorities for use of excess cash

1. Balance sheet metrics

2. Dividend payout

3. Share repurchases

Tender offer and redemption of debt

Tender offer for outstanding debt underway

Reach targeted leverage range by year-end

Evaluate share repurchases and dividend payout target after de-leveraging



2016 earnings guidance

- Adjusted EPS of \$2.25 to \$2.35
- Adjusted EPS growth of 13.6% to 18.7%

Summary



Solid balance sheet, cash flow

Strong and growing margins

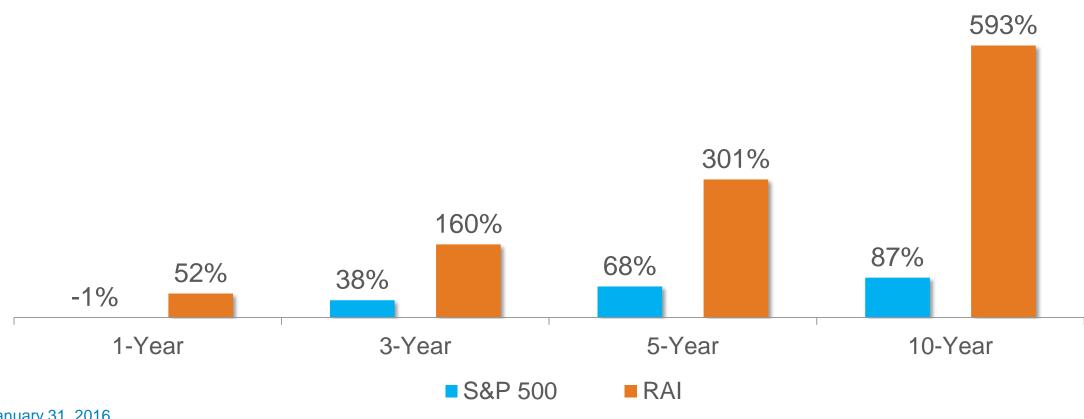
Consistent earnings growth

Strategic transactions driving transformation

Compelling shareholder value creation

Excellent total shareholder return

Outpacing S&P 500 over the long term



Through January 31, 2016 Source: Bloomberg

Closing comments

Susan Cameron



Now a bigger business, stronger competitor

Leader in key growth categories

Bold, innovative, driving change in our industry

Continuing focus on shareholder value





Reynolds American Inc.

Reconciliation of GAAP to Adjusted Results (Dollars in Millions, Except Per Share Amounts) (Unaudited)

RAI management uses "adjusted" (non-GAAP) measurements to set performance goals and to measure the performance of the overall company, and believes that investors' understanding of the underlying performance of the company's continuing operations is enhanced through the disclosure of these metrics. "Adjusted" (non-GAAP) results are not, and should not, be viewed as, substitutes for "reported" (GAAP) results.

CAAR Operating Income.	2004 ^{1,2} \$882	2005 ² \$1,459	2006 ²	2007	2008 \$567	2009 \$1,763	2010	2011 \$2,200	2012 \$2,214	2013 \$3,132	2014 \$2.534	2015 \$6.053
GAAP Operating Income: The GAAP results include the following	Φ00∠	\$1,459	\$1,930	\$2,418	4007	\$1,703	\$2,432	\$2,399	\$2,214	Φ3,13∠	\$2,531	\$6,953
expense (income):												
B&W/Lane GAAP results	328											
Proforma adjustments	(128)											
Premerger B&W integration costs	35											
Goodwill and trademark impairment charges	199	200	90	65	318	567	32	48	129	32		
Restructuring charge	5	2	1		90	56			149			
Merger integration costs	130	107	45									
RAI settlements	50											
Phase II growers'trust offset	(69)	(27)										
RAI returned goods reserve adjustment	38		(-)									
Federal tobacco buyout assessment		81	(9)									
Loss on sale of assets		24					60	00		0.4	16	202
Implementation costs Scott lawsuit							60	23 139		24	16	223
Engle progeny lawsuits								64	37	18	100	127
Other tobacco-related litigation charges								04	5	34	2	25
Asset impairment and exit charges							38		· ·	0.1	_	99
Gain on divestiture												(3,181)
Benefits from NPM Settlement and 2003 claim										(219)	(34)	(108)
Transaction-related costs										, ,	38	54
MTM pension/postretirement adjustment				(<u>43)</u>	<u>1,527</u>	<u>49</u>	<u>110</u>	<u>145</u>	<u>329</u>			_246
Total adjustments	<u>588</u>	<u>387</u>	<u>127</u>	22	<u>1,935</u>	<u>672</u>	<u>240</u>	<u>419</u>	649	(111)	<u>574</u>	<u>(2,515)</u>
Adjusted operating income	\$1,470	\$1,846	\$2,057	\$2,440	\$2,502	\$2,435	\$2,672	\$2,818	\$2,863	\$3,021	\$3,105	\$4,438
Net income per diluted share:	ФО CO	CO. OO	¢4.00	Ф4 4 O	#0.20	CO 00	Φ0.00	Φ4 OO	¢4.40	Φ4 E7	¢4.07	CO 57
Reported GAAP Non-GAAP adjusted	\$0.69 \$0.83	\$0.89 \$0.98	\$1.03 \$1.02	\$1.18 \$1.19	\$0.38 \$1.20	\$0.82 \$1.32	\$0.96 \$1.32	\$1.20 \$1.41	\$1.12 \$1.49	\$1.57 \$1.59	\$1.37 \$1.71	\$2.57 \$1.98
Non-GAAP adjusted	φυ.οσ	φ0.96	Φ1.02	φ1.19	\$1.20	\$1.32	φ1.32	\$1.41	\$1.49	φ1.59	Φ1.71	φ1.90
Net Sales	\$8,323	\$8,256	\$8,510	\$9,023	\$8,845	\$8,419	\$8,551	\$8,541	\$8,304	\$8,236	\$8,471	\$10,675
Operating margins: GAAP	10.69/	17.7%	22.7%	26.8%	6.4%	20.00/	28.4%	28.1%	26.7%	20 00/	20.00/	65.1%
Adjusted	10.6% 17.7%	17.7% 22.4%	24.2%	26.8% 27.0%	6.4% 28.3%	20.9% 28.9%	28.4% 31.2%	28.1% 33.0%	26.7% 34.5%	38.0% 36.6%	29.9% 36.7%	65.1% 41.6%
Aujusteu	11.170	ZZ.4 ⁻ /0	∠4.∠70	Z1.U70	20.370	20.970	31.270	33.070	34.370	30.070	30.7 %	41.0%

Includes proforma GAAP adjustments as if the merger of B&W/Lane had been completed on January 1, 2004.
 Not adjusted to reflect change in accounting for pension and postretirement.

REYNOLDS AMERICAN INC.

Reconciliation of GAAP to Adjusted Operating Income by Segment
(Dollars in Millions)
(Unaudited)

The R.J. Reynolds segment consists of the primary operations of R.J. Reynolds Tobacco Company, the second-largest tobacco company in the United States and which also manages a contract manufacturing business.

The Santa Fe segment consists of the primary operations of Santa Fe Natural Tobacco Company, Inc., which manufactures Natural American Spirit cigarettes and other additive-free tobacco products.

The American Snuff segment consists of the primary operations of American Snuff Company, LLC, the second-largest smokeless tobacco products manufacturer in the United States.

Management uses "adjusted" (non-GAAP) measurements to set performance goals and to measure the performance of the company's continuing operations is enhanced through the disclosure of these metrics.

	Twelve Months Ended December 31,								
		2015			2014				
	R.J. Reynolds	Santa Fe	American Snuff	R.J. Reynolds	Santa Fe	American Snuff			
GAAP operating income	\$ 3,359	\$ 449	\$ 502	\$ 2,173	\$ 337	\$ 438			
The GAAP results include the following: Mark-to-market pension/postretirement adjustments (6)									
	229	-	1	422	-	4			
Implementation costs ⁽²⁾	198	-	-	16	_	-			
2003 NPM Adjustment Claim	(93)	-	-	-	-	-			
One-time benefit from the NPM Settlement	(14)	(1)	-	(34)	-	-			
Engle Progeny cases	127	-	-	100	-	-			
Tobacco Related and Other Litigation	25	<u>-</u>	_	_	_	_			
Total adjustments (1); (3); (4); (5)	472	(1)	1	504	<u>-</u>	4			
Adjusted operating income	\$ 3,831	\$ 448	\$ 503	\$ 2,677	\$ 337	\$ 442			

⁽¹⁾ For the twelve months ended Dec 31, 2015, RAI and its operating companies recorded aggregate transaction related cost adjustments of \$54 million which are included in corporate costs.

⁽²⁾ For the three and twelve months ended Dec 31, 2015, RAI and its operating companies recorded aggregate implementation cost adjustments of \$26 million, respectively, including \$16 million and \$25 million, respectively, in the corporate and all other segment.

⁽³⁾ For the twelve months ended Dec 31, 2015, RAI and its operating companies recorded aggregate adjustments of \$99 million in asset impairment and exit charges which are included in the all other segment.

⁽⁴⁾ For the twelve months ended Dec 31, 2014, RAI and its operating companies recorded aggregate adjustments of \$2 million in tobacco related and other litigation charges which is included in corporate costs

⁽⁹⁾ For the three and twelve months ended Dec 31, 2014, RAI and its operating companies recorded aggregate adjustments of \$15 million and \$38 million, respectively, in transaction related costs which are included in corporate costs

⁽⁶⁾ For the three and twelve months ended Dec 31, 2015, and Dec 31, 2014, RAI and its operating companies recorded aggregate mark-to-market adjustments of \$246 million and \$452 million, respectively, including \$16 million and \$26 million, respectively, in the corporate and all other segment.