Business Update

Reynolds American Inc.

May 16, 2016
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 position and outlook
  - Andrew Gilchrist – Chief Financial Officer, RAI

- Closing comments / Q&A
  - Susan Cameron
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 first-quarter 2016 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, www.reynoldsamerican.com, 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 @RAI_News. It is possible that the information we post could be deemed to be material information. We encourage investors and others to register at www.reynoldsamerican.com to receive alerts when news about the company has been posted, and to follow RAI on Twitter at @RAI_News.
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.
Remember this check list?

To Do by 2017

- Fully integrate Lorillard into RAI
- Continue to post strong business growth
- Pay strong dividends; pay down debt
- Achieve $800 million in synergies
Delivering on our objectives

- Newport integration set for early completion by end of June
- Generating strong business performance and momentum
- Increased dividend by 16.7% in 1Q16
- Reduced debt by $4.1 billion over the past year
- On track for targeted $800 million in synergies
Strong start to 2016

- $5 billion sale of Natural American Spirit business outside the U.S.
- Completion of $3.6 billion tender offer / redemption of debt
- Creation of RAI Innovations Company
Deeming Rule considerations

- FDA regulations/oversight provide structure to category that needed it
- Rule recognizes distinctions in vapor restrictions versus combustible products
- Premarket authorization process has the potential to slow innovation
- Additional regulations could be forthcoming
Our **vision** is to achieve **market leadership** by **transforming** tobacco
Competitive strengths

- Industry’s broadest array of strong brands
- Leaders in innovation and new product commercialization
- Effective and efficient business strategies and operations
- Masters of consumer and trade engagement
- High-performing work culture drives performance
Distinctive brands driving growth

- Cigarettes
- Moist
- Snus
- NRT
- Vapor
Youth Tobacco Prevention

Tobacco Harm Reduction

Commercial Integrity
We’re **accelerating** our **sustainability efforts**
Since 2004 …

942%
Adult consumers are reshaping tobacco
Trends driving consumer choice

- Seeking Alternatives to Cigarettes
- Demographics
- Menthol
- Value Hunting
Current cigarette industry dynamics

- Macroeconomic factors positive for industry
  - Stronger volume trends in 2015 and 1Q16; less than 1% decline
- Migration and poly-use more prevalent
- Moderate up-trading
- Adult smokers’ preference for menthol
Positive macroenvironment for ATCs

Retail Gasoline Prices

<table>
<thead>
<tr>
<th>Year</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$3.49</td>
</tr>
<tr>
<td>2014</td>
<td>$3.34</td>
</tr>
<tr>
<td>2015</td>
<td>$2.40</td>
</tr>
<tr>
<td>1Q16</td>
<td>$1.86</td>
</tr>
</tbody>
</table>

National average price of regular unleaded gasoline
Source: Bloomberg

Hourly Wage Rate
(Core Tobacco Consumers* – Selected Occupations)

<table>
<thead>
<tr>
<th>Year</th>
<th>Wage Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$21.32</td>
</tr>
<tr>
<td>2014</td>
<td>$21.80</td>
</tr>
<tr>
<td>2015</td>
<td>$22.31</td>
</tr>
<tr>
<td>1Q16</td>
<td>$22.66</td>
</tr>
</tbody>
</table>

* Average of manufacturing, hospitality and construction industries
Source: Bloomberg
Up-trading in total tobacco and cigarettes

Total Tobacco/Vapor Volume

-2013: -1.9%
-2014: -0.9%
-2015: -0.7%

Billions

Cigarettes  Vapor  RYO/Cigars  Moist Snuff  Snus  Chewing

Source: MSA, Inc. shipments to wholesale; industry estimates

Premium Cigarette Mix

-2013: 75%
-2014: 70%
-2015: 75.2%
-1Q16: 75.2%

Source: MSA Inc. shipments to retail
Adult smokers shifting to premium

Source: MSA, Inc. shipments to retail, 1Q16.

$5.87 average U.S. pack price
Menthol share growing long term

- Menthol Claimed Usual Brand – ASU30: 28% → 34% → 49%
- Menthol Claimed Usual Brand – Total Market: 34% → 39%
- Menthol Share of Market: 28% → 34%

Source: MSA, Inc. shipments to retail, Tracker FY 2015
Smoking prevalence in U.S.

Source: NSDUH, September 2015. Past month cigarette use among people aged 12 or older, by age group.
Cigarette portfolio
Strength in cigarettes

Drive Brand Volume: 93%
Premium Volume: 72%
Menthol Volume: 55%
ASU30 Share: 42%

Source: MSA, Inc. shipments to retail, 1Q16. Tracker FY 2015
Enhanced growth profile

RAI Operating Companies’ Portfolio Market Share

2014

- 70% Camel, Pall Mall & NAS
- 30% All other brands

1Q16

- 93% Newport, Camel, Pall Mall & NAS
- 7% All other brands

Source: MSA, Inc. shipments to retail
Strong across all key areas

- Premium
- Value
- Menthol
- Non-menthol
R.J. Reynolds
### R.J. Reynolds marketplace performance

<table>
<thead>
<tr>
<th></th>
<th>1Q15</th>
<th>1Q16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume</td>
<td>-2.4%</td>
<td>+35.1%</td>
</tr>
<tr>
<td>Net Pricing</td>
<td>+5.9%</td>
<td>+14.3%</td>
</tr>
<tr>
<td>Retail Market Share</td>
<td>-0.8 ppt.</td>
<td>+0.0 ppt.</td>
</tr>
</tbody>
</table>

Source: Company filings; MSA, Inc. shipments to retail.
Newport – accelerated growth

- Continuing ASU30 momentum
- Optimize retail impact
- Increasing ATC interaction

Share of market (ppt. change from prior year)

1Q15: +0.3
2Q15: +0.4
3Q15: +0.5
4Q15: +0.6
1Q16: +0.6

Source: MSA, Inc. shipments to retail
Solid Newport growth across U.S.

Source: MSA, Inc. shipments to retail, 1Q16 vs. 1Q15.
Newport’s Payday Everyday

- Campaign encourages ATCs to use NewportPleasure.com to engage with the brand and each other – $500 instant wins every day; $100,000 grand prize
- Significant increase in website visits
Newport Smooth Select marketing support

Retail POS

Direct Mail

Email

Print Media
Camel – positioned to thrive

- Increase brand equity programming
- Revamp, upgrade product families
- Squarely position in largest segments
- ASU30 index of 175

Source: MSA, Inc. shipments to retail, Tracker.
Camel’s The Hump promotion

- New promotion spotlights the ‘off-center’ with unique content reflecting Camel’s character
- Camel.com redesigned
  - Bold design optimized for mobile devices
  - Entire brand family on a single site
Camel’s Since Now campaign

- Captures iconic nature of Camel
- Celebrates Camel as an up-to-date brand with strong heritage
- Utilized at retail and in 1:1 marketing channels
Pall Mall – equity focus

- Increase proposition awareness, trial
- Reinforce quality / value proposition
- Balance profitability and market share

Source: MSA, Inc. shipments to retail
### Santa Fe marketplace performance

<table>
<thead>
<tr>
<th></th>
<th>FY2015</th>
<th>1Q16</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Volume</strong></td>
<td>+21.4%</td>
<td>+22.1%</td>
</tr>
<tr>
<td><strong>Net Pricing</strong></td>
<td>+2.4%</td>
<td>+4.4%</td>
</tr>
<tr>
<td><strong>Retail Market Share</strong></td>
<td>+0.3 ppt.</td>
<td>+0.3 ppt.</td>
</tr>
</tbody>
</table>

Source: Company filings; MSA, Inc. shipments to retail.
Natural American Spirit – tipping point

Share of market

- Accelerating awareness
- Driving broader retail distribution
- Elevating brand and values
- ASU30 index of 205

Source: MSA, Inc. shipments to retail, Tracker.
Teaching The NAS Difference

- Direct-mail campaign focused on why Natural American Spirit is, and tastes, different
  - Reaching 30% more ATCs of premium competitive brands than in 1Q15
  - Generating more trial, more education about the difference of NAS
Earth Day celebration

- 1.2 million ashtrays distributed to adult smokers on Earth Day with purchase of any cigarette brand
- Pocket ashtrays made from recycled materials including cigarette waste
- Supports SFNTC’s “Respect the Earth” commitment
Community outreach

- Employees participated in over 230 butt litter prevention and organic growing projects in 2015
- Teams partner with local organizations to identify needs
- Tangible demonstration of SFNTC’s corporate values
Room to grow

<table>
<thead>
<tr>
<th>City</th>
<th>NAS SOM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boulder, CO</td>
<td>14.0%</td>
</tr>
<tr>
<td>San Francisco, CA</td>
<td>10.4%</td>
</tr>
<tr>
<td>Portland, OR</td>
<td>8.9%</td>
</tr>
<tr>
<td>Asheville, NC</td>
<td>7.3%</td>
</tr>
<tr>
<td>Austin, TX</td>
<td>7.0%</td>
</tr>
<tr>
<td>New York, NY</td>
<td>4.8%</td>
</tr>
</tbody>
</table>

Source: MSA, Inc. shipments to retail, 1Q16
Moist snuff
American Snuff marketplace performance

<table>
<thead>
<tr>
<th></th>
<th>FY2015</th>
<th>1Q16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume</td>
<td>+4.3%</td>
<td>+3.3%</td>
</tr>
<tr>
<td>Net Pricing</td>
<td>+4.8%</td>
<td>+4.8%</td>
</tr>
<tr>
<td>Retail Market Share</td>
<td>+0.6 ppt.</td>
<td>+0.2 ppt.</td>
</tr>
</tbody>
</table>

Source: Company filings; MSA, Inc. shipments to retail.
Grizzly – continued growth

- Expand brand equity initiatives
- Broaden product, pouch innovation
- Enhance retail presence

Source: MSA, Inc. shipments to retail
Grizzly’s popular Tellin’ It Like It Is campaign
Grizzly Packs A Better Pouch

- Grizzly focused on strengthening lead in growing pouch segment
- Offering engaging online activities
  - Pack a Better Pouch sweepstakes doubled Grizzly.com visits
  - Online Pouch Toss played millions of times
Powerful promotions driving digital interactions

- + 10 million annual website page views
- ~750,000 unique visitors per year
- + 40% mobile interactions
RAI Innovations Company
Innovation essential for category growth

### Table: Adult Smokers 21+

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Trial - Vapor</strong></td>
<td>37%</td>
<td>49%</td>
<td>58%</td>
<td>62%</td>
</tr>
<tr>
<td><strong>Loyal (Vapor Only)</strong></td>
<td>3%</td>
<td>5%</td>
<td>6%</td>
<td>7%</td>
</tr>
</tbody>
</table>

**BASE:** 21+ Adult tobacco or e-cigarette consumers

**Source:** Tracker FY 2015
Deeming Rule overview

- Deems “tobacco products” not previously regulated by FDA to be subject to FDA authority
- Bans sales to persons under 18, vending machine sales, free samples, and requires health warnings on products and advertisements
- No ban on flavors for vapor, recognizing the potential benefits and risks
- Premarket authorization required through PMTA, SE, or SE exemption
Prepared for vapor leadership

- R.J. Reynolds / BAT vapor tech-sharing and licensing
  - Marriage of world-class vapor expertise and capability
  - Competitive advantage in tobacco transformation
  - Agreement signed Dec. 1, 2015

- RAI Innovations Company
  - Created Jan. 2016 to drive speed-to-market for leading-edge products
VUSE – *expanding market leadership*
"In the convenience store market, median year-one sales across the top 10 IRI New Product Pacesetters were $18.6 million, demonstrating the power behind consumers' ongoing quests for uniquely indulgent experiences," IRI said.

Source: IRI Market Advantage™. New products that completed their first year in calendar year 2015.
VUSE flavors

VUSE Cartridges Share of Market
(excluding VUSE Solo)

- Flavors
- Original and Menthol

Source: MSA, Inc. shipments to retail. Traditional retail outlets only
VUSE evolution and innovation

Current Platform

Leading-Edge Innovation
Leading-edge products - ZONNIC

- National expansion going smoothly
- Expanding product line
  - 40-count gum package introduced in April
  - 10-count mini-lozenges coming in July
- Leveraging consumer desire for alternative products
- Aligns with tobacco harm reduction
Leading-edge products - CORE

- Utilizes R.J. Reynolds’ heat-not-burn expertise
- Test marketed in Japan, evaluating path forward with additional activities
- Leveraging consumer desire for alternative products
- Continue learnings from marketplace
- Aligns with tobacco harm reduction
Integration progress
# Trade-marketing impact

<table>
<thead>
<tr>
<th></th>
<th>Pre-Deal</th>
<th>1Q16</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Retail contracts</strong></td>
<td>150,000</td>
<td>200,000</td>
</tr>
<tr>
<td>- Contracts (% of industry volume)</td>
<td>80%</td>
<td>90%</td>
</tr>
<tr>
<td>- EDLP contracts (% of industry volume)</td>
<td>60%</td>
<td>70%</td>
</tr>
<tr>
<td><strong>Adult smoker engagements per year</strong></td>
<td>2 million</td>
<td>4 million</td>
</tr>
<tr>
<td>- Newport consumer engagements per year</td>
<td>0</td>
<td>2 million</td>
</tr>
<tr>
<td><strong>Newport database of adult smokers</strong></td>
<td>5 million</td>
<td>10 million</td>
</tr>
</tbody>
</table>
West coast - strong Newport retail presence
East coast - strong Camel retail presence
Modernized brand imagery

1970s

2016
Enhanced in-store presence
Lorillard transaction objectives

- Strengthened U.S. cigarette market position
- Enhanced growth and margin profile
- Increased scale, transition of manufacturing
- Significant cost and revenue synergy opportunities
- Strong financial returns
Strengthened position in marketplace

Share of Market

2014

Top Competitor: 24%
R.J. Reynolds: 24%

1Q16

Top Competitor: 33%
R.J. Reynolds: 33%

Source: MSA, Inc. shipments to retail.
Enhanced growth and margin profile

Cigarette Volumes

<table>
<thead>
<tr>
<th>Year</th>
<th>Industry</th>
<th>R.J. Reynolds</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>-3.3%</td>
<td>-5.2%</td>
</tr>
<tr>
<td>1Q16</td>
<td>-0.1%</td>
<td>-0.2%</td>
</tr>
</tbody>
</table>

Premium Cigarette Mix

<table>
<thead>
<tr>
<th>Year</th>
<th>Mix</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>58%</td>
</tr>
<tr>
<td>1Q16</td>
<td>71%</td>
</tr>
</tbody>
</table>

Source: Company filings, shipments to retail
Increased scale, manufacturing efficiency

Source: Company estimates, shipments to wholesale
Strongest portfolio dynamics in U.S. industry

- Newport: No. 1 menthol cigarette brand; no. 2 cigarette brand
- Camel: No. 3 cigarette brand; leading total-tobacco brand
- Pall Mall: No. 1 value cigarette brand
- Natural American Spirit: No. 1 super-premium cigarette brand; fastest growing brand
- Grizzly: No. 1 moist-snuff brand
- VUSE: No. 1 vapor brand; superior technology
Financial update

Andrew Gilchrist
EVP & CFO, RAI
Financial approach

- Focused cost management
- Strong balance sheet, cash flow
- Committed to investment-grade rating
- Leverage value-enhancing opportunities
- Return value to shareholders
Near-term priorities

- Growing the business
- Capturing the transaction synergies
- Deleveraging
NPM credit expiration in 2017

- Credits resulted from settlements of MSA adjustment claims with certain states
- Reduced State Settlement expenses from 2013-2016
- Meaningful opportunities to address the impact in 2017
- RAI is confident it can maintain its strong record of growth
RAI performance
### Strong 2015 performance

<table>
<thead>
<tr>
<th></th>
<th>GAAP</th>
<th>Adjusted</th>
<th>Adj. 2015 vs. 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Income</td>
<td>$6,953</td>
<td>$4,438</td>
<td>+42.9%</td>
</tr>
<tr>
<td>Net Income</td>
<td>$3,253</td>
<td>$2,509</td>
<td>+37.0%</td>
</tr>
<tr>
<td>EPS</td>
<td>$2.57</td>
<td>$1.98</td>
<td>+15.8%</td>
</tr>
<tr>
<td>Operating Margin</td>
<td>65.1%</td>
<td>41.6%</td>
<td>+4.9 ppt.</td>
</tr>
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</table>

Reconciliation of GAAP to Adjusted results in Appendix 1
Momentum continuing in 1Q16

<table>
<thead>
<tr>
<th></th>
<th>GAAP</th>
<th>Adjusted</th>
<th>Adj. 1Q16 vs. 1Q15</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Income</td>
<td>$6,142</td>
<td>$1,319</td>
<td>+72.4%</td>
</tr>
<tr>
<td>Net Income</td>
<td>$3,565</td>
<td>$721</td>
<td>+57.8%</td>
</tr>
<tr>
<td>EPS</td>
<td>$2.49</td>
<td>$0.50</td>
<td>+16.3%</td>
</tr>
<tr>
<td>Operating Margin</td>
<td>210.6%</td>
<td>45.2%</td>
<td>+8.0 ppt.</td>
</tr>
</tbody>
</table>

Reconciliation of GAAP to Adjusted results in Appendix 1
EPS more than doubled since 2004

Reconciliation of GAAP to Adjusted results in Appendix 1
Returning value since 2004

- More than $16 billion returned to shareholders
  - $13.4 billion dividends paid
  - $2.7 billion share repurchases

2004 – YTD 2016

- Buybacks
- Dividends
Attractive dividend

- Annualized rate of $1.68 per share
- Up 35 percent in last three years
  - Up 250 percent since 2004

*$2Q16 annualized
Lorillard integration
Initial financial objectives

- $500 million in cost synergies realized Day 1
  - $300 million additional synergies to be achieved in 18 months

- Opportunity for revenue synergies

- Accretive Year 1
  - Strong double-digit accretion Year 2 and beyond
Cost synergies ahead of schedule

Initial integration expectations – 18 months

Current integration expectations – 12 months
Proven record capturing cost savings

Results reflected in strong adjusted operating margin improvement

- Intense focus on efficiency
- Continuous productivity improvements

Reconciliation of GAAP to Adjusted results in Appendix 1
Revenue synergies being realized

Drive Brand Share of Market

- **Cigarettes**
  - 1Q15: 31.6%
  - 1Q16: 32.1%

- **Premium Cigarettes**
  - 1Q15: 23.5%
  - 1Q16: 24.3%

Drive brand: Cigarette includes Newport, Camel, Natural American Spirit and Pall Mall; Premium includes Newport, Camel and NAS

Source: MSA, Inc. shipments to retail
Enhanced margin profile

Adj. Operating Margin

2014: 36.7%
1Q16: 45.2%

Source: Company filings. Reconciliation of GAAP to Adjusted results in Appendix 1
Growth reflects transaction accretion

Annual Adj. EPS Growth

2014: 7.2%
2015: 15.8%
2016*: 16.2%

* Based on mid-point of company-provided 2016 adjusted EPS guidance range
Reconciliation of GAAP to Adjusted results in Appendix 1
RAI 2016 outlook
(April 26, 2016)
Full-year earnings guidance

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

Reconciliation of GAAP to Adjusted results in Appendix 1
Our priorities for use of excess cash are RAI balance sheet metrics, assessment of the dividend payout ratio, and consideration of share repurchases.
Summary

- Solid balance sheet, cash flow
- Strong and growing margins
- Consistent earnings growth
- Strategic transaction driving transformation
- Compelling shareholder return and value creation
Excellent total shareholder return

Outpacing S&P 500 over the long term

Through April 29, 2016
Source: Bloomberg
Break
Closing comments

Susan Cameron
2016 on track for … strong growth
Our transformation journey gathers speed

- A much stronger No. 2 U.S. tobacco company
- Bringing bold vision and strategy to life
- Delivering sustainable growth in key categories
- Driving innovation and industry change
- Richly rewarding our shareholders for their support and commitment
Appendix 1

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.

<table>
<thead>
<tr>
<th>Year</th>
<th>GAAP Operating Income</th>
<th>Adjusted operating income</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>$882</td>
<td>$1,470</td>
</tr>
<tr>
<td>2005</td>
<td>$1,459</td>
<td>$1,846</td>
</tr>
<tr>
<td>2006</td>
<td>$1,930</td>
<td>$2,057</td>
</tr>
<tr>
<td>2007</td>
<td>$2,418</td>
<td>$2,264</td>
</tr>
<tr>
<td>2008</td>
<td>$567</td>
<td>$2,435</td>
</tr>
<tr>
<td>2009</td>
<td>$1,763</td>
<td>$2,672</td>
</tr>
<tr>
<td>2010</td>
<td>$2,432</td>
<td>$2,818</td>
</tr>
<tr>
<td>2011</td>
<td>$2,399</td>
<td>$2,863</td>
</tr>
<tr>
<td>2012</td>
<td>$2,214</td>
<td>$3,021</td>
</tr>
<tr>
<td>2013</td>
<td>$3,132</td>
<td>$3,091</td>
</tr>
<tr>
<td>2014</td>
<td>$2,531</td>
<td>$3,091</td>
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</tr>
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</table>

Net income per diluted share:

- Reported GAAP: $0.69 - $0.89
- Non-GAAP adjusted: $0.83 - $0.98

Net Sales:

- $8,323 - $8,256
- $8,510 - $8,419

Operating margins:

- GAAP: 10.6% - 17.7%
- Adjusted: 17.7% - 22.4%

(1) Includes proforma GAAP adjustments as if the merger of B&W/Lane had been completed on January 1, 2004.
(2) Not adjusted to reflect change in accounting for pension and postretirement.
The RJR Tobacco 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, and believes that investors' understanding of the underlying performance of the company's continuing operations is enhanced through the disclosure of these metrics.

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended March 31, 2016</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RJR Tobacco</td>
<td>Santa Fe</td>
<td>American Snuff</td>
</tr>
<tr>
<td>GAAP operating income</td>
<td>$1,107</td>
<td>$123</td>
<td>$133</td>
</tr>
</tbody>
</table>

The GAAP results include the following:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementation costs (1)</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>2003 NPM Adjustment Claim</td>
<td>-</td>
<td>(70)</td>
</tr>
<tr>
<td>Engle Progeny cases</td>
<td>13</td>
<td>108</td>
</tr>
<tr>
<td>Tobacco Related and Other Litigation</td>
<td>-</td>
<td>19</td>
</tr>
<tr>
<td>Total adjustments (2)</td>
<td>14</td>
<td>-</td>
</tr>
<tr>
<td>Adjusted operating income</td>
<td>$1,121</td>
<td>$123</td>
</tr>
</tbody>
</table>

(1) For the three months ended Mar. 31, 2016, RAI and its operating companies recorded aggregate implementation cost adjustments of $25 million including $24 million in the corporate and all other segment.

(2) For the three months ended Mar. 31, 2015, RAI and its operating companies recorded aggregate transaction related cost adjustments of $15 million which are included in corporate costs.