

# Transformation: Our growth path

Reynolds American Inc.

# Agenda

- **Introduction**
  - Morris Moore – Vice President of Investor Relations, RAI
- **Overview**
  - Susan Cameron – President and Chief Executive Officer, RAI
- **Financial update**
  - Andrew Gilchrist – Chief Financial Officer, RAI
- **FDA update**
  - Danny Herko – Executive Vice President of Regulatory Oversight, RAI Services Company
- **Operating companies' business and brand highlights**
  - Debra Crew – President and Chief Operating Officer, R.J. Reynolds Tobacco
  - Brice O'Brien – Executive Vice President of Consumer Marketing, R.J. Reynolds Tobacco
- **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 third-quarter 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 Disclosure

RAI's website, [www.reynoldsamerican.com](http://www.reynoldsamerican.com), is the primary source of publicly disclosed news about RAI and its operating companies. Those wishing to stay on top of company news are encouraged to sign up for email alerts on our website.

# 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.





# Overview

Susan Cameron  
President and CEO, RAI



## Our to-do list

Fully integrate Newport

Continue to deliver robust business growth

Maintain strong dividend

Pay down debt

Achieve targeted \$800 million in synergies



## Progress to date

Successfully integrating Newport

Delivered strong 2015 YTD performance

Increased dividend 7.5%, split stock

Reduced debt by \$450 million

On track in capturing synergies

# Other key developments

- R.J. Reynolds / BAT vapor technology - sharing term sheet agreement
- Sale of Natural American Spirit business outside U.S. to JT Group
- Consolidation of VUSE manufacturing
- R.J. Reynolds, Santa Fe / N.Y. settlement on NPM disputed claims

**Our vision and strategy,**  
**performance drivers**  
**current environment**



## ***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***



# So how does transformation actually help us?



**Shapes a different future**, not just for our company, but also for the industry

**Aligns our commercial strategy** with societal expectations

**Resolves controversies** by engaging stakeholders in new ways on shared goals

**Doing the right thing** drives sustainable, long-term success

# ***Our Core Values***

## ***Principled***

*Do the right thing  
Respect others' point of view  
Speak with one voice after decision*

## ***Creative***

*Bring your ideas to the table  
Think out of the box  
Build on others' ideas*

## ***Dynamic***

*Take ownership and drive change  
Act decisively and quickly  
Value diversity*

## ***Passionate***

*Engage in the debate  
Listen and challenge each other  
Have fun*







# Key dynamics

- Improved macroeconomic factors
- Adult tobacco consumers continue to use multiple categories
- Higher cigarette and moist-snuff pricing
- Newport benefiting R.J. Reynolds
- Successful management of challenging litigation environment

# An all-star lineup

## Brands positioned to win in key categories

- Cigarettes
- Moist
- Snus
- NRTs
- Vapor



# Sustainability

remains

a core focus...

...and we're committed  
to  
operating  
responsibly



## Key commercial strengths

Strong brands in key categories

Leaders in developing innovations

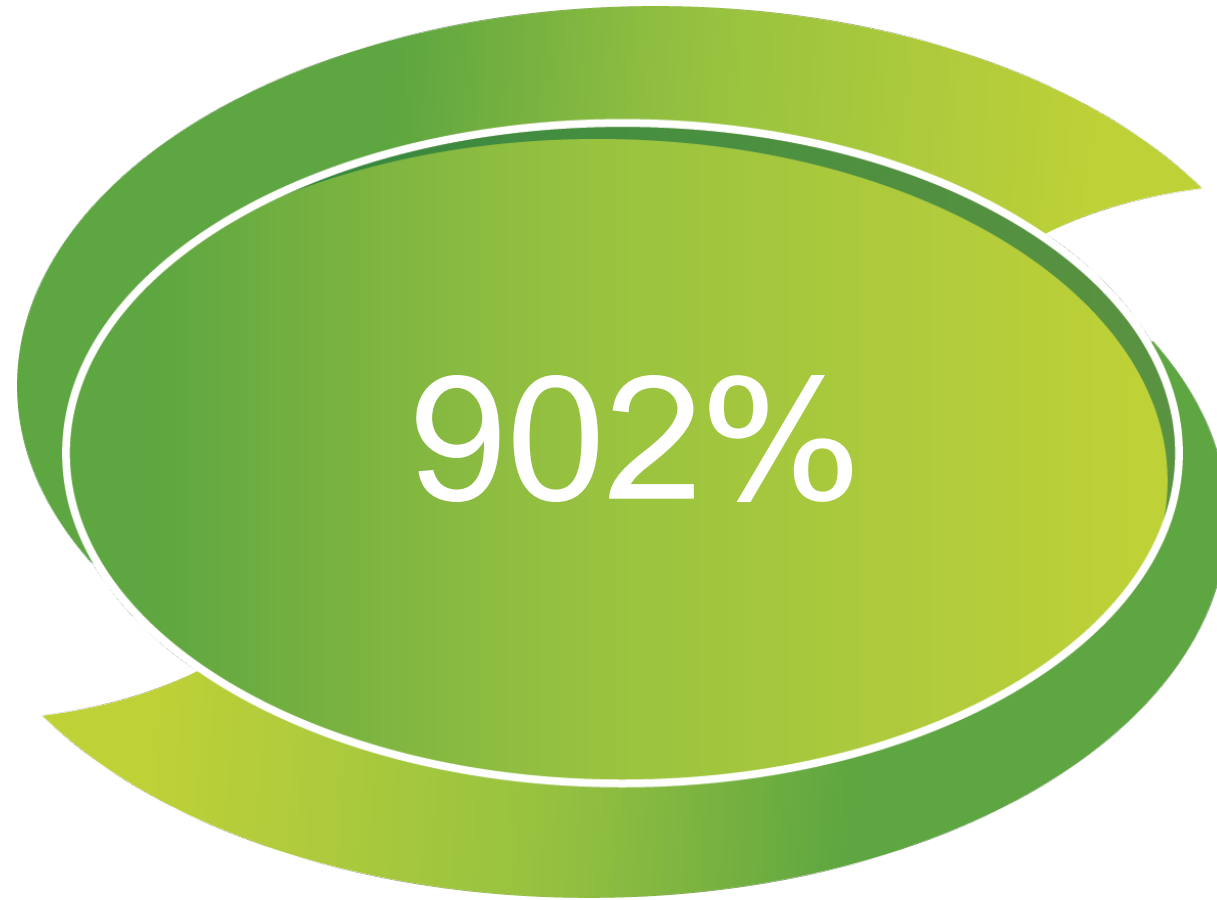
Efficiency and productivity gains

Superior consumer and trade marketing

Highly engaged talent base

# Delivering excellent total shareholder return

Since 2004 ...





# Financial update

Andrew Gilchrist  
EVP & CFO, RAI



# Agenda

- Financial approach
- Current financial position
- Business performance
- Growth outlook
- Summary





## Financial approach

Focused on cost management

Strong balance sheet, cash flow

Commitment to investment-grade rating

Leveraging value-enhancing opportunities

Returning value to shareholders



## Policy and objectives

De-leveraging is priority focus

Target leverage of 1.5 to 2.5 times

Target dividend payout ratio of 75%

Evaluate share repurchase and dividend target after de-leveraging

Consistent operating income, EPS and dividend growth

Financial priorities  
for use of excess  
cash

1. Balance sheet metrics

2. Dividend payout

3. Share repurchases



# Current financial position



## Manageable debt structure

Long-term debt of \$17.0 billion

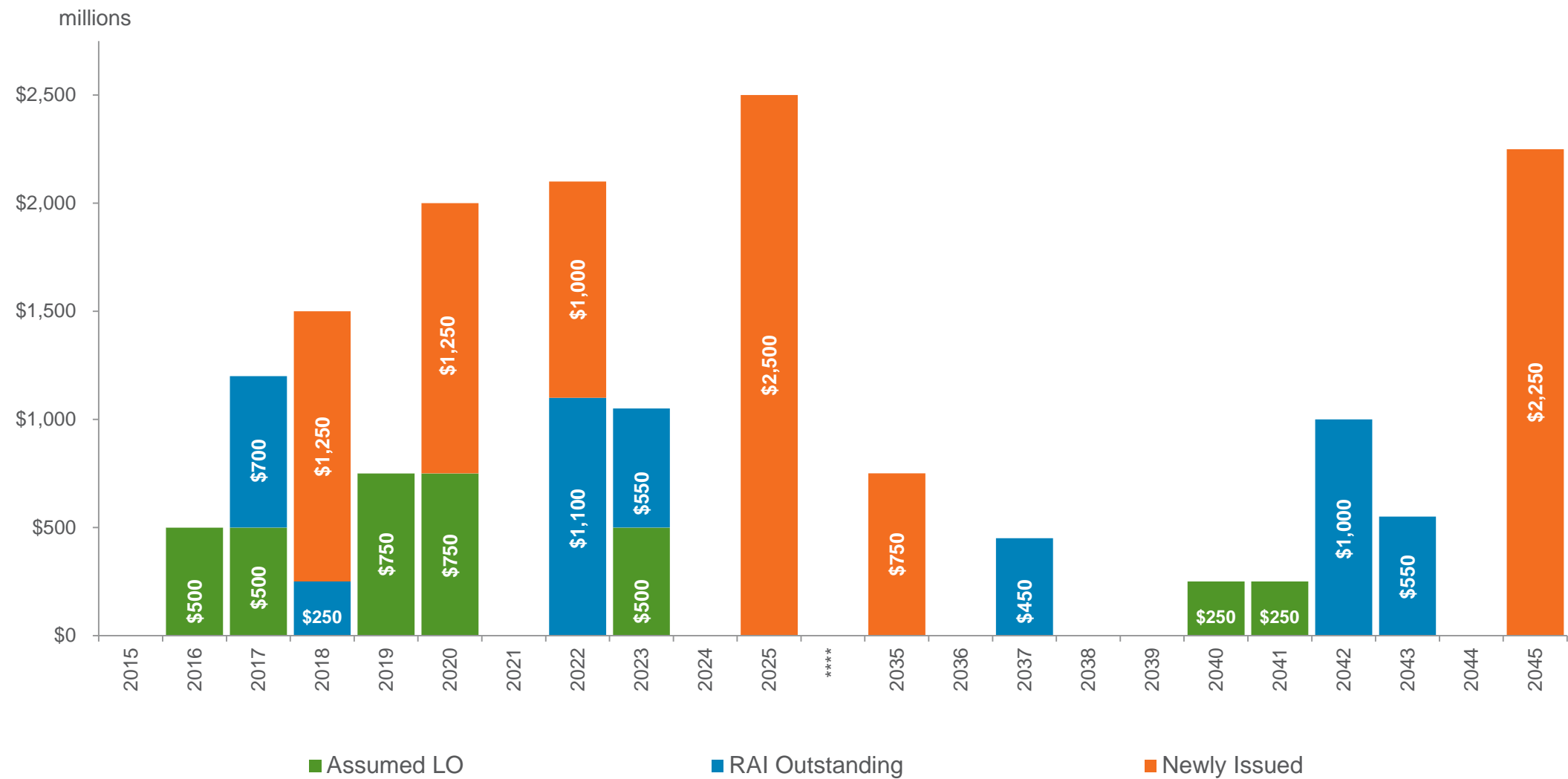
Average interest rate of 4.5%

Average maturity of 12.1 years

Interest coverage of ~8 times

Credit facility of \$2.0 billion

# Favorable debt maturities





## Pension plans well positioned

More than 80% funded on a PBO basis

Contributed \$1.5 billion since 2008

Five-year annualized return of more than 7%

Asset allocation mitigates funded-status volatility

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

Focus on cash-use priorities

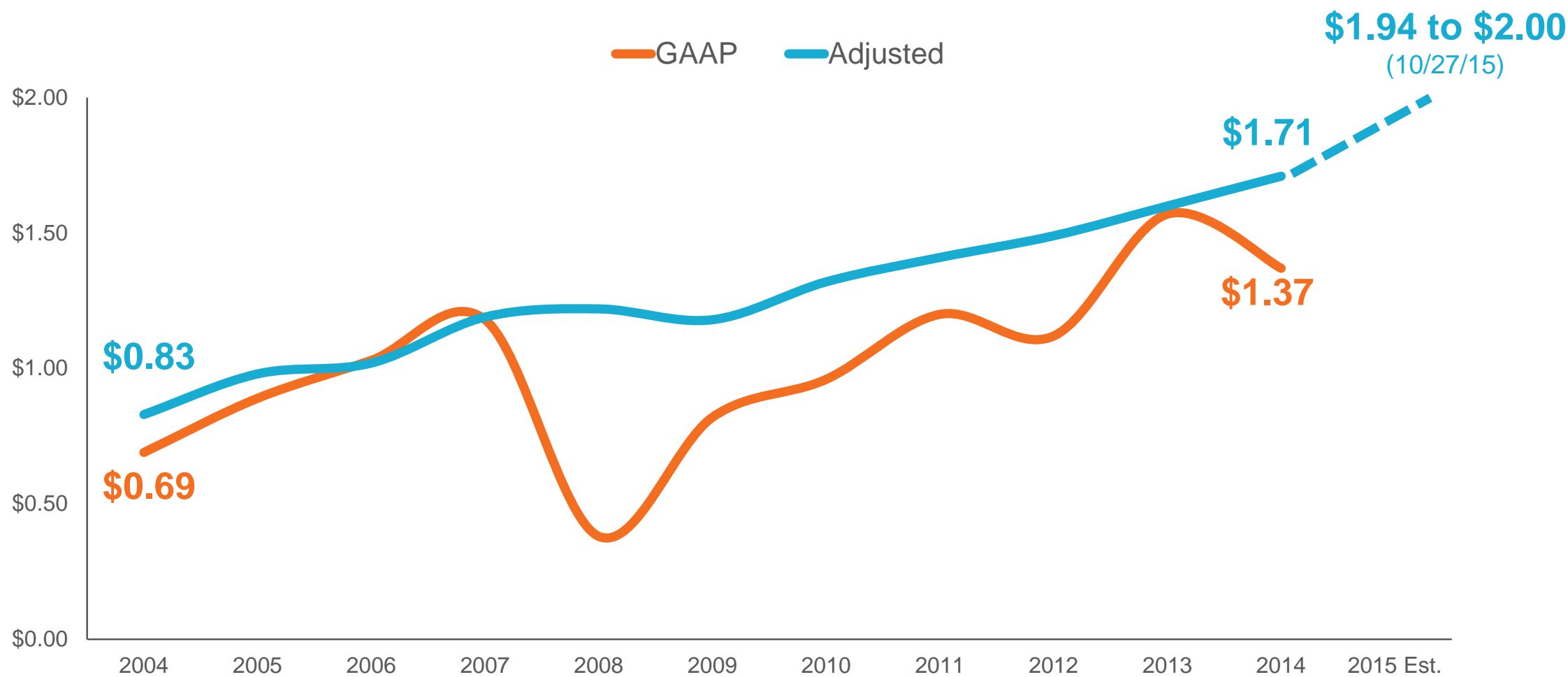
Efficient targeting of balance sheet metrics





# Business performance

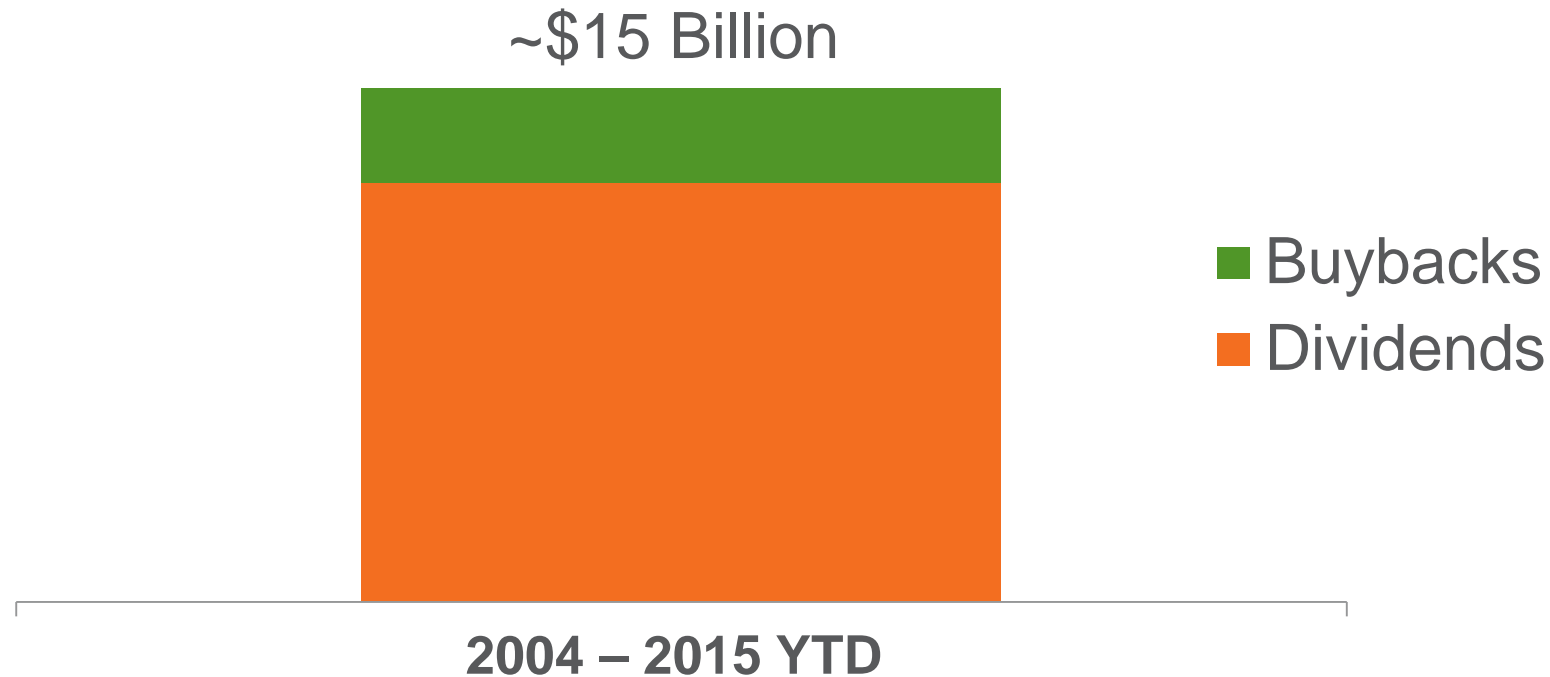
# EPS has doubled since 2004



Reconciliation of GAAP to Adjusted results is in Appendix 1. Adjusted results primarily exclude charges for *Engle* progeny lawsuits, trademark impairments, restructuring, merger integration and mark-to-market adjustments, and gain on divestiture and one-time benefit from the NPM partial settlement, and includes B&W/Lane 2004 pre-merger results.

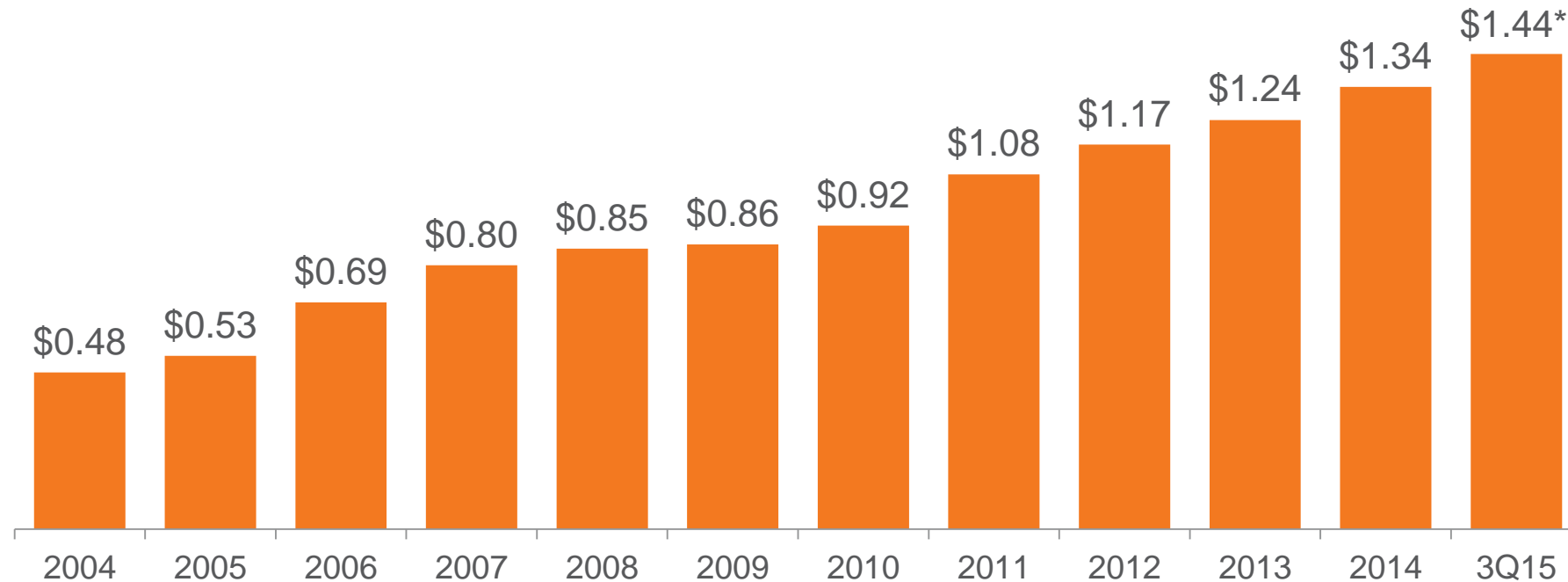
# Returning value

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



# Attractive dividend

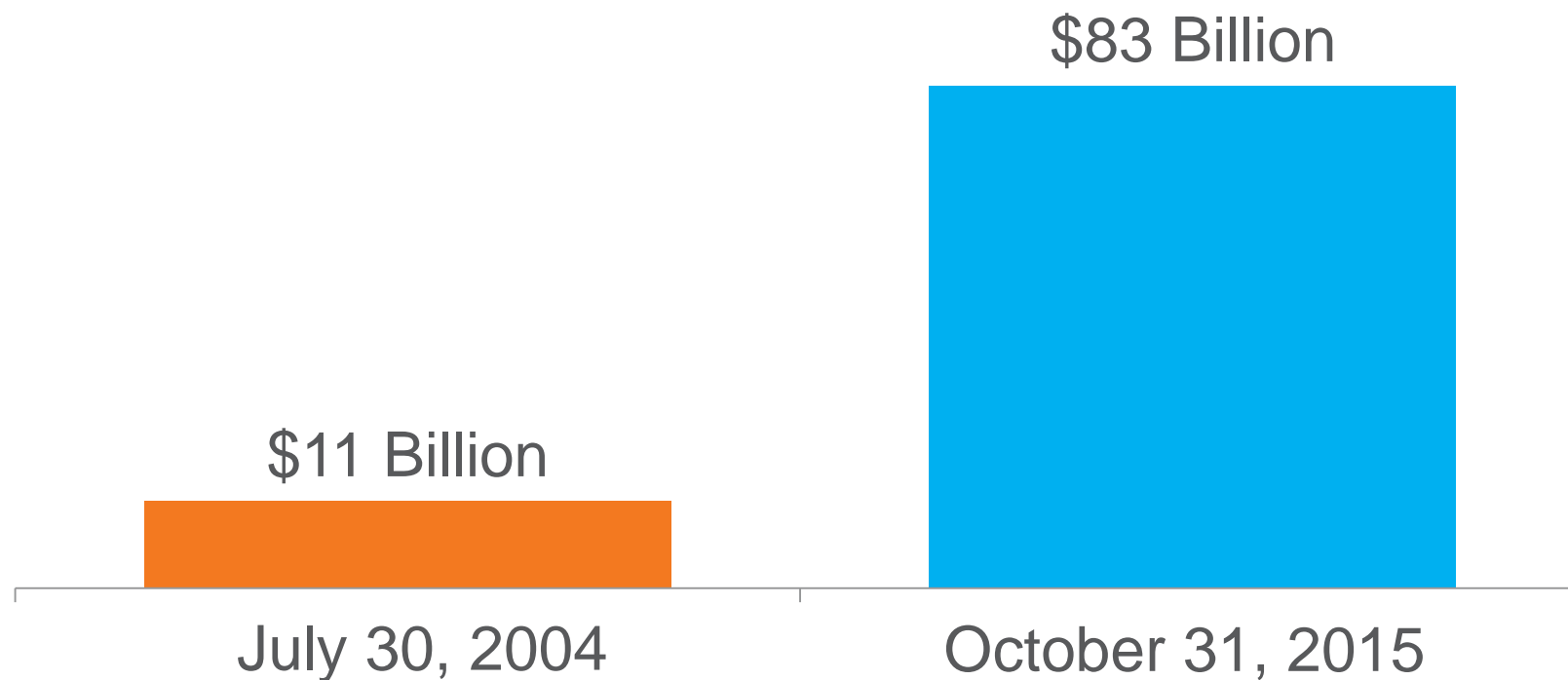
- Annualized split-adjusted \$1.44 per share
- Up 24 percent in last three years, 200 percent since 2004



\*3Q15 annualized

# Shareholder value creation

Enterprise value\* has grown by more than \$70 billion since 2004



\* Enterprise value = market capitalization plus long-term debt, minus cash



# Growth outlook

# Strong 2015 YTD RAI performance

	GAAP	Adjusted	Adjusted 2015 vs. 2014 YTD
Operating income	\$6,263	\$3,181	+36.8%
Net income	\$2,974	\$1,817	+33.1%
EPS	\$2.45	\$1.50	+18.1%
Operating margin	82.2%	41.7%	+5.0 ppt.

Reconciliation of GAAP to Adjusted results is in Appendix 2. Adjusted results exclude charges for transaction-related and financing costs for the Lorillard, Inc. acquisition and related divestiture, implementation costs, asset impairment and exit costs, *Engle* progeny lawsuits and tobacco-related and other litigation, a gain on divestiture and benefits from the 2003 Non-Participating Manufacturer (NPM) adjustment claim, and a 2014 gain on discontinued operations.

## 2015 RAI **outlook** (10/27/15)

## Tightened 2015 earnings guidance

- Adjusted EPS of \$1.94 to \$2.00
- Adjusted EPS growth of 13% to 17%



*Lorillard*



## Synergy update

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

\$7.1B divestiture package to Imperial Tobacco

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

18-month period to achieve synergy run-rate

Revenue synergies likely, but not quantified



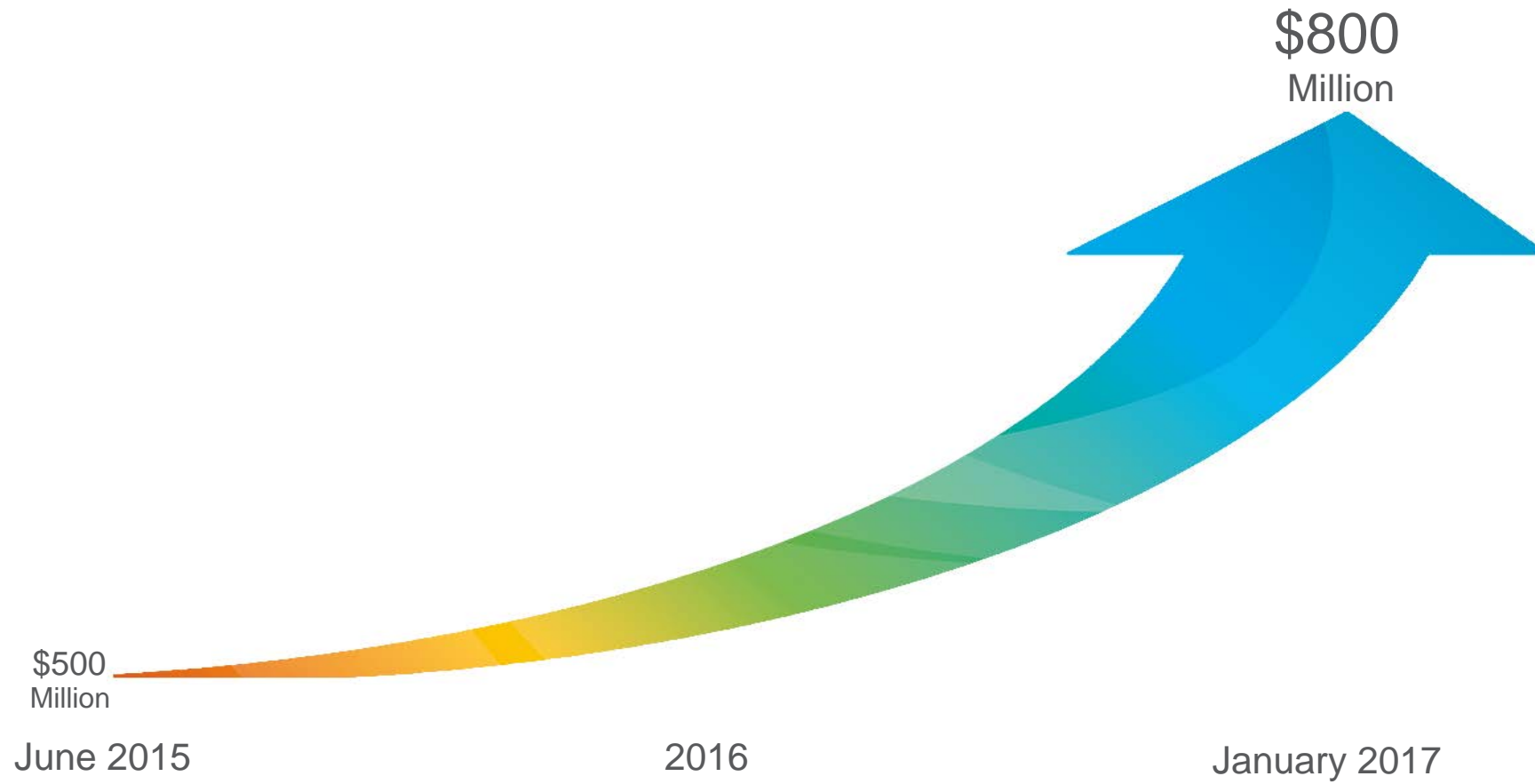
Integration  
progressing  
smoothly

Manufacturing

Supply chain

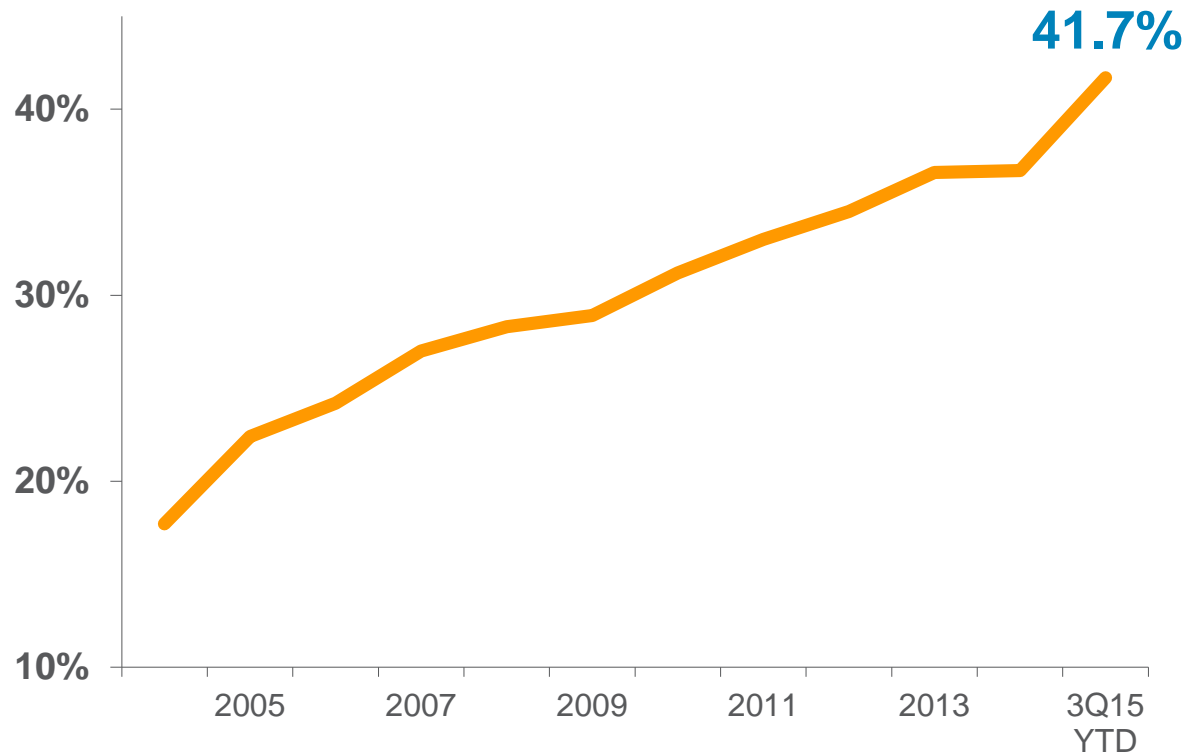
R&D and product support

# Cost synergies on track



# Proven track record of capturing cost savings

RAI Adj. Operating Margin



Intense focus on efficiency

Continued productivity improvements

Results reflected in strong adjusted operating margin improvement

# Key NPM developments

- 2013 and 2014 settlement with 24 jurisdictions
  - Estimated \$1.3 billion in credits (2012-2016)
- October 2015 settlement with N.Y. state
  - Estimated \$290 million in credits (2015-2018)
- Litigation related to 2003 arbitration ongoing

# Summary



Solid balance sheet, cash flow

Strong and growing margins

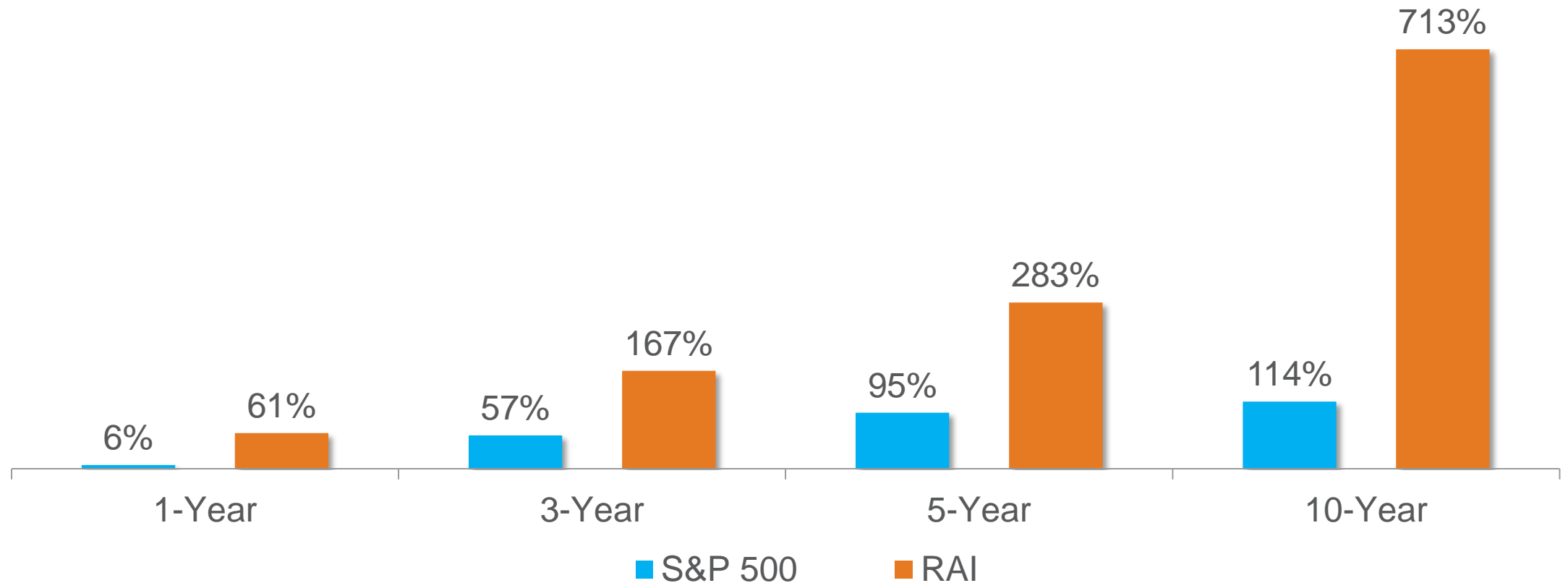
Consistent earnings growth

Strategic transactions driving transformation

Compelling shareholder value creation

# Excellent total shareholder return

Outpacing S&P 500 over the long term



Through October 30, 2015.  
Source: Bloomberg



# FDA update

Danny Herko  
EVP, Regulatory Oversight  
RAI Services



# Agenda

- Key principles
- Santa Fe warning letter
- Substantial equivalence
- SE guidance
- Other key topics
- Going forward

# Key principles for effective regulatory framework

- Youth tobacco prevention
- Science-based regulatory decisions
- Comprehensive harm-reduction policy
- Truthful product communication
- Uniform regulatory enforcement
- Transparent communication and timely guidance

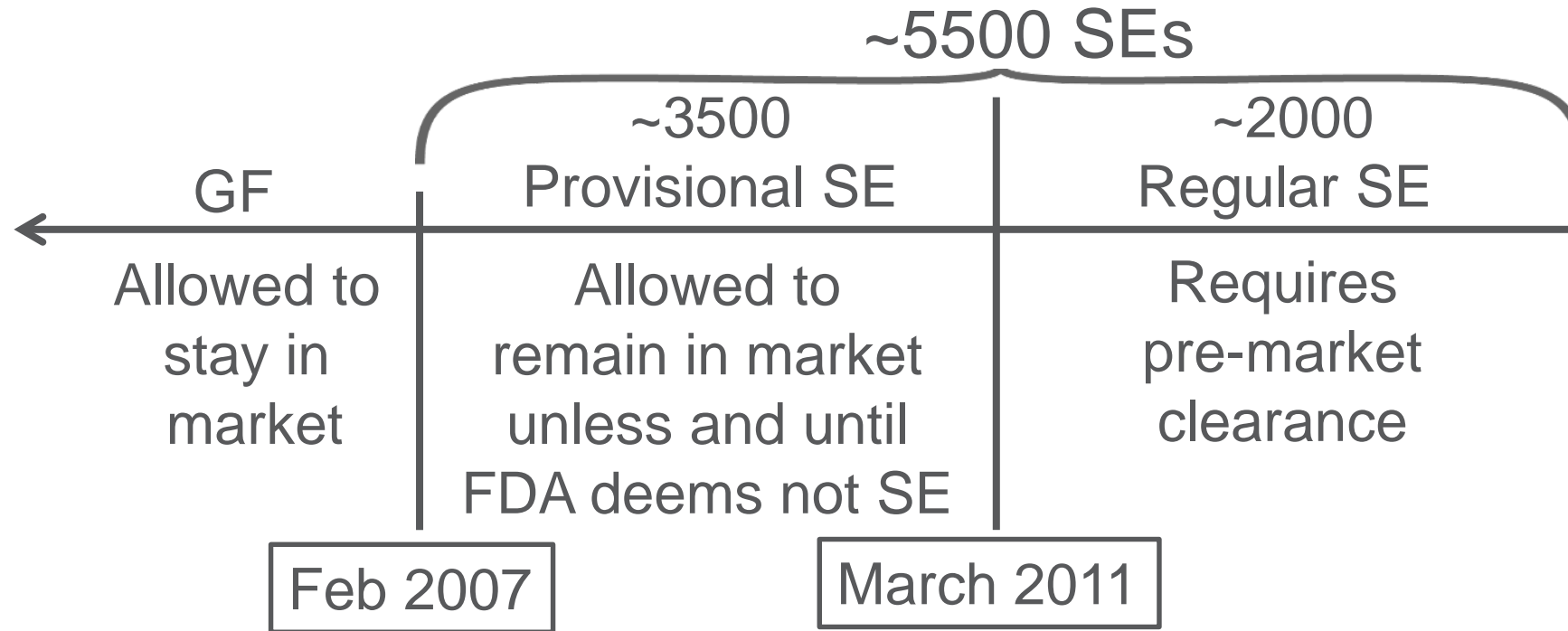
# Santa Fe warning letter

- Received warning letter – Aug. 27, 2015
- FDA alleged “natural” and “additive free” violate the modified risk tobacco product provision
- Responded on Sept. 18, highlighting disagreements with FDA’s analysis and conclusions
- Engaging FDA in constructive dialogue

# Not substantially equivalent

- On Sept. 15, 2015, Center for Tobacco Products notified R.J. Reynolds of four NSE orders
- R.J. Reynolds ceased manufacturing, distribution, sale, marketing and promotion of the affected styles
- We disagree with FDA's analysis and conclusions
- Working to ensure clearance of future and provisional submissions

# Substantially equivalent



- 378 SE clearance orders, 126 NSE orders, 898 withdrawn
- RAI operating companies have hundreds of submissions outstanding

# SE guidance – label and quantity change

- Issued September 2015, requires pre-approval of changes to label and quantities of products in a package
- Three of RAI's operating companies and other tobacco manufacturers filed legal challenge
- Guidance violates first amendment rights and exceeds the agency's authority under the Tobacco Control Act
  - Attempts to redefine scope of “new tobacco product”
  - Circumvents rule-making process required for label authority

## Other key topics

- Menthol
  - Not on FDA's unified agenda
  - FDA funding menthol / flavor research
- Deeming regulations
  - Draft regulation published April 2014
  - More than 80,000 comments submitted
  - Final rule submitted to OMB on Oct.19, 2015



# Going forward

- Science-based decisions will prevail
- Commitment to constructive relationship
- Participating in the regulatory process
- Broad range of products provides ability to compete
- Innovative culture driving agility and adaptability
- RAI's operating companies well positioned for future





# Business highlights

Debra Crew  
President and COO  
R.J. Reynolds



# Agenda

- Business transformation
- Industry dynamics
- RAI operating companies update
- Summary

We will achieve  
**market leadership**  
**by transforming**  
the tobacco industry

# Brands positioned for growth





## How we define success

Sustainable share and profit growth

Leader in growing smoke-free categories

Support growth platforms

Progress toward industry transformation



# Cigarette industry dynamics

# Competitive landscape

New 'Big 3' represent:

89% of combustibles

91% of moist snuff

85% of snus

36% of e-cigarettes

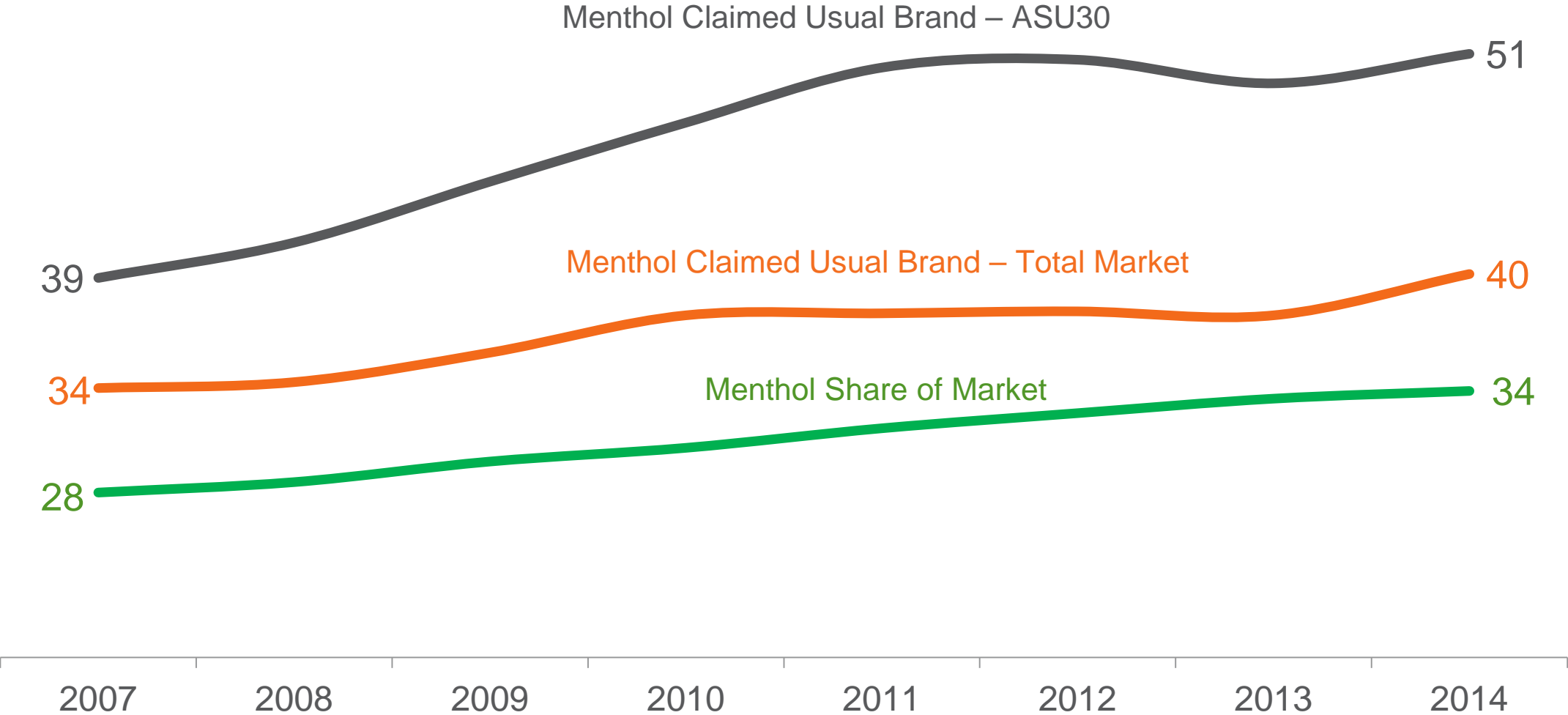


# Cigarette industry dynamics

- Macroeconomic factors are positive for industry
  - Stronger volume trend: less than 1% decline
- ATC preference for menthol
- Migration and poly-use more prevalent
- Down-trading moderating



# Menthol share poised for long-term growth



Source: MSA, Inc. shipments to retail, Tracker FY 2014

# Cigarette portfolio

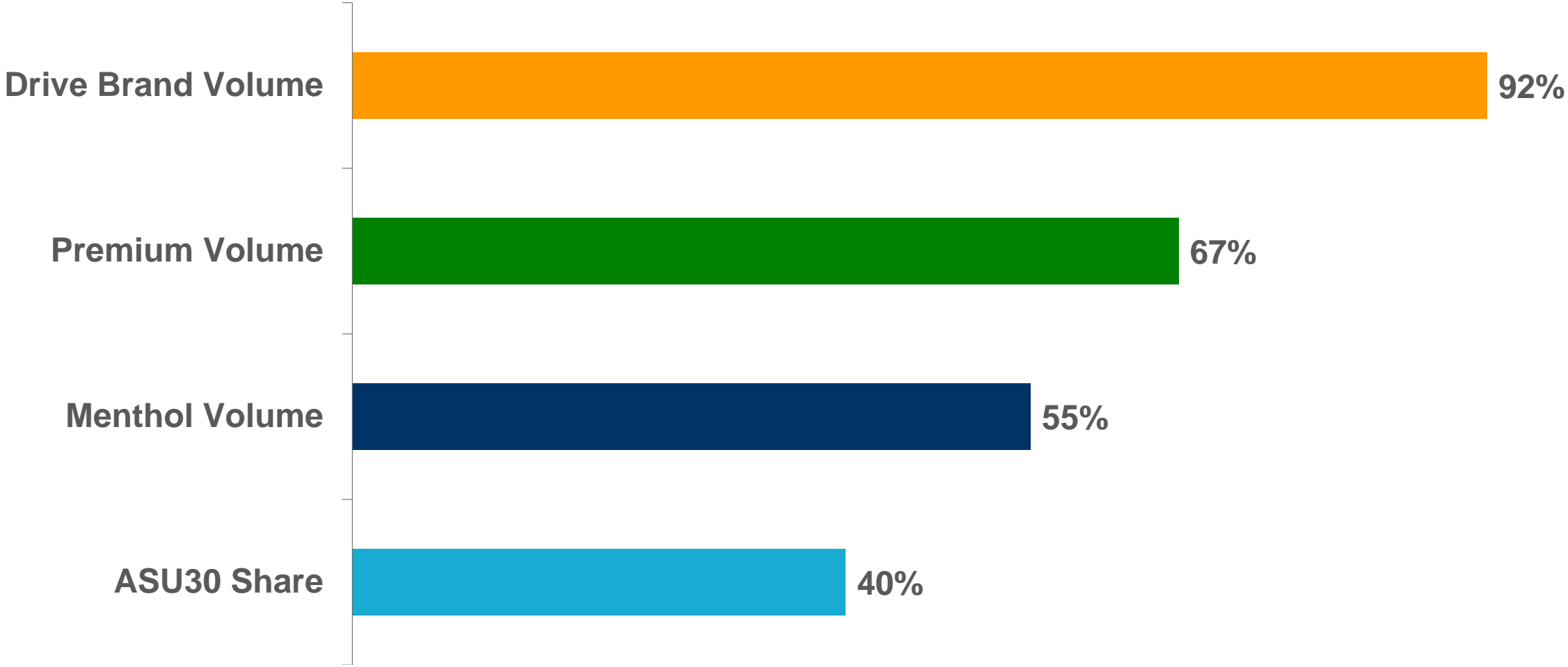




# Portfolio strategies

- Organic premium growth
- Menthol focus
- Enhanced national EDLP footprint
- Sustain ASU30 momentum

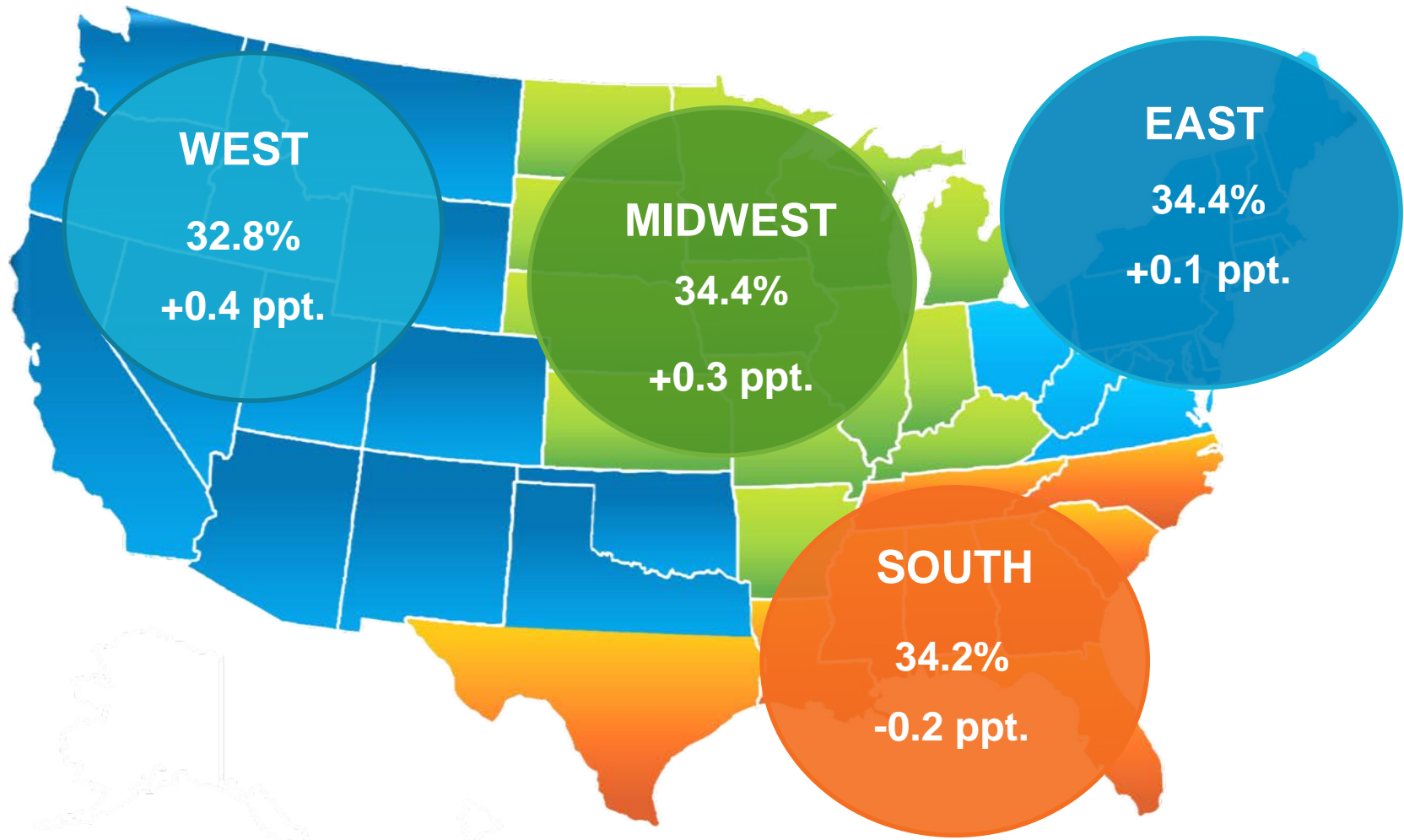
# Cigarette portfolio strength



Source: MSA, Inc. shipments to retail, Tracker FY 2014

# Complementary geographic strengths and momentum

RAI Operating Companies' Cigarette Share of Market



Source: MSA, Inc. shipments to retail, 3Q15 YTD

# Commercial strength across all key areas

	Non-Menthol	Menthol
Premium	<p>Unique brand proposition, on trend with growing consumer sentiment</p> 	 <p>High menthol credibility Diverse, loyal buyer base Unique product Deep cultural connection</p>
	<p>An American classic with rich heritage and mass appeal</p> 	 <p>Highly differentiated Increasing menthol credibility</p>
Value	<p>A great value and experience for the money</p> 	 <p>A great value and experience for the money</p>

# RAI OpCos cigarette performance

# RAI operating companies cigarette performance

- Solid drive-brand share gains
- Positive impact from addition of Newport

## Nine-month pro forma results

	<u>2015</u>	<u>2014</u>	<u>Change</u>
Volume (billions)	64.5	64.4	+0.2%
Drive brands	59.6	58.8	+1.3%
All other	5.0	5.6	-10.6%
Retail share of shipments	33.8%	33.7%	+0.1 ppt.
Drive brands	31.2%	30.8%	+0.4 ppt.
All other	2.6%	2.9%	-0.3 ppt.



# Acquisition update

Synergies

Manufacturing transition

Retail contracts

Newport share performance

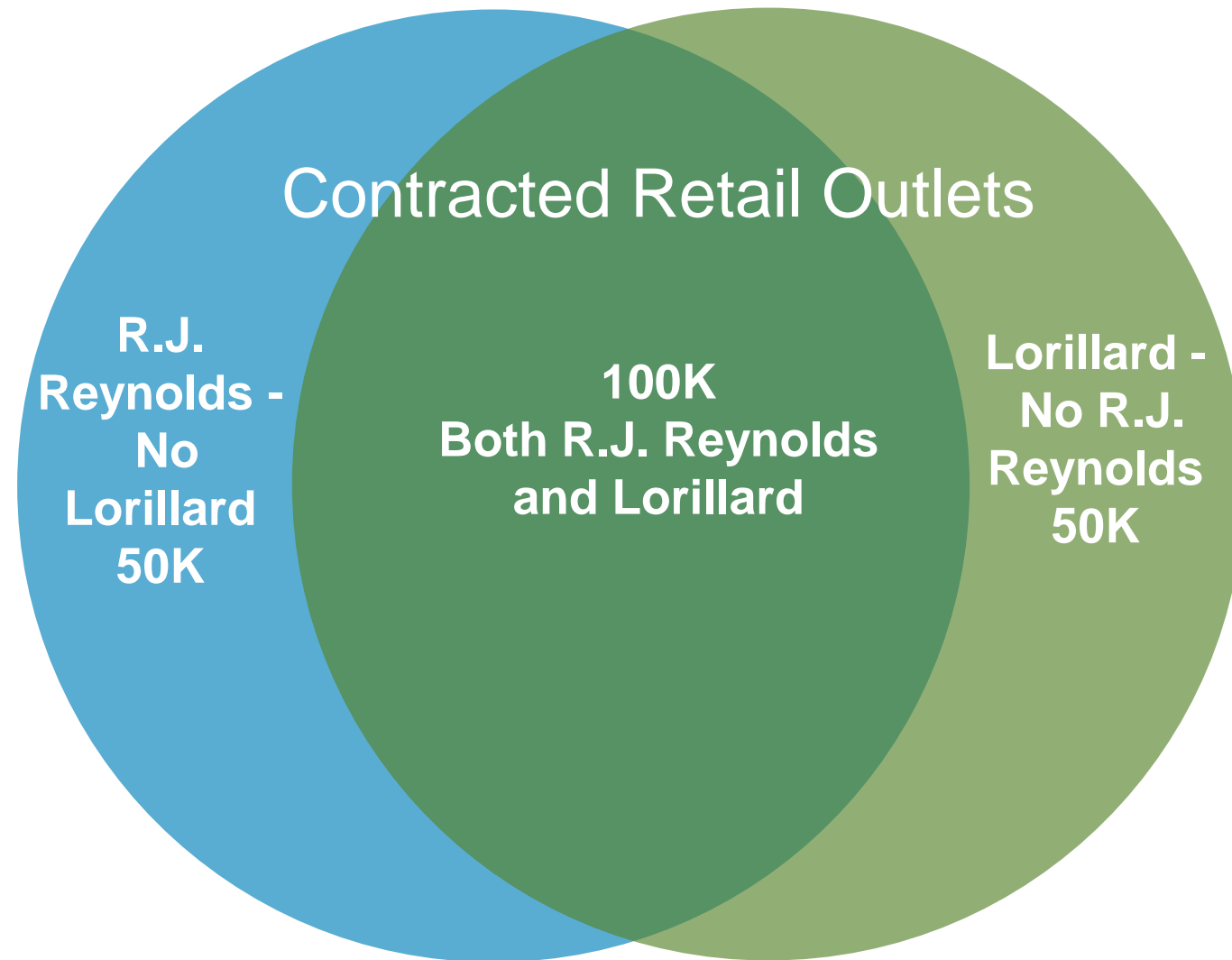


+0.5 ppt.

Newport

CIGARETTES

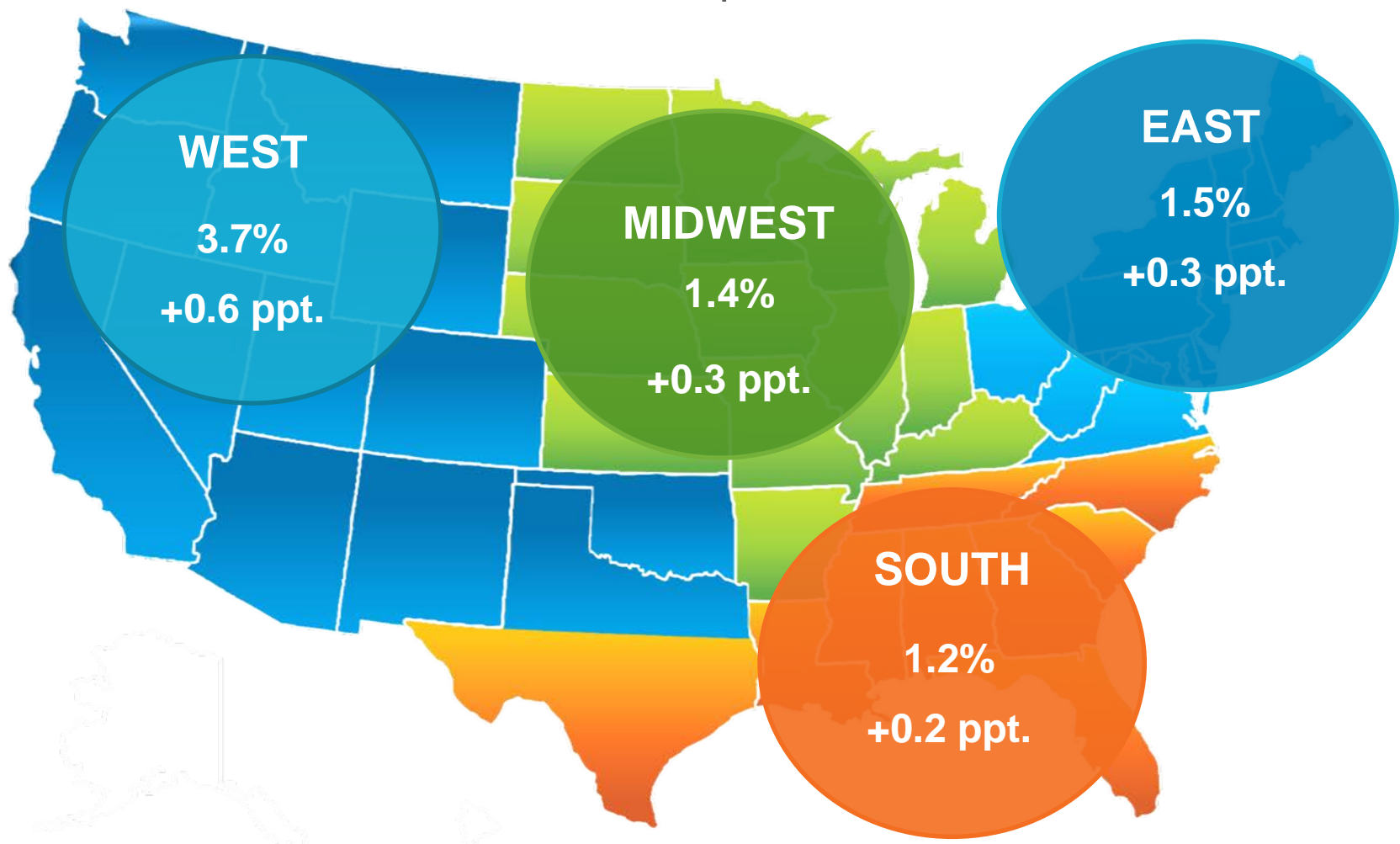
# A stronger universe





# Solid growth across all geographies

Natural American Spirit Share of Market

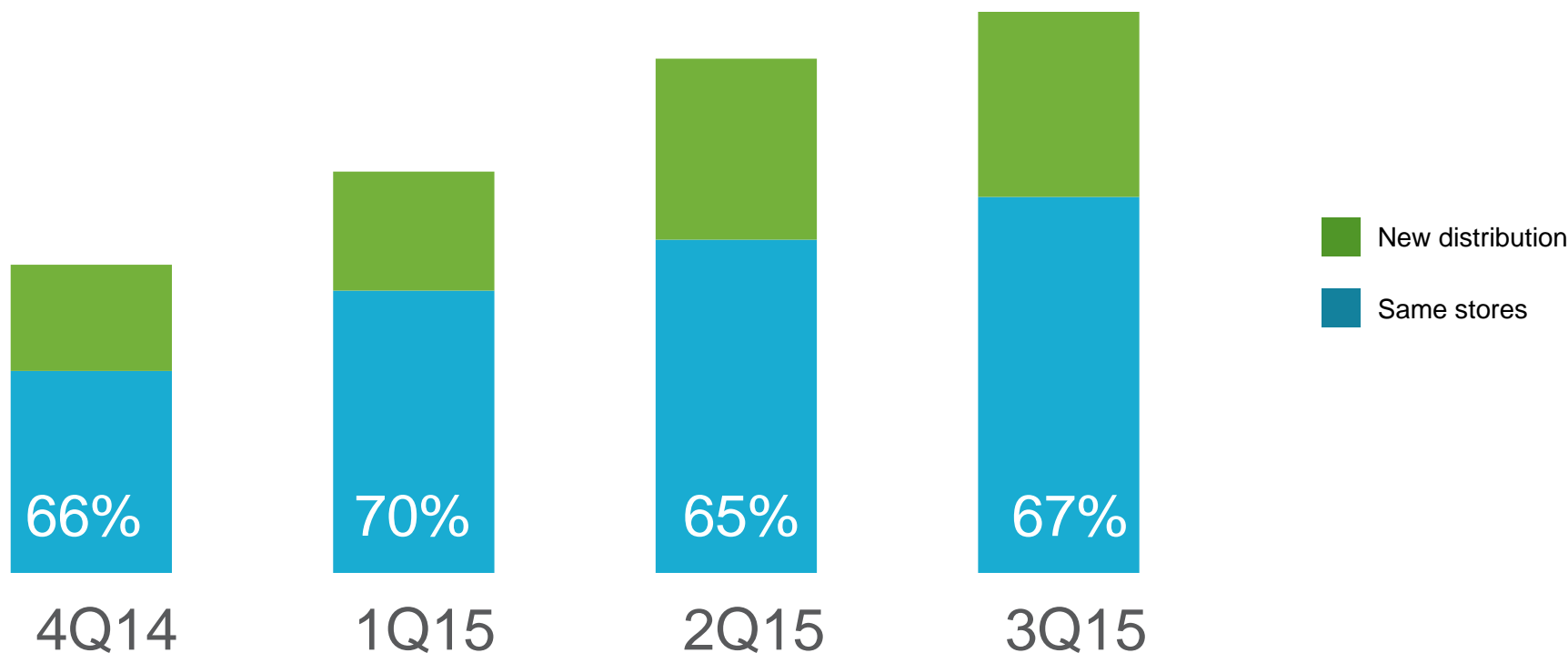


Source: MSA, Inc. shipments to retail, 3Q15 YTD



# Same stores driving volume growth

NAS Volume Change vs. Previous Year



Source: MSA, Inc. shipments to retail

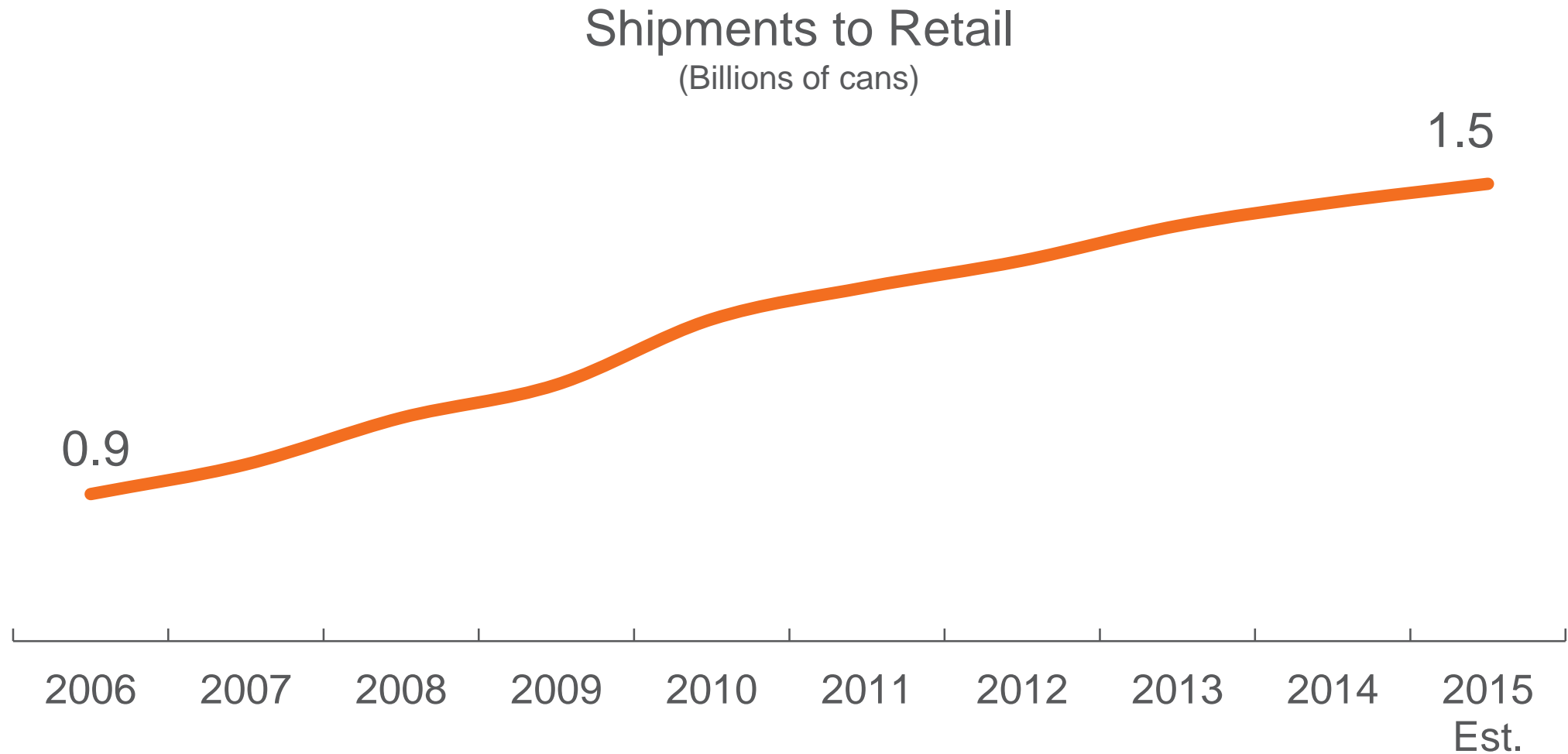


# Moist-snuff industry

# Moist-snuff industry dynamics

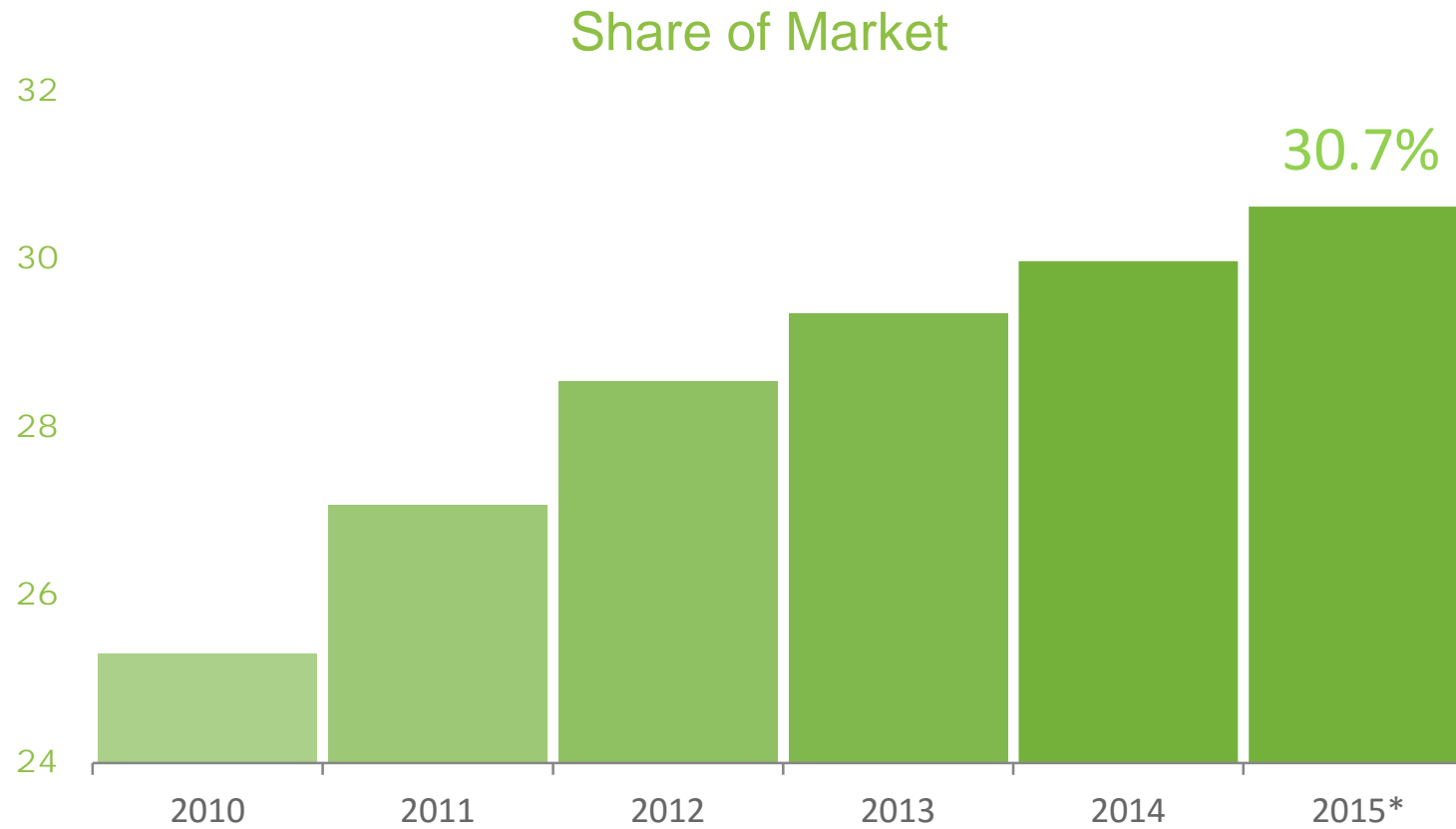
- Industry volume growing 2-3% annually
- Pouches and Wintergreen in the mainstream price tier providing all category growth
- Competitive environment

# Industry moist-snuff volume





# Grizzly leads moist snuff



\* 3Q15 YTD  
Source: MSA, Inc. shipments to retail



# Grizzly's competitive advantage



**Preferred Wintergreen** - No. 1 SKU in fastest growth area

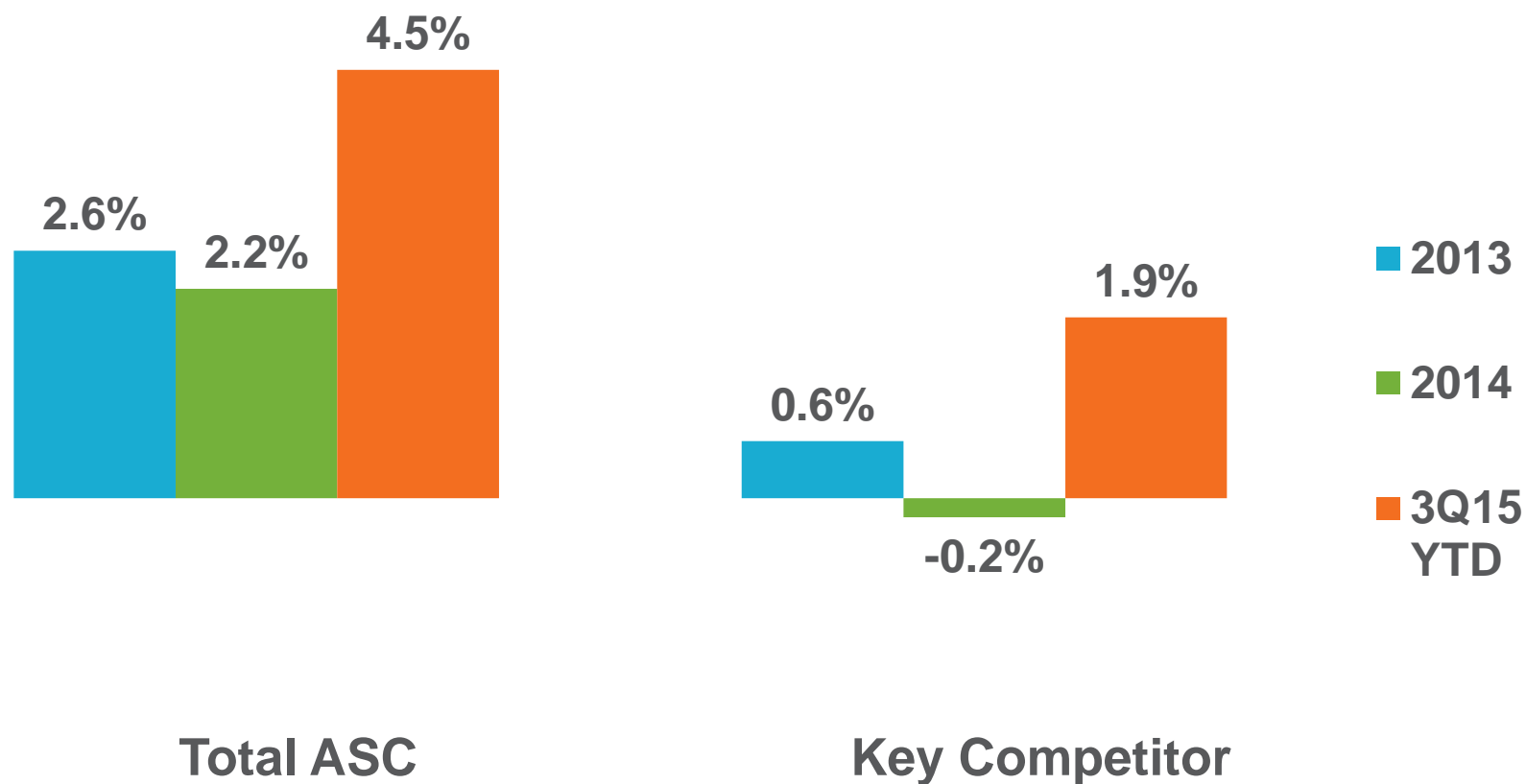
**Superior Pouch** - Better mouth feel and convenience

**Broader range** - More Pouch and Wintergreen offerings

**Consumer advantages** - Positive switching, driven by ATU30

# Net price realization

- ASC significantly outpacing competition



# American Snuff performance

- Growth in growing category
- Volume outpacing category
- Strong margin and earnings

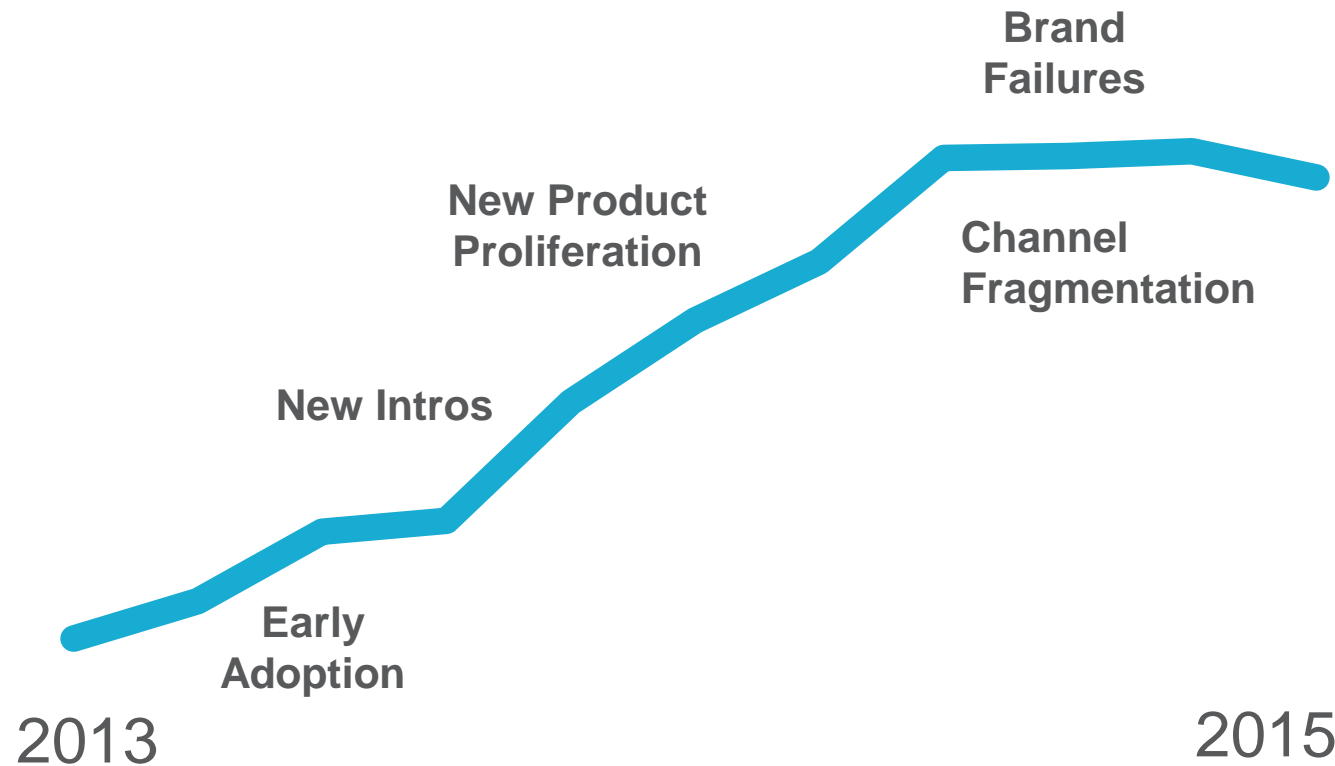
## Nine-Month Results

	<u>2015</u>	<u>2014</u>	<u>Change</u>
Volume (millions)	371	358	+3.7%
Retail share of market	33.5%	32.9%	+0.6 ppt.
Operating income	\$369	\$329	+12.1%
Operating margin	58.6%	56.4%	+2.2 ppt.

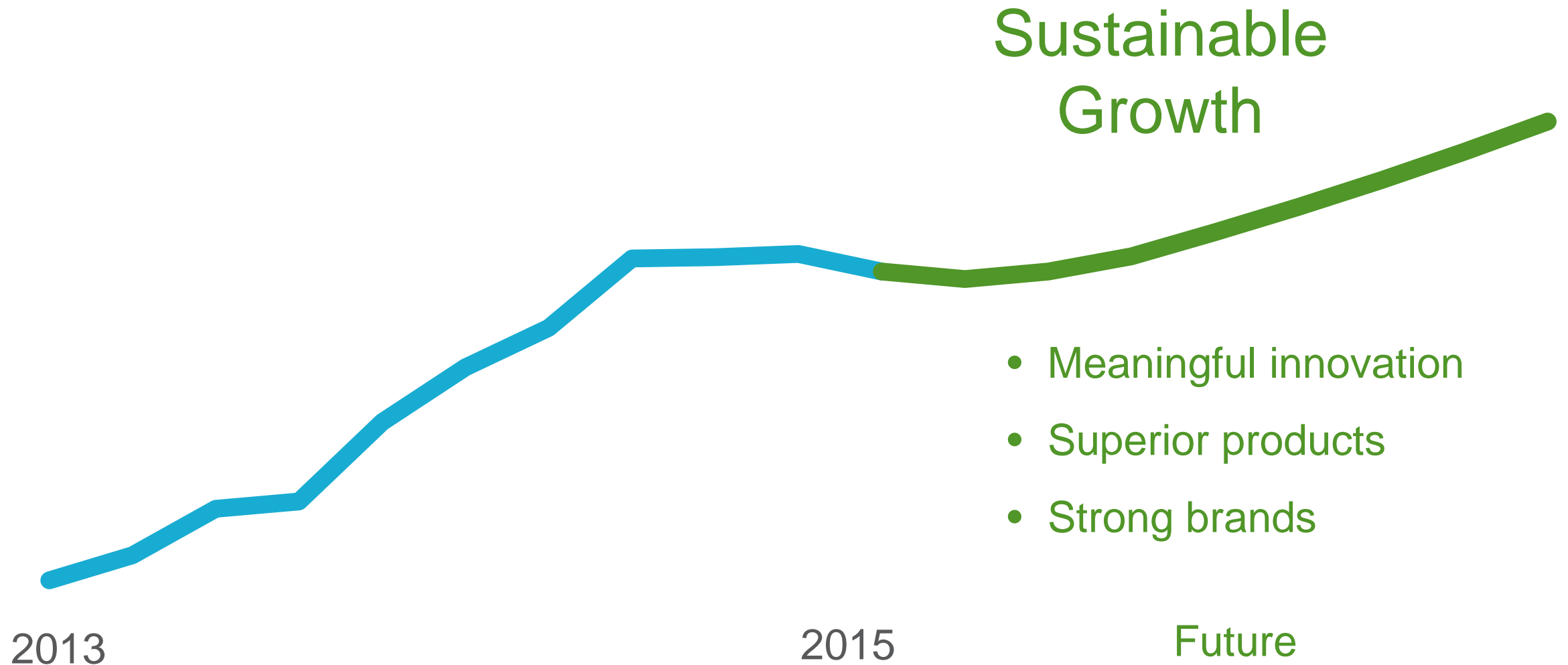


# R.J. Reynolds Vapor

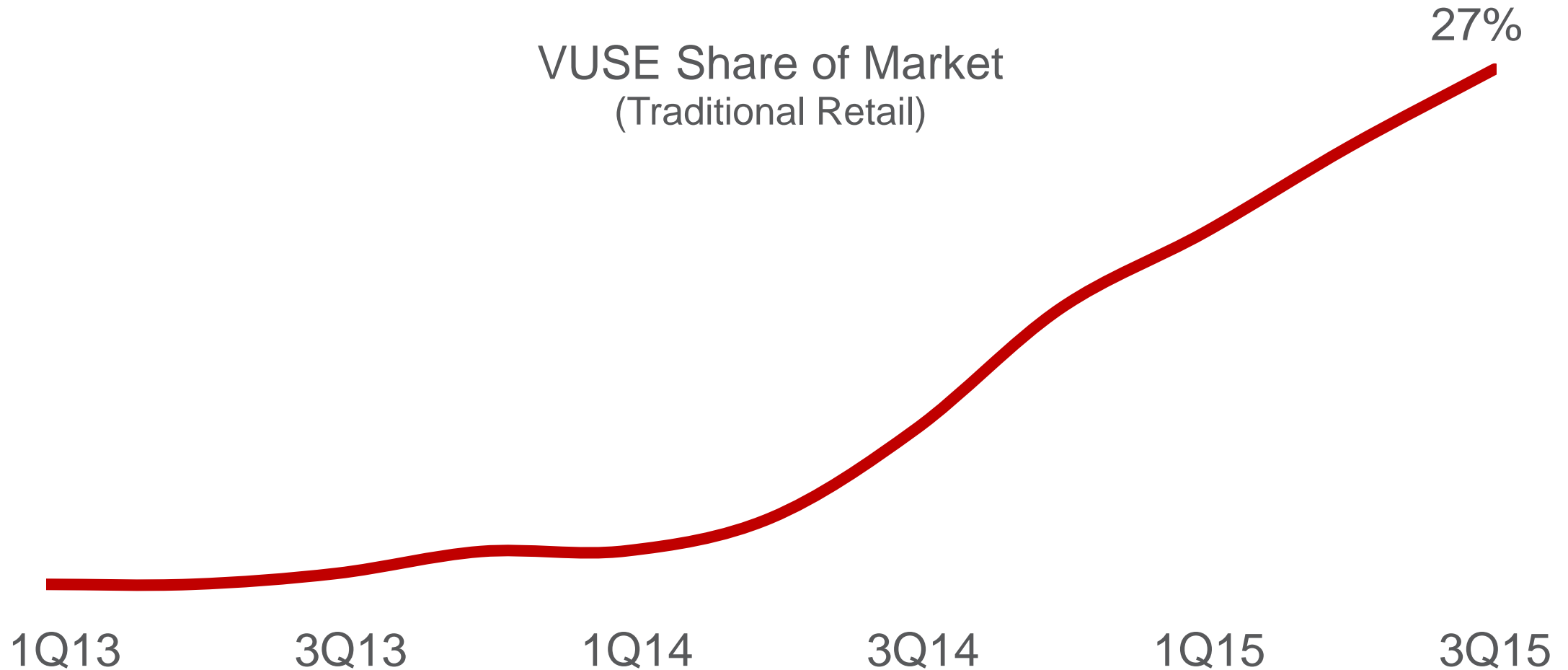
# The vapor category is at an inflection point....



# But innovation can re-ignite growth...



# And VUSE is gaining momentum





# Vapor strategy

- Solidify VUSE as the Vapor Authority
- Maximize potential for traditional e-cig / cartridge
- Leverage superior technology to compete in mods / tanks / liquids

# VUSE evolution and innovation

Superior products

Superior performance

Trusted brand

Cig-A-Like Platform

Next Generation Innovation



# R.J. Reynolds / BAT vapor tech-sharing

- Marriage of world-class vapor expertise and capability
- Competitive advantage in tobacco transformation
- Term sheet signed Sept. 22, 2015
  - Framework for collaboration / IP licensing
  - Critical step in reaching long-term agreement through 2022





# Niconovum

# ZONNIC highlights

National distribution in more than 30,000 outlets

Building the NRT category in convenience / gas

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.

**CAMEL**

- 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

# Summary

- Powerful brands in key categories
- Positioned for sustainable growth
- Expert marketing and sales force
- Track record of success!

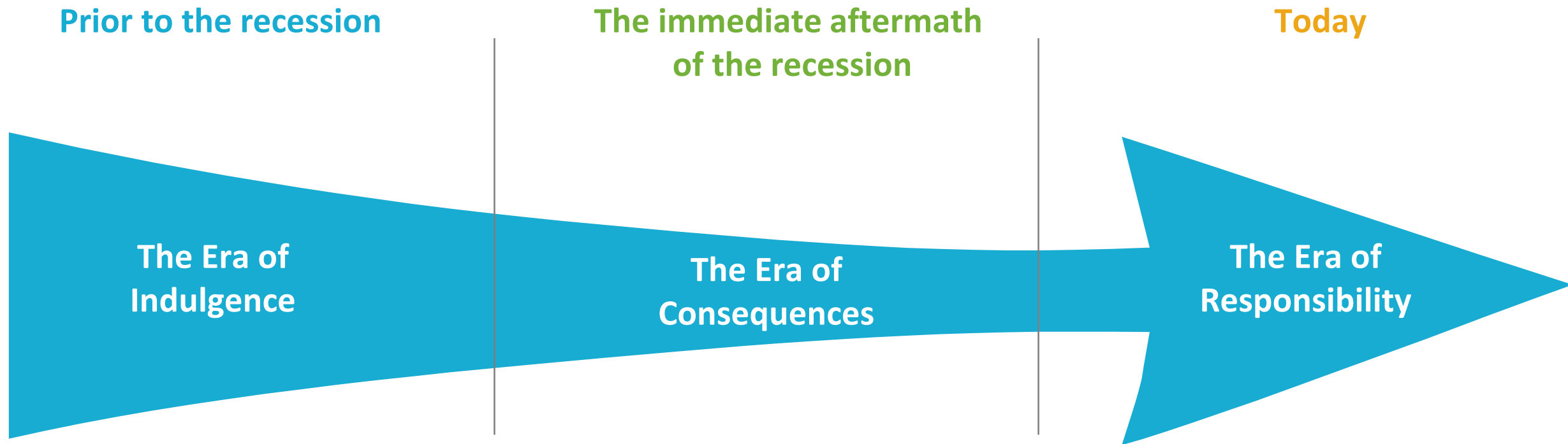


# Consumer and brand portfolio

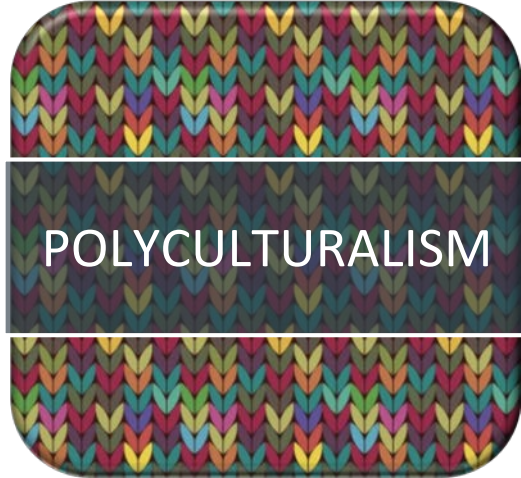
Brice O'Brien  
EVP, Consumer Marketing  
R.J. Reynolds



# Consumers' behavior shifting



# Consumer macro trends



MULTICULTURALISM

to




POLYCULTURALISM



# Polyculturalism drivers



# Strongest brand portfolio

		 Newport	 Camel	 NAS
	Industry			
Caucasian	70%	36%	70%	68%
Hispanic	13%	18%	19%	19%
African American	11%	41%	4%	6%
Asian	2%	2%	3%	2%



# Turning blue



# Green is turning blue



## THE WORLD:

Environmental and global impact

“I do not want to compromise on the convenience of the products I already use to lead a more environmentally conscious lifestyle”

58%



## MY WORLD:

Local community impact

“Companies that make sincere efforts to be a part of the community deserve their loyalty”

78%

ATC 21+  
(2014)



## ME:

Personal convenience

“I am motivated to lead an environmentally-conscious life because it enables me to save money”

69%

# RAI OpCos aligned with turning blue



MEMBER OF  
**Dow Jones  
Sustainability Indices**  
In Collaboration with RobecoSAM



# Migration to digital solution



- Greener, more relevant, cost effective
- 2012 test did not meet expectations
  - Too complex
  - Inconvenient
  - Could be copied and passed along

# Migration to digital solution



- R.J. Reynolds developed proprietary technology platform
- Spot You More™
  - A simple, intuitive consumer experience
  - Fraud prevention with 'One & Done' coupons
  - Real-time redemption data
  - Open-technology platform

# Spot You More™ test markets

- 64 stores in Columbus, OH and Des Moines, IA
- Over 14,000 redemptions in first 3 months
- Positive ATC response
  - 99% are “satisfied” with the experience
  - 94% claim digital “easier or same as” paper coupon
  - 90% “definitely will” redeem future digital promotions

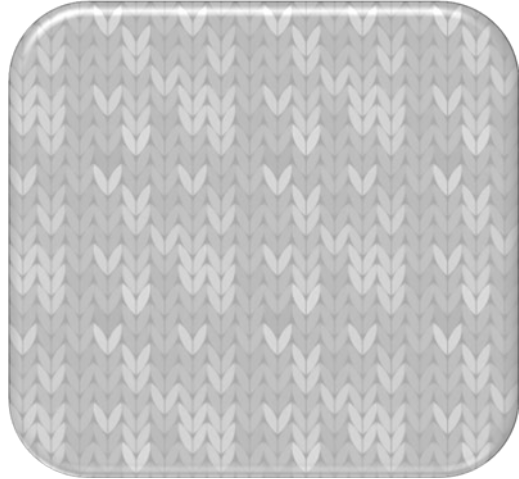


# Spot You More™ next steps

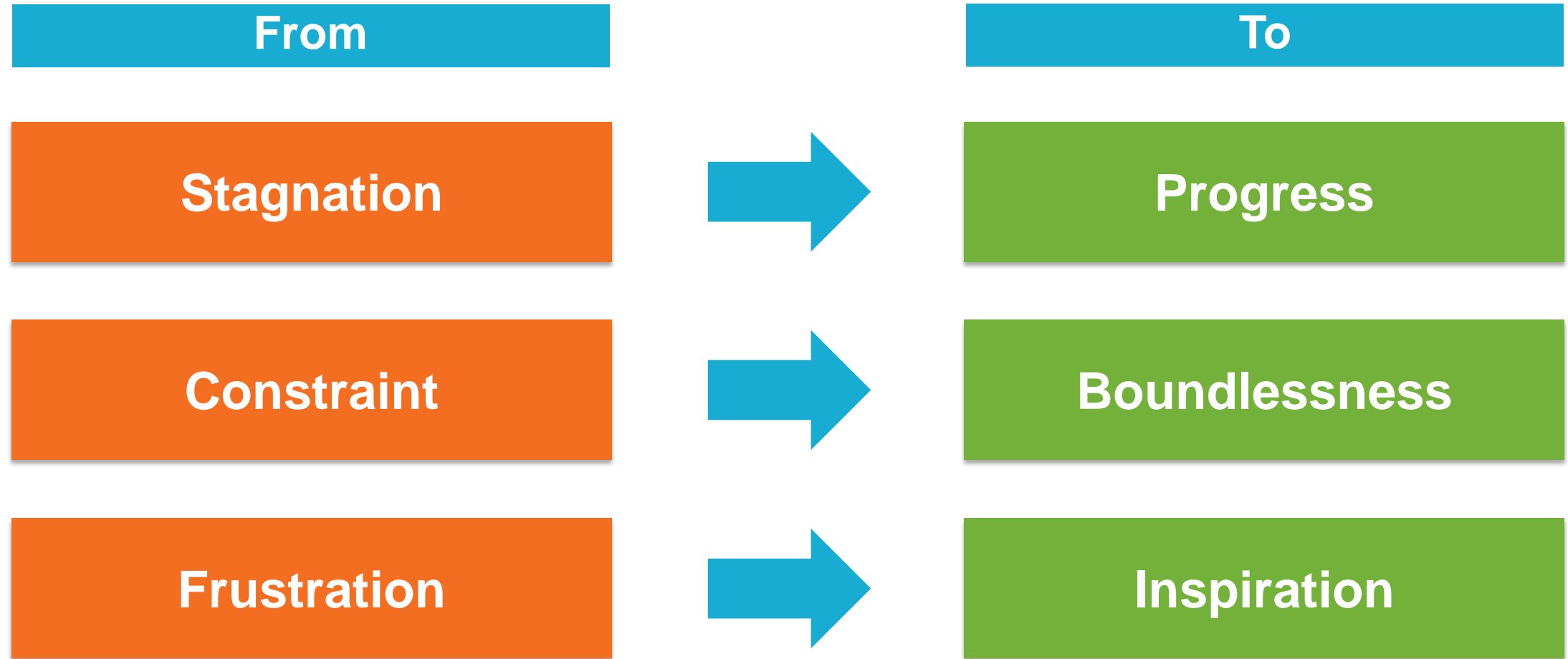


- Digital promotion platform for C-gas channel
  - Potential across all consumer products
- ‘Internet of Things’ for C-gas channel
  - Proximity marketing
- Working with third parties to develop broader applications

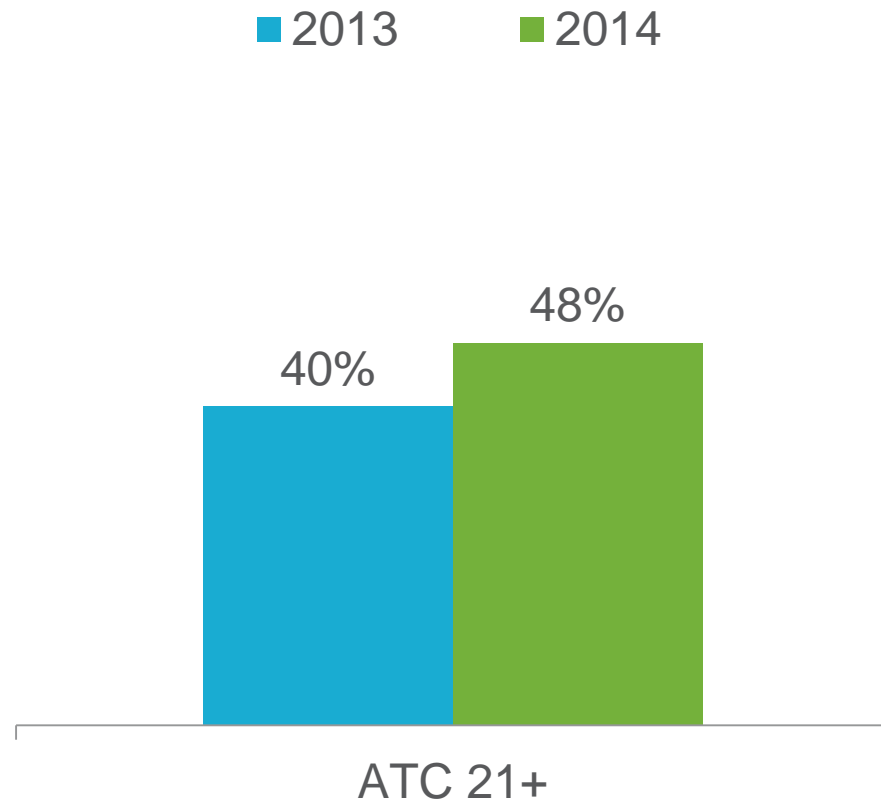
# Pent-up aspirations



# Shifting pent-up aspirations

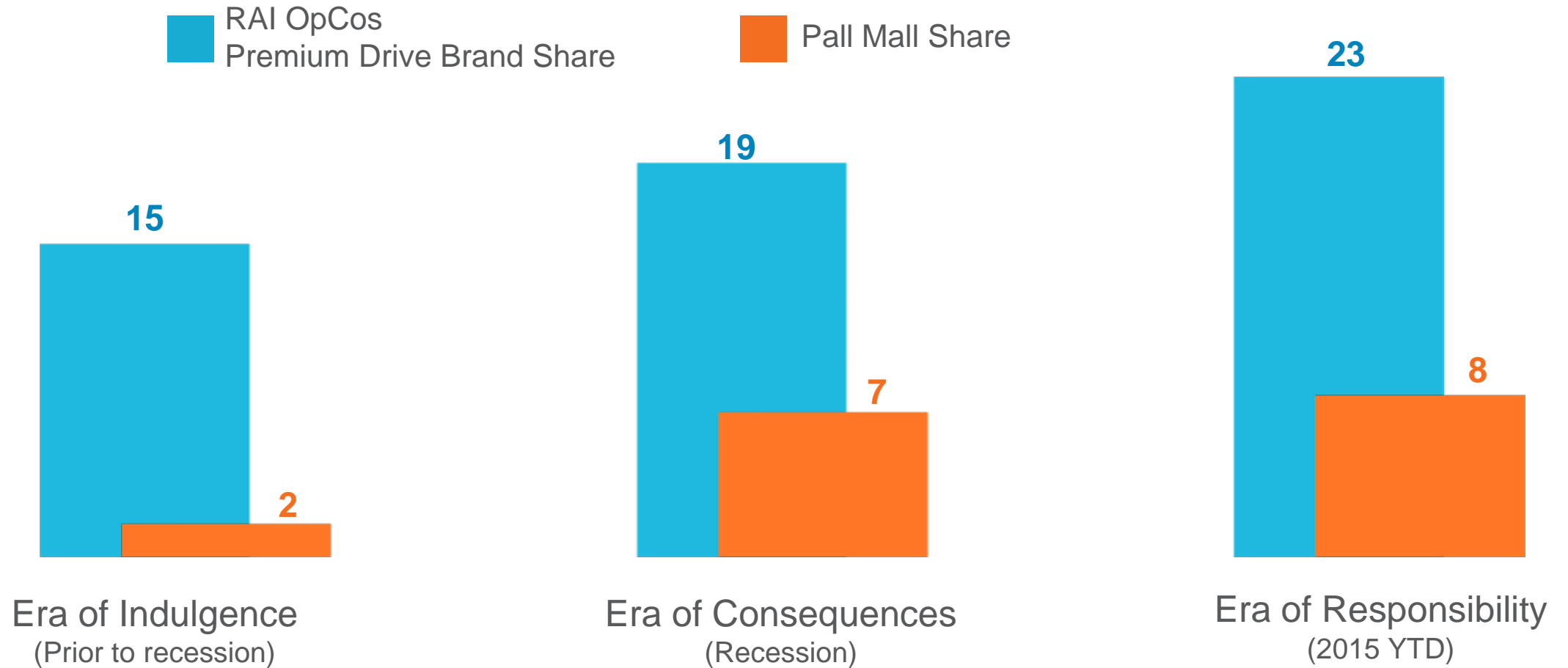


# Consumers willing to spend more



**“I am more open to spending money now than I have been in the past few years”**

# Pent-up aspirations driving premium growth

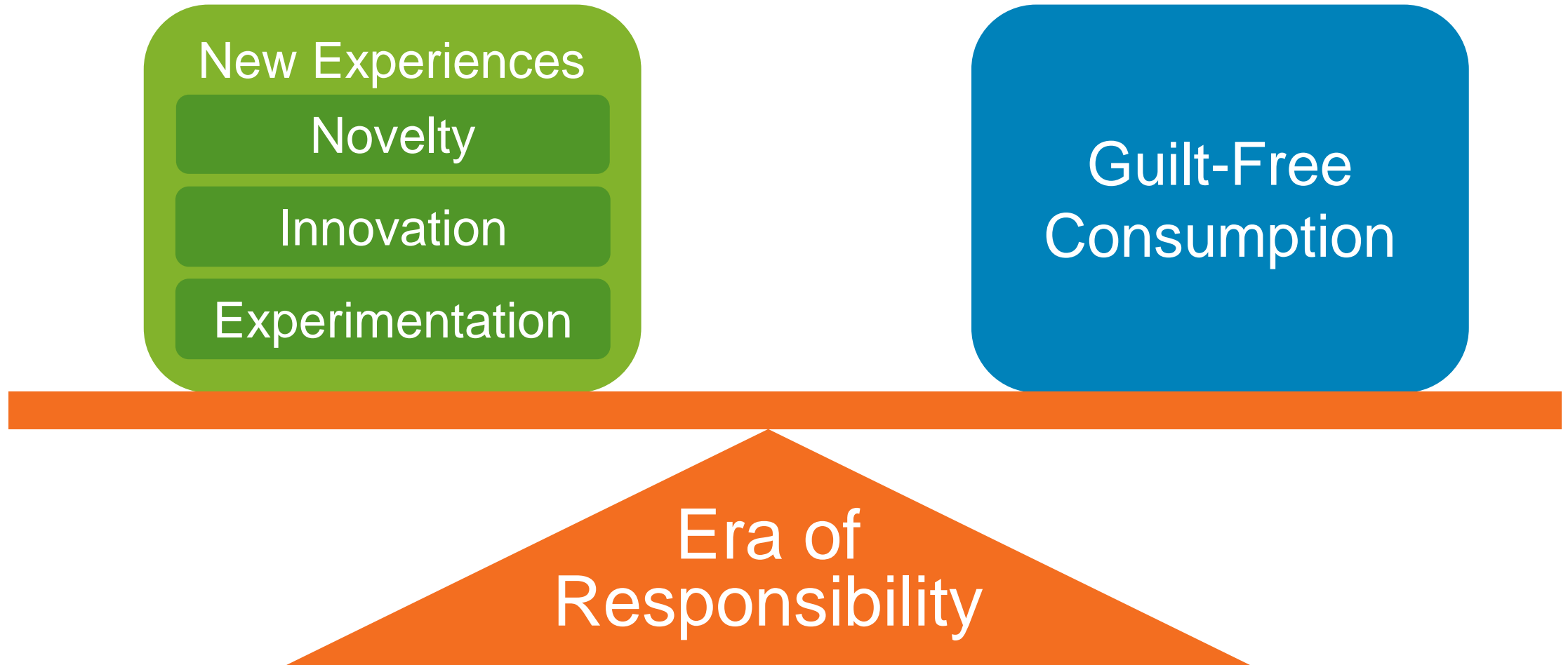




# Receptivity



# Increasing receptivity



# Consumers more open to change

ATC 21+  
(2014)

69%

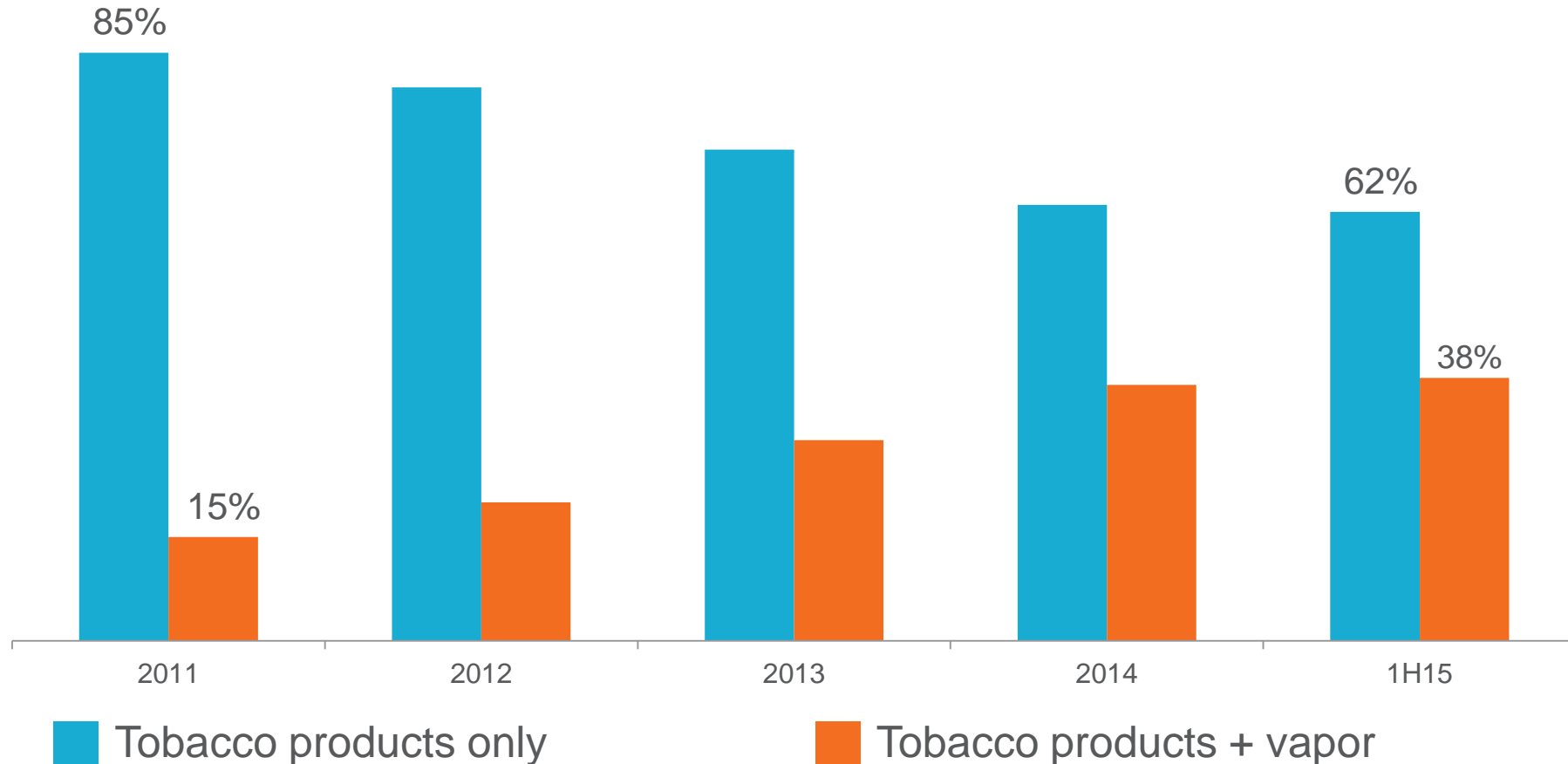
**“I would welcome more  
novelty and change in my life”**

59%

**“I am more likely to choose a  
brand if it exposes me to  
new sensations or experiences”**

# Greater acceptance of alternatives

## Adult Smoker Product Usage



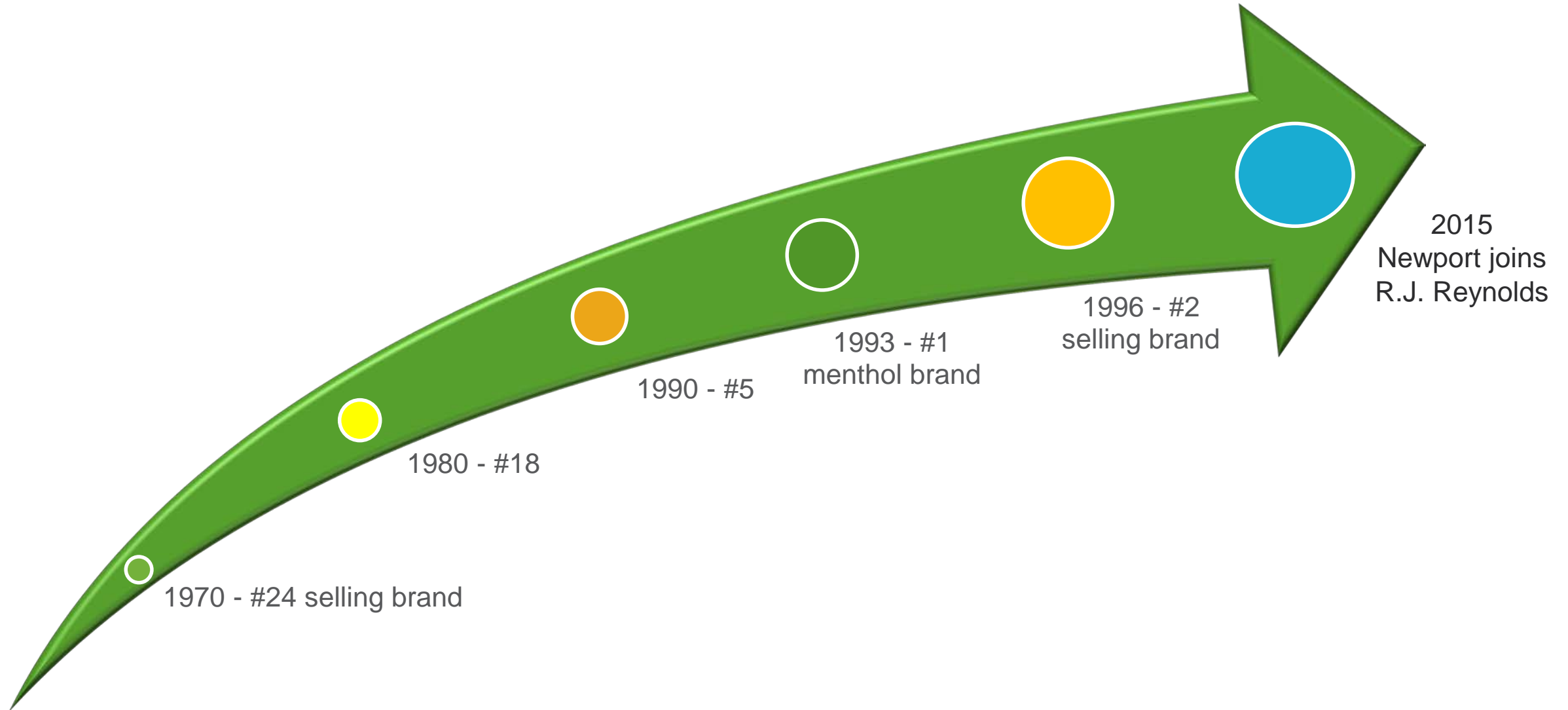
# Brand portfolio positioned for growth



# *Newport*

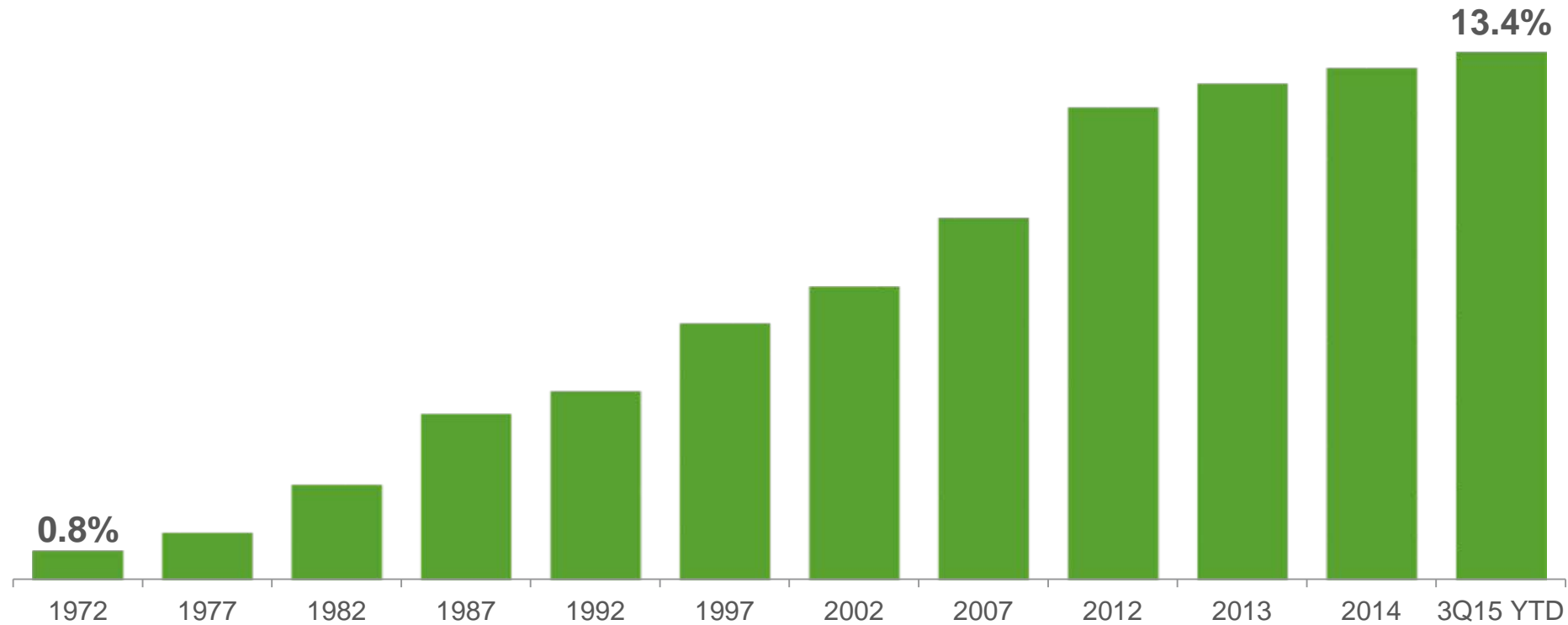
***“THE MENTHOL AUTHORITY”***

# Strong history and bright future



# Newport growth momentum

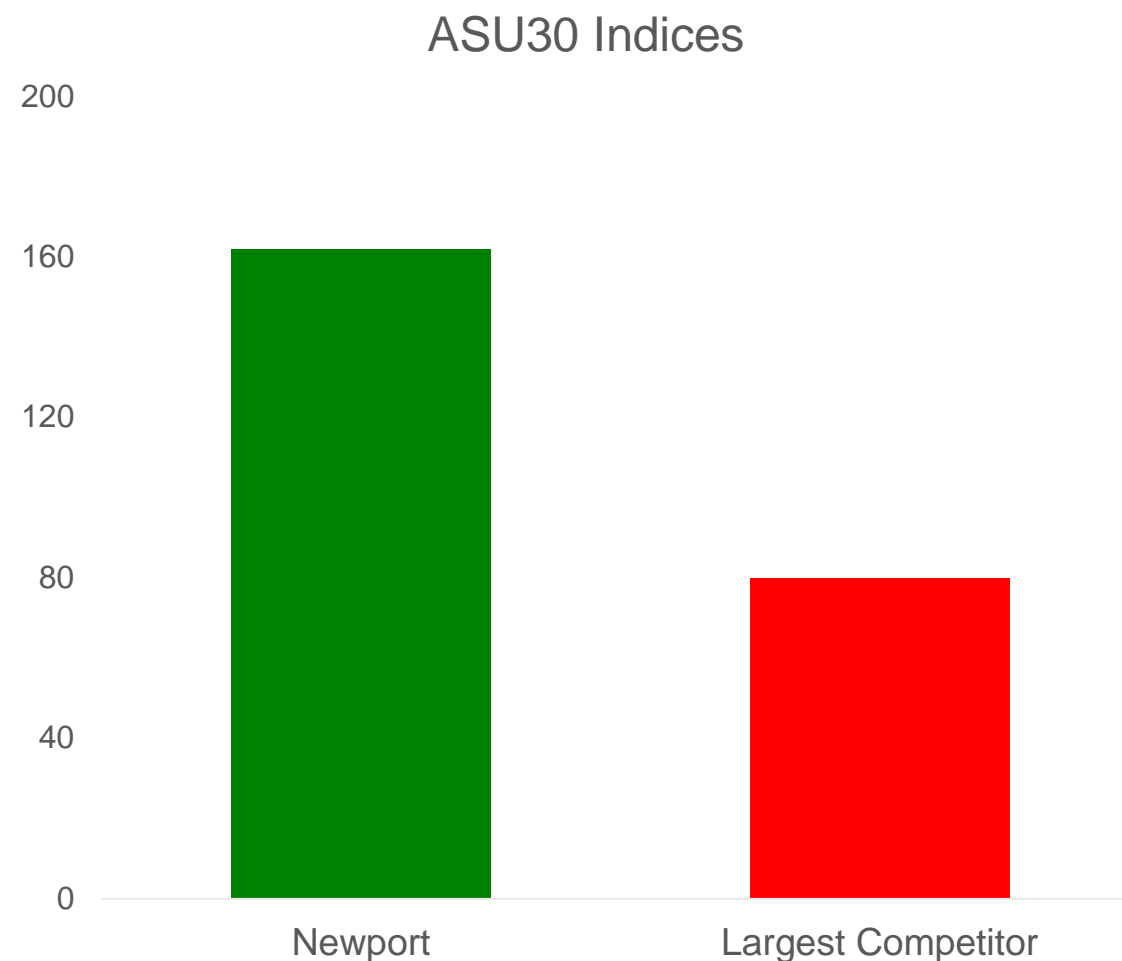
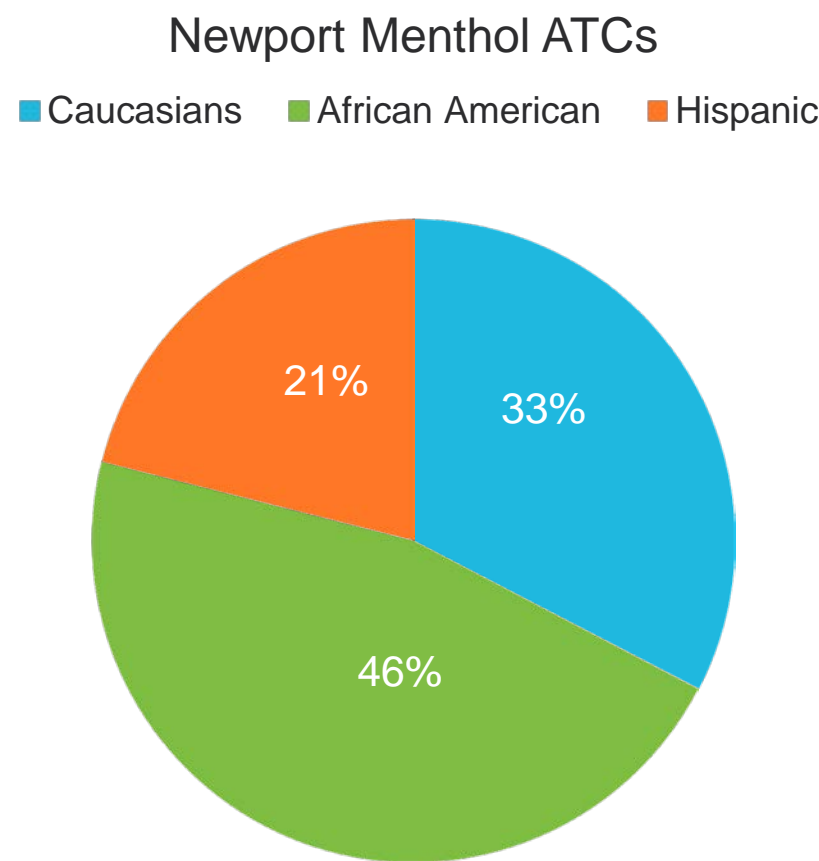
Share of Shipments



Source: MSA, Inc. shipments to wholesale

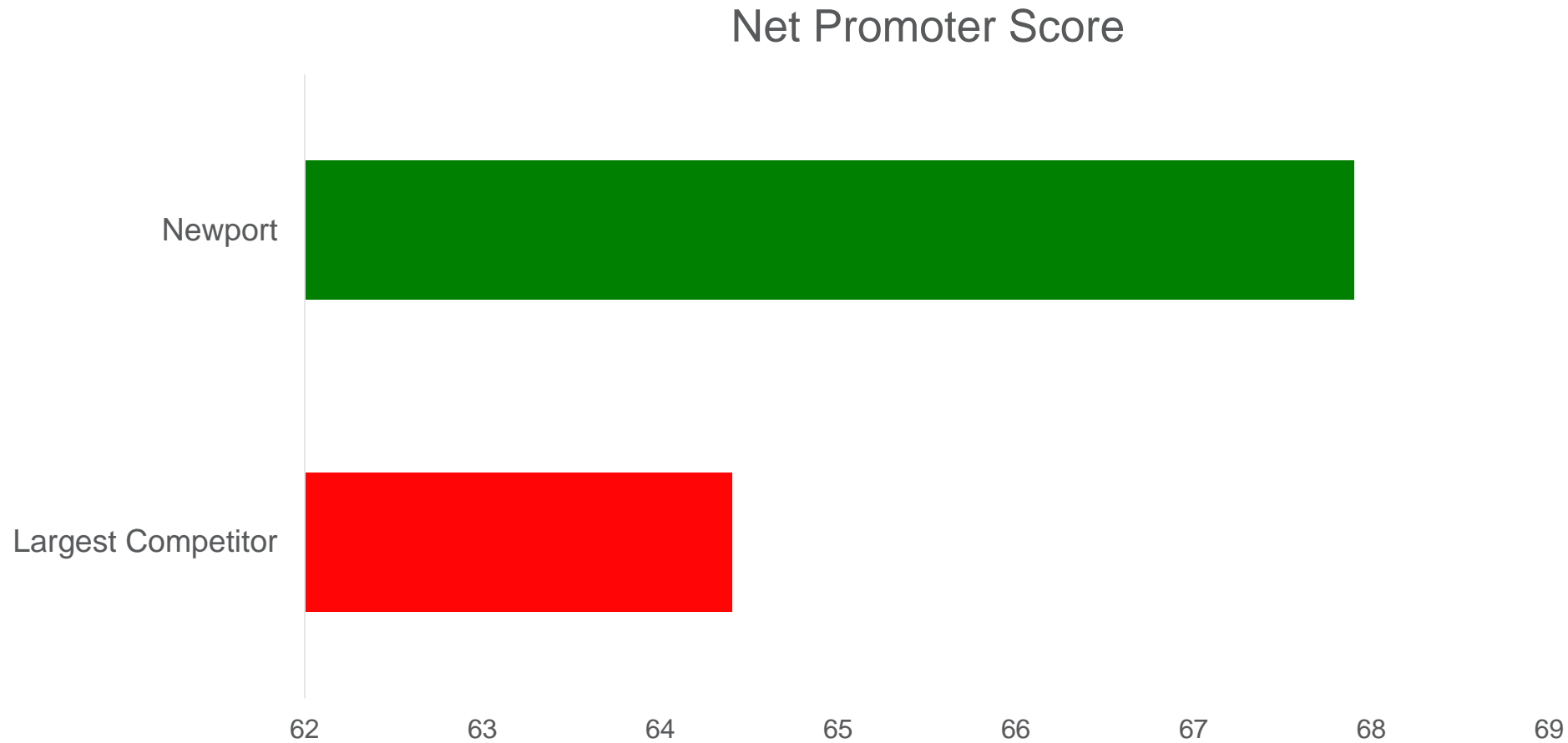


# Future demographics aligned



Source: Tracker YTD Aug. 2015 – Past 7 Day AS 21+

# Proud, loyal buyer base



# Key strategic initiatives

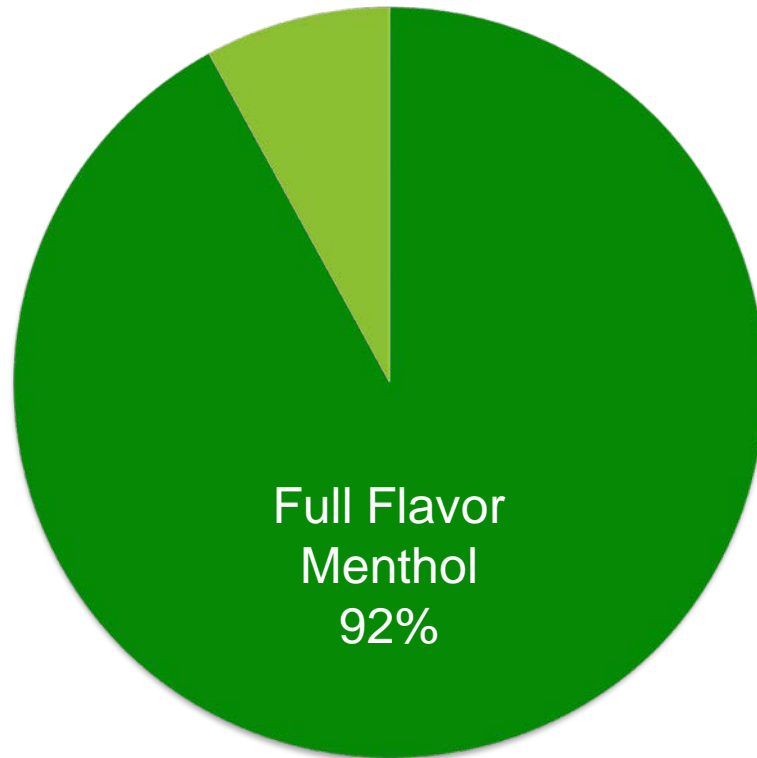
Strengthen  
portfolio  
appeal

Strengthen  
brand  
relevance

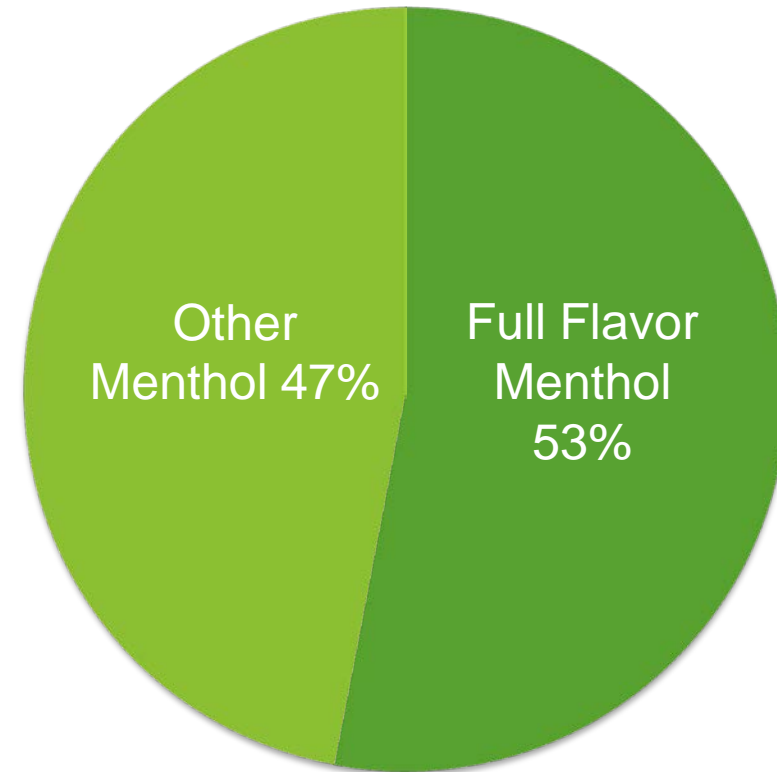
Optimize  
retail  
leadership

# Menthol portfolio opportunity

Newport

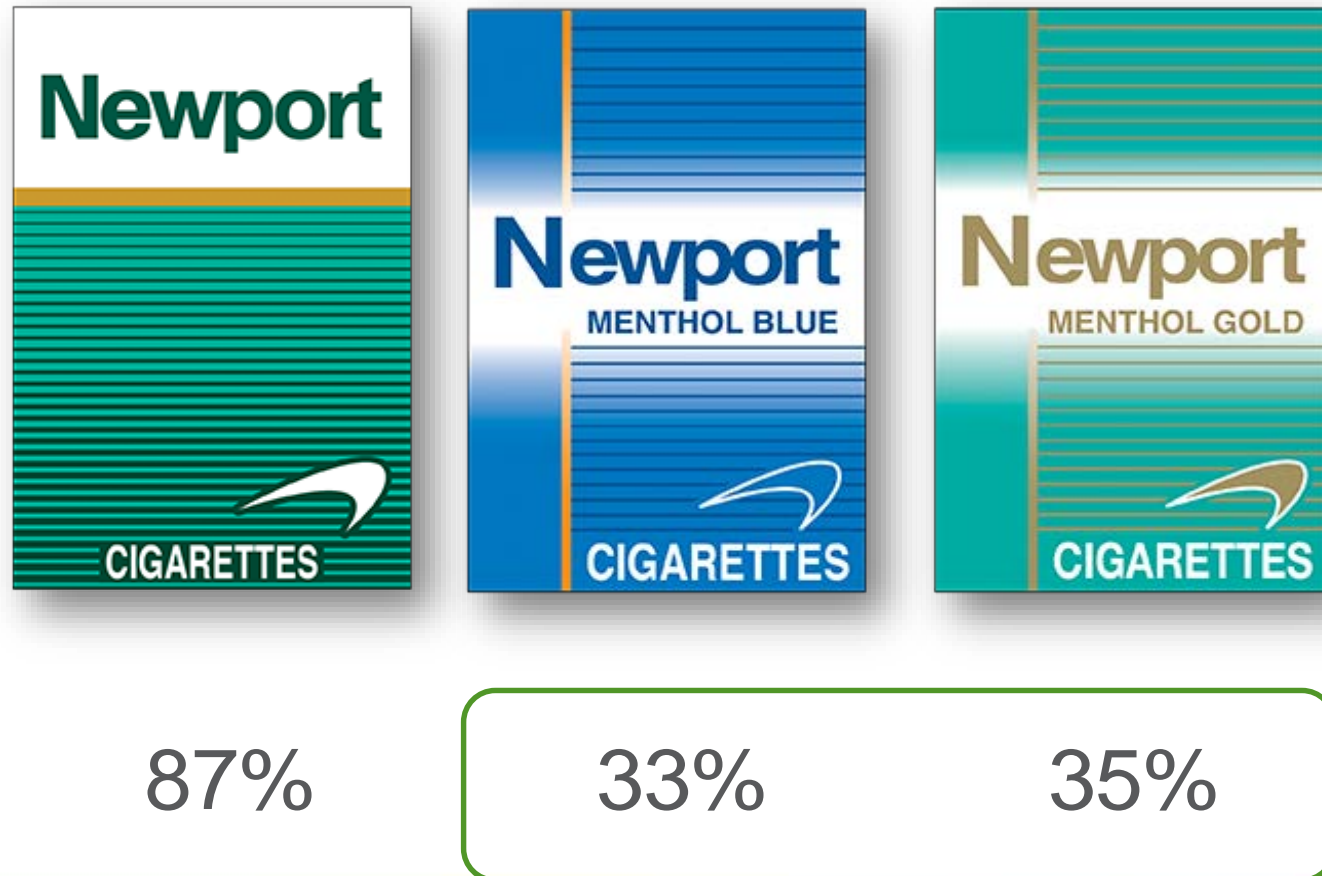


Key Competitor

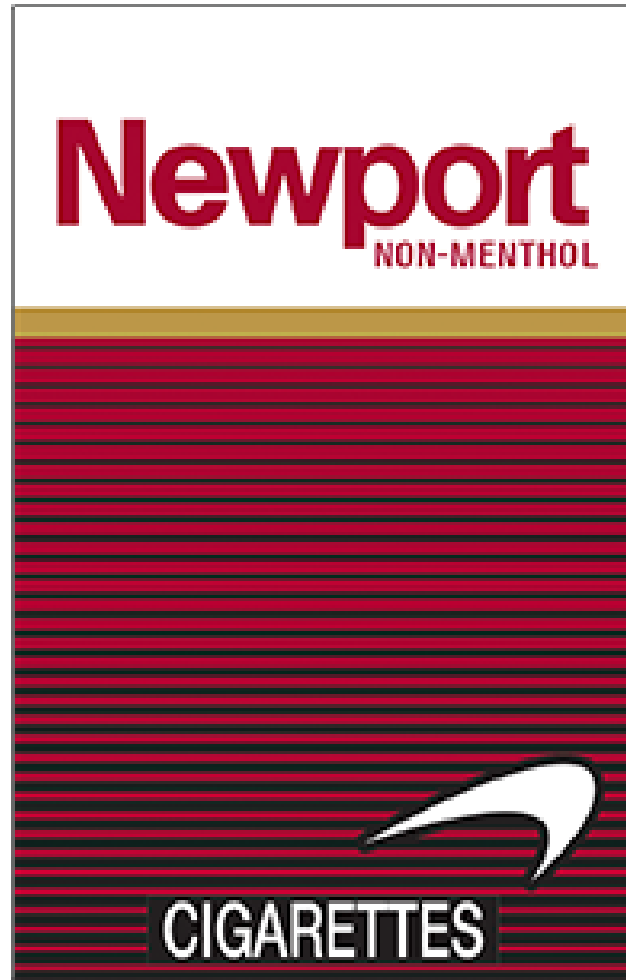


# Newport menthol portfolio opportunity

Awareness  
Adult Smokers 21+

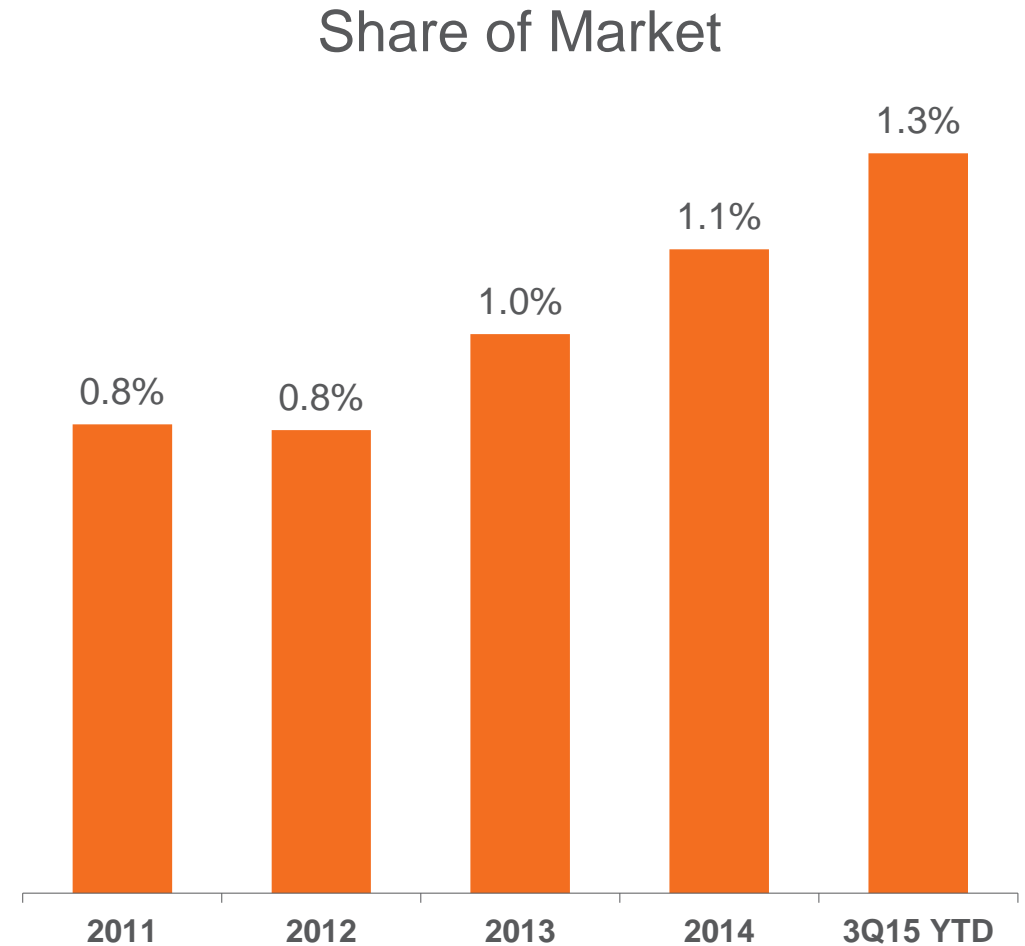


# Newport non-menthol styles

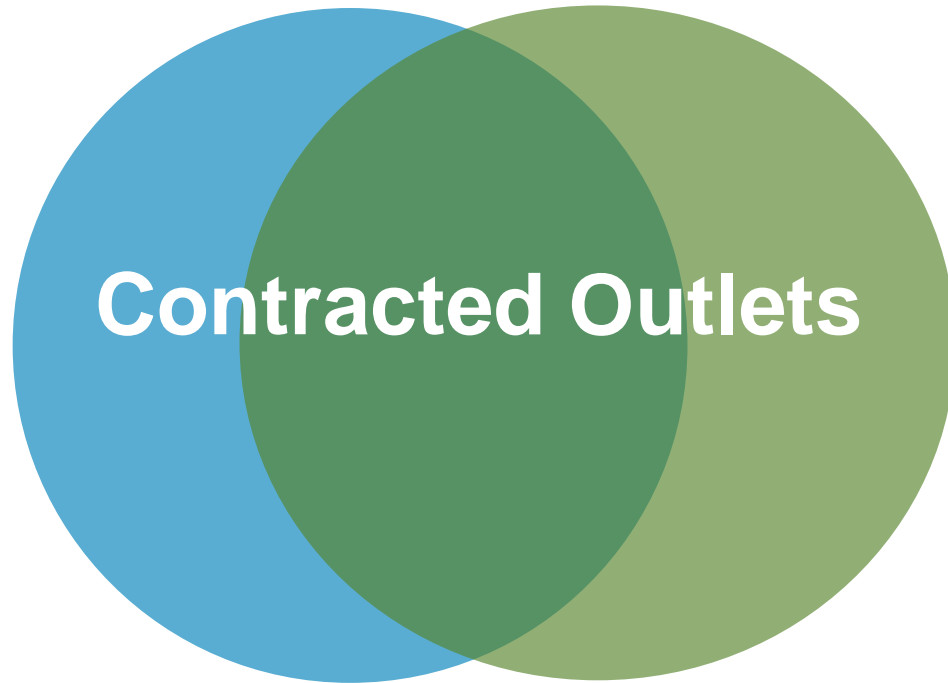


# Newport non-menthol growth

- Steady organic share growth
- Low awareness (under 40%)
- Strong demographic profile
- National distribution opportunity



# Significant retail impact for Newport



- More than 190,000 contracted outlets
- Greater merchandising and impact
- New contracts and presence
- Supported by more than 2,000 trade marketing representatives



# Trade marketing impact

Current



Future



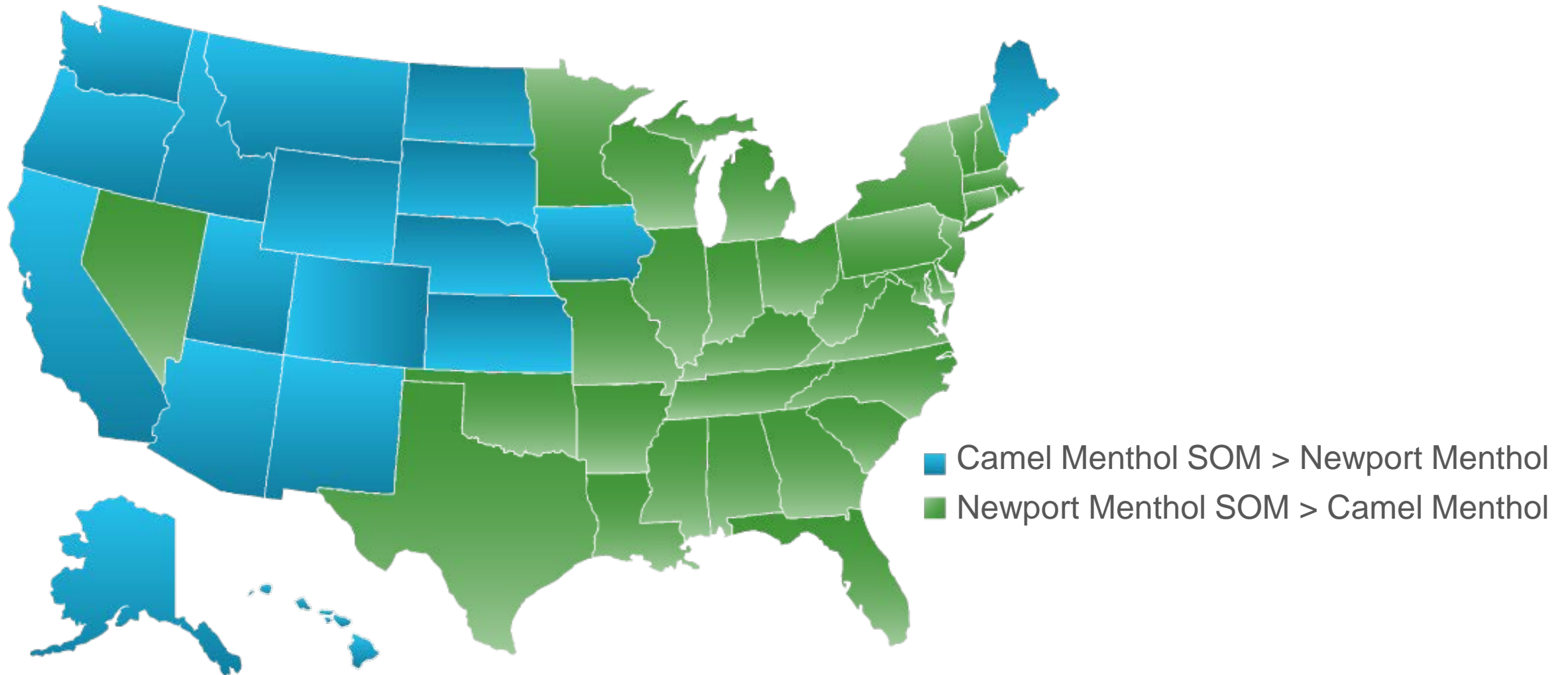


# Enhanced equity programming



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

# Leading and complementary menthol portfolio

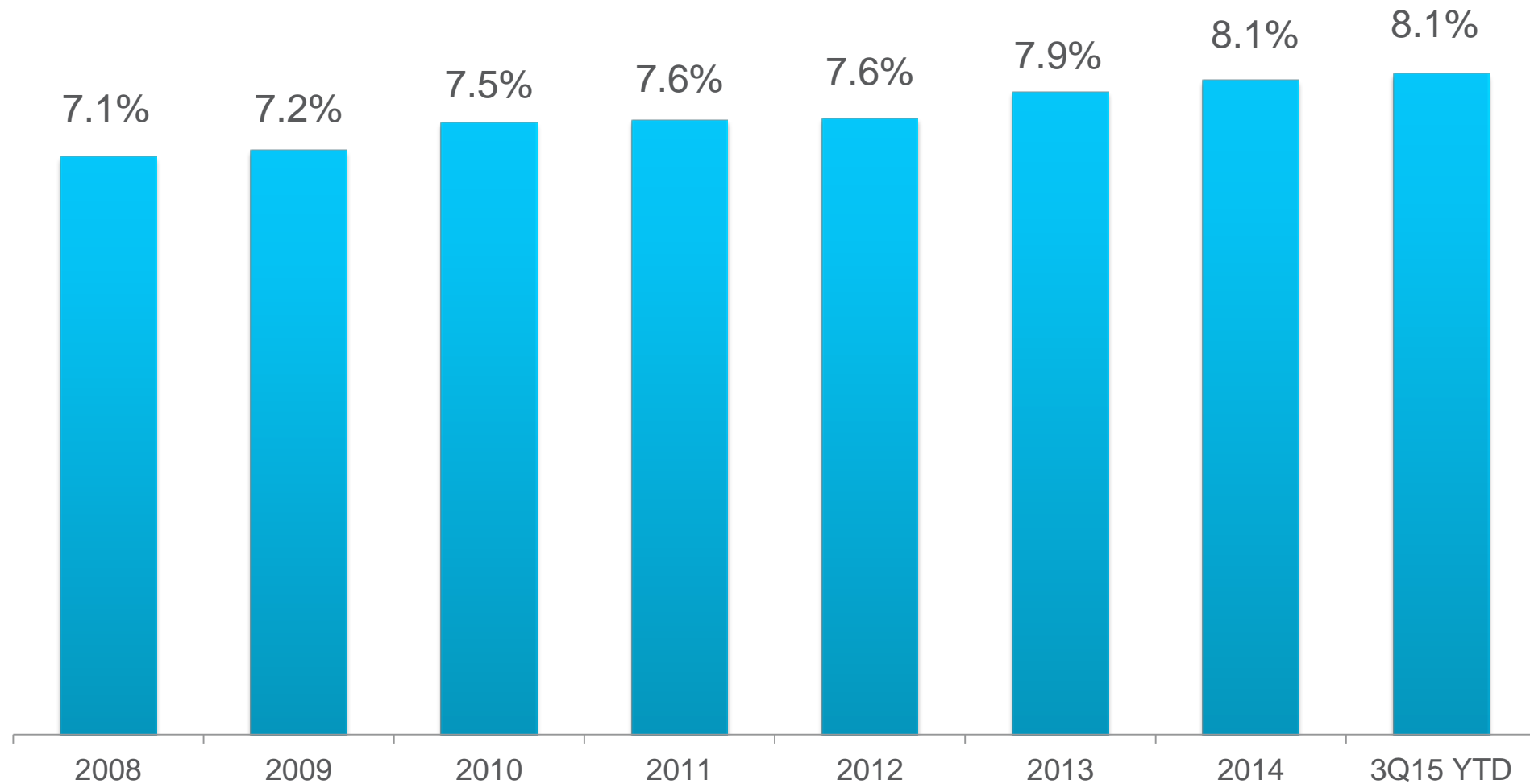




CAMEL



# Camel share of market growth



Source: MSA, Inc. shipments to retail

# Camel's consumer equities



**Stands out in a crowd**

**Pursues a life of challenge  
and novelty**

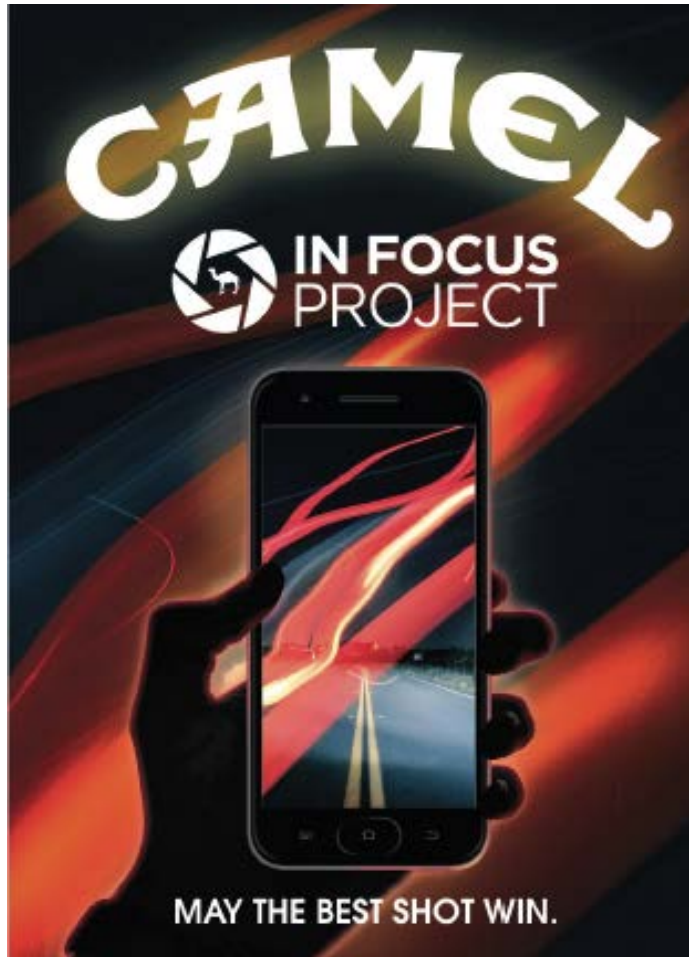
**Embraces challenge to learn  
and grow**



# Camel sparking originality



# Unique and engaging brand programs



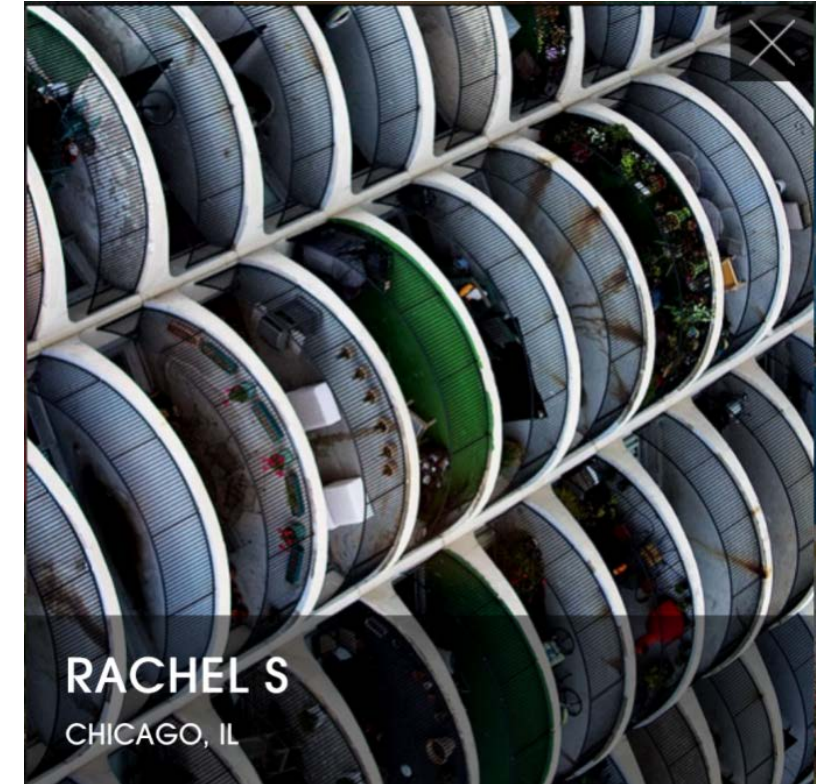
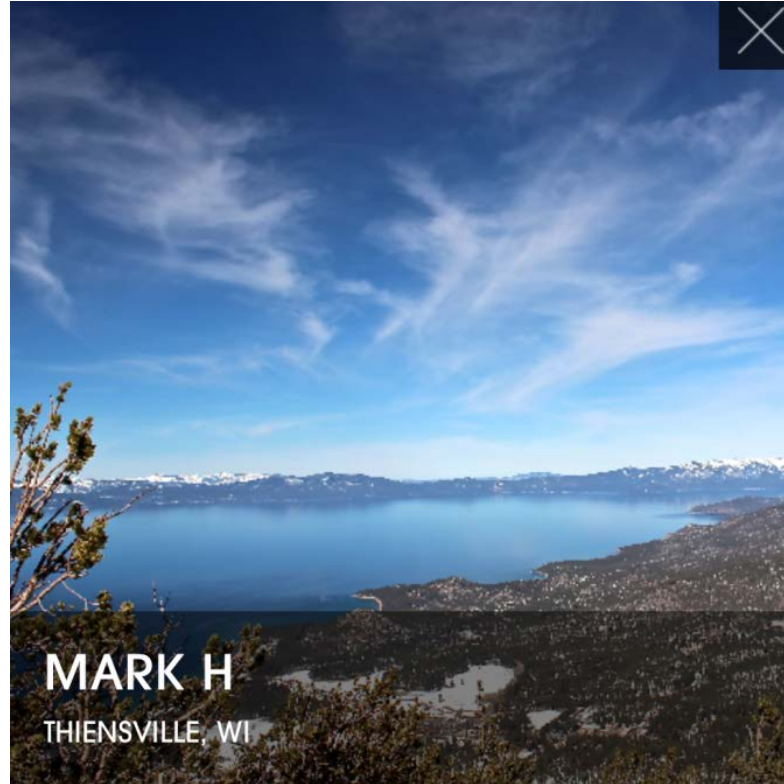
**In Focus project**

**Mobile photography**

**Integrated promotion**



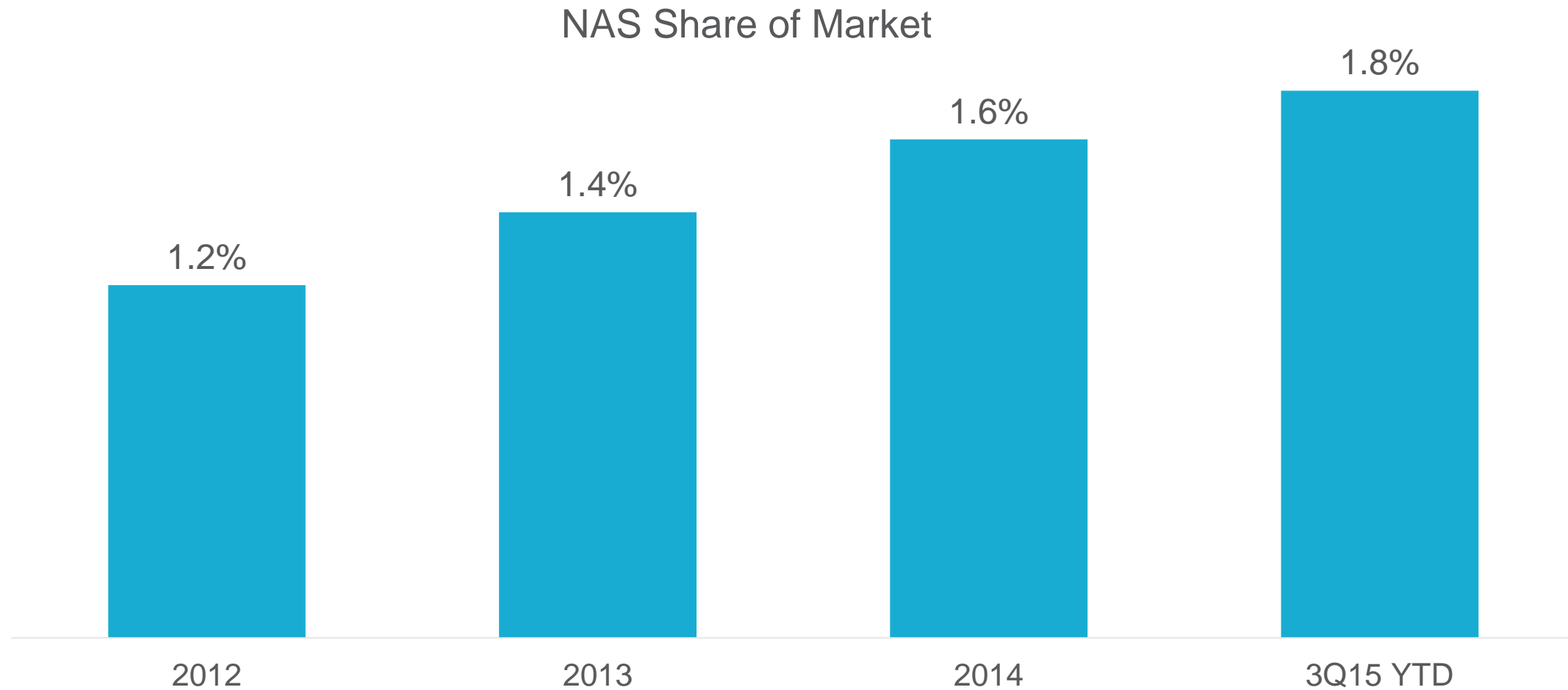
# Passionate, artistic consumers





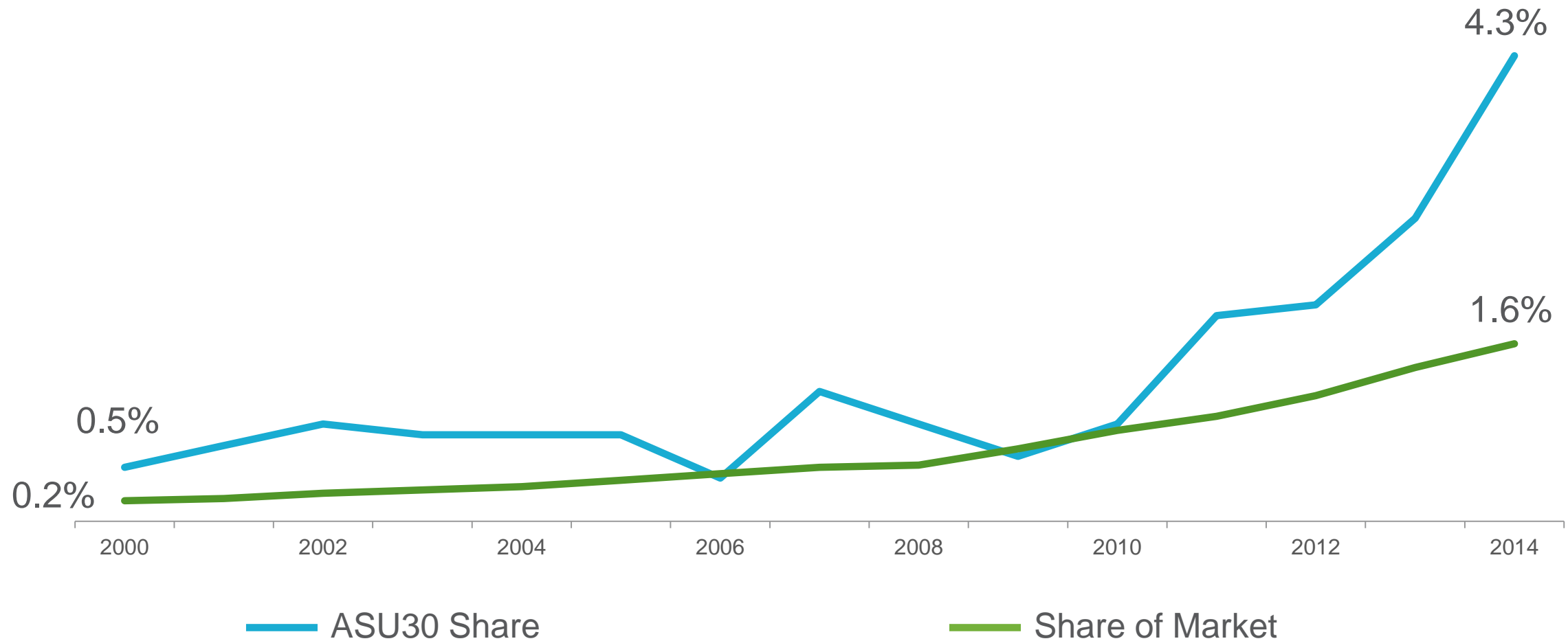


# Consistent and accelerating growth



Source: MSA, Inc. shipments to retail

# ASU30 growth outpacing share



# NAS share strengths

Los Angeles - 8%

Portland – 11%

Denver – 6%

Minneapolis – 5%

Austin – 9%

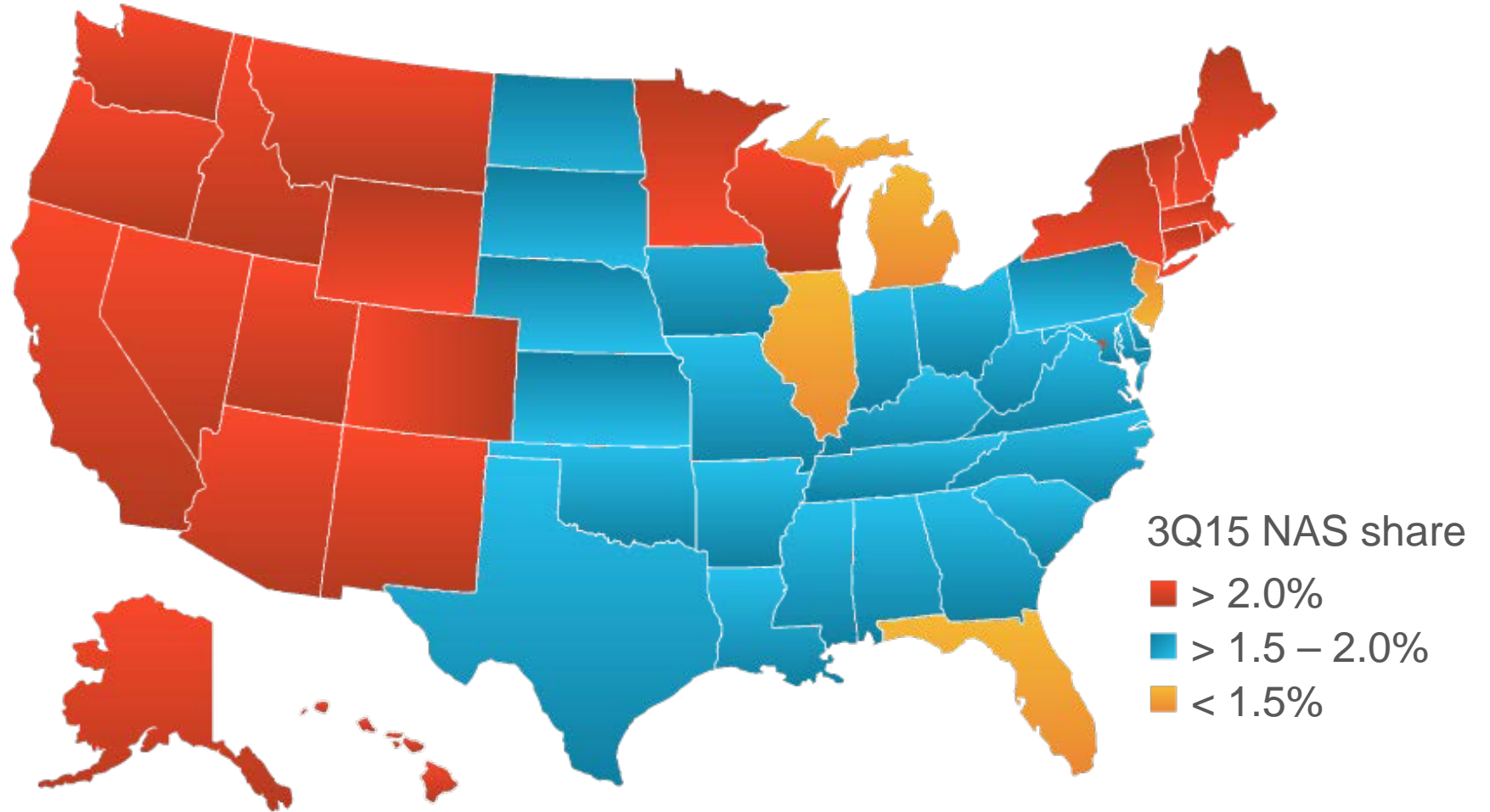
Chicago – 6%

Seattle – 11%

NYC – 8%

San Francisco – 11%

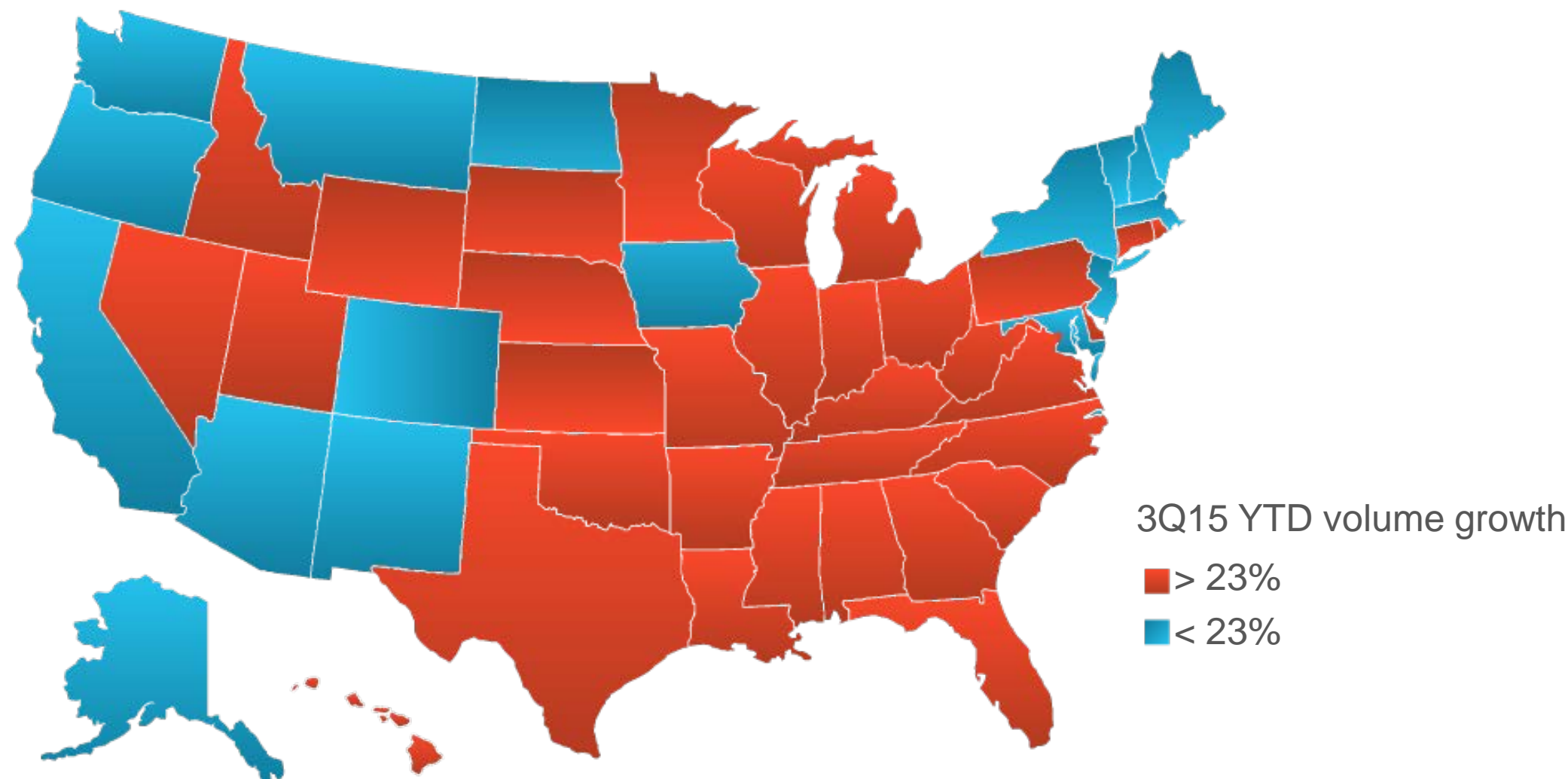
Asheville – 9%



Source: MSA, Inc. shipments to retail



# Growth highest in underdeveloped states



# Differentiated marketing programs



Values-driven

Enhanced retail impact

Increased marketing investment





EST 1899

# PALL MALL

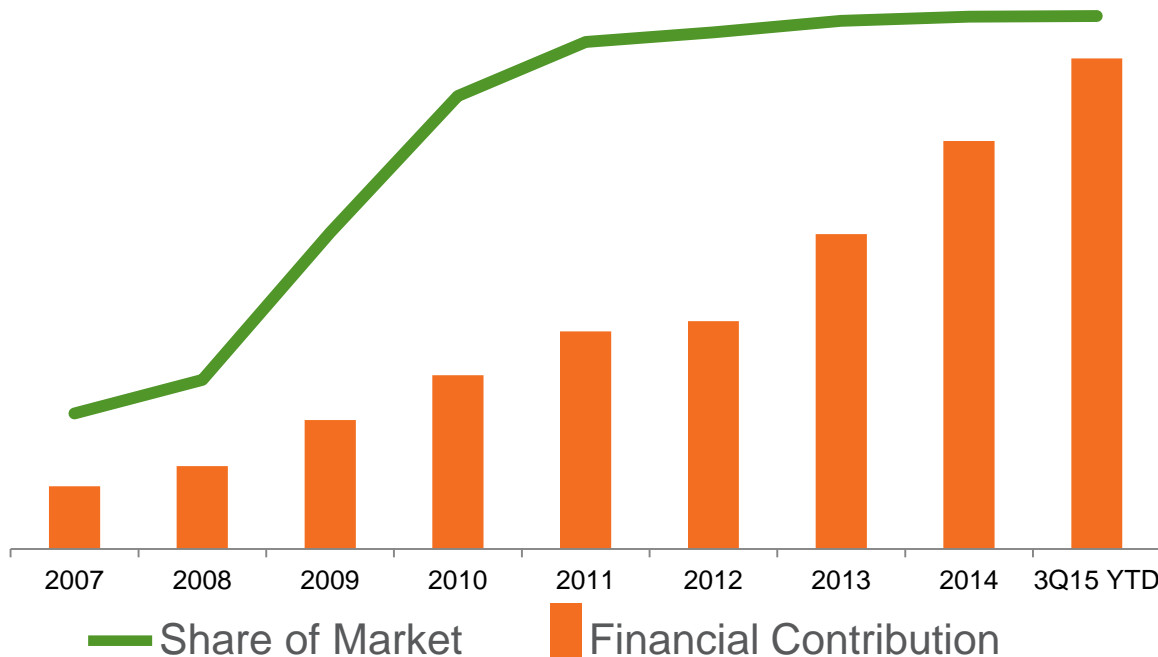
PREMIUM QUALITY TOBACCO



EST 1899



# Pall Mall performance



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



# Grizzly No. 1 brand where it matters

Category Leader

31%



No. 1 in Wintergreen

45%



No. 1 in Pouches

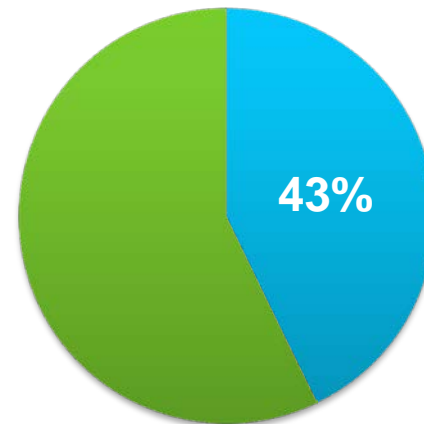
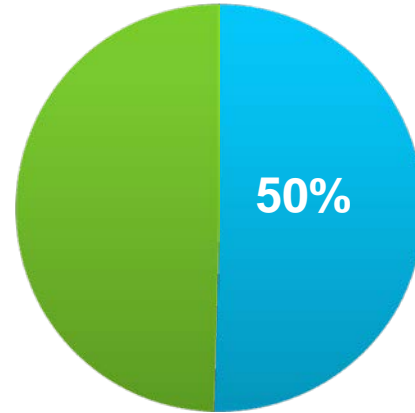
45%



# Industry-leading consumer dynamics



Key competitor



Buyer profile

■ ATO35

■ ATU35

ATU30 index to share

106

82



# Innovative products driving growth



- Dark family
  - Extends Wintergreen leadership
  - 3.0 share of market
- Big Can promotion
  - ATC excitement drove 4 million page views at [MyGrizzly.com](http://MyGrizzly.com)

# Engaging equity programs



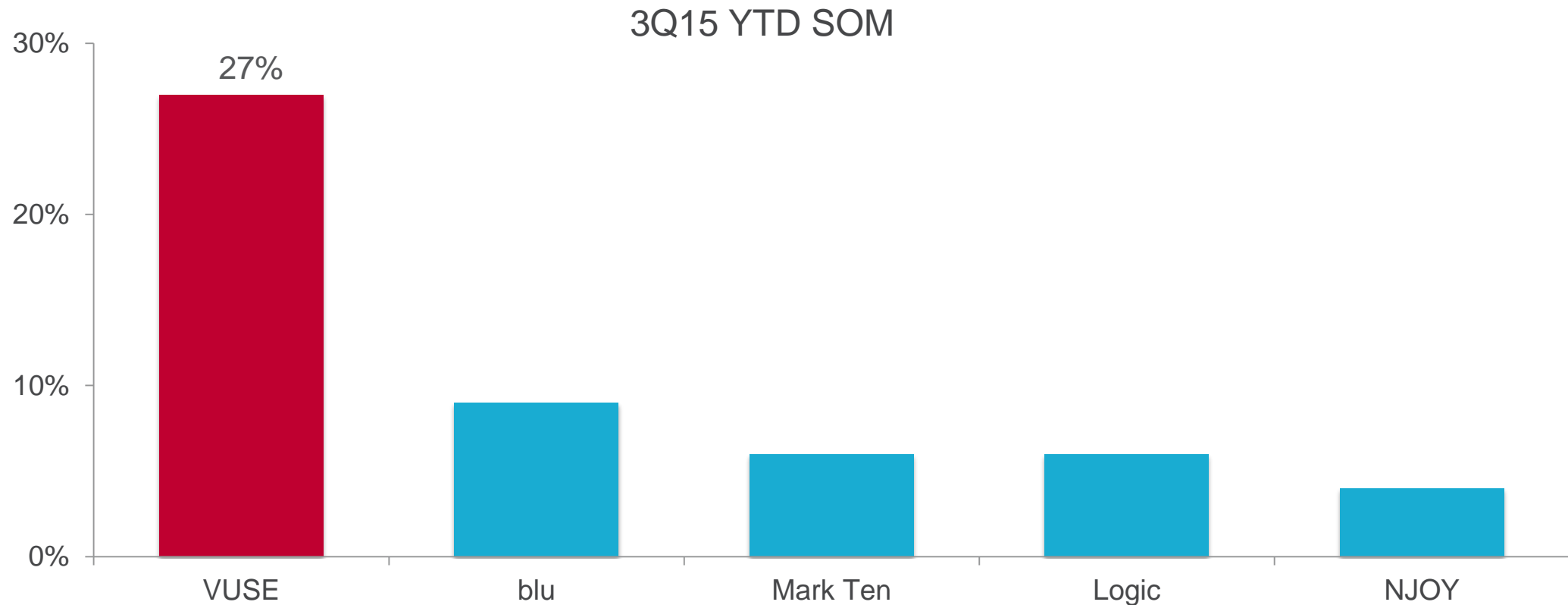
- Aspirational promotions
- Seasonal packaging
- Relevant cause marketing



DIGITAL VAPOR CIGARETTE



# VUSE expanding market leadership



Source: MSA, Inc. shipments to retail, traditional retail outlets.



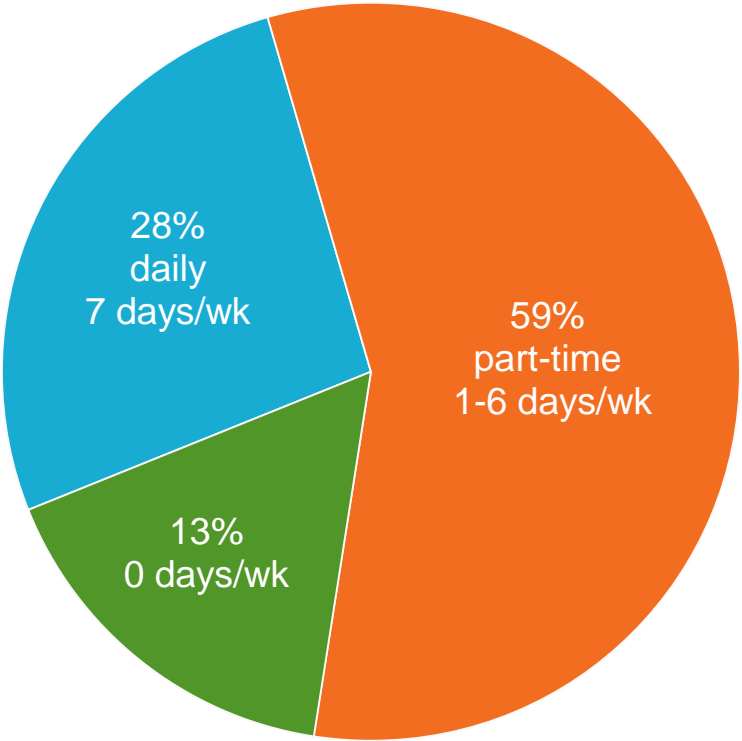
# Added styles increasing consumer appeal



# Innovation essential for category growth

Adult Smokers 21+	2012	2013	2014
Trial - Vapor	37%	49%	58%
Loyal (Vapor Only)	3%	5%	6%

Usage of Vapor Products



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

# VUSE Port – refillable v-liquid system



# VUSE innovations



**VUSE Pro**



**VUSE Connect**



**VUSE Fob**

# VUSE summary










Market leadership

Flavors expansion

Continuous innovation

# Portfolio summary

	<b>#1</b> Menthol Brand		<b>#1</b> Value Brand
	The Leading Innovative Total Tobacco Brand		<b>#1</b> Moist Snuff Brand
	<b>#1</b> Super Premium		<b>#1</b> Vapor Brand
	<b>#1</b> SNUS Brand		





# Closing comments

Susan Cameron



2015

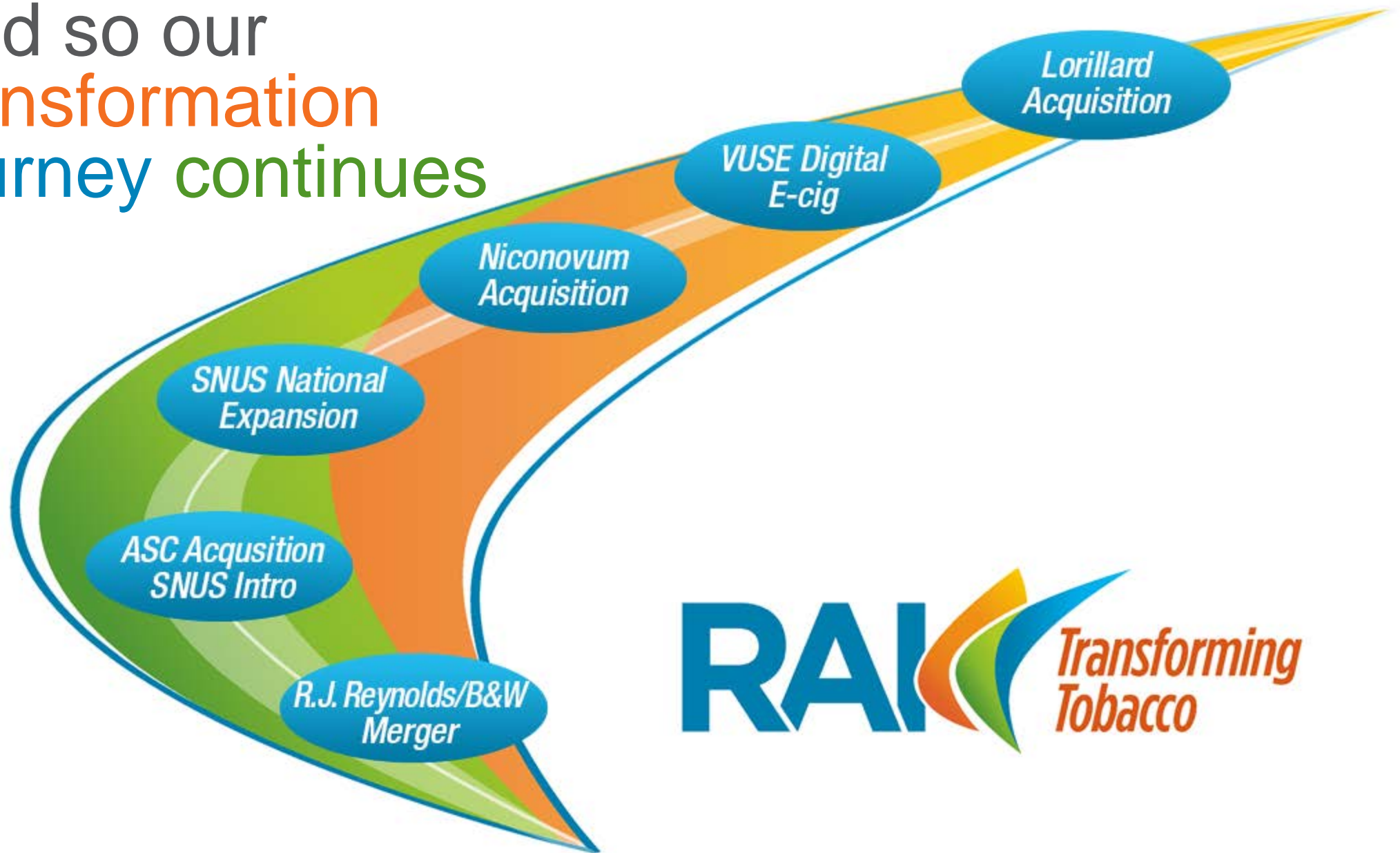
Bringing  
the vision to life

Now a bigger business, stronger competitor

Bold, innovative, driving change in our industry

Leader in key growth categories

And so our  
**transformation**  
journey continues



## 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.

	<u>2004<sup>1,2</sup></u>	<u>2005<sup>2</sup></u>	<u>2006<sup>2</sup></u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	3Q YTD <u>2015</u>
<b>GAAP Operating Income:</b>	\$882	\$1,459	\$1,930	\$2,418	\$567	\$1,763	\$2,432	\$2,399	\$2,214	\$3,132	\$2,531	\$6,263
The GAAP results include the following 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										
Implementation costs							60	23		24	16	197
Scott lawsuit								139				
Engle progeny lawsuits								64	37	18	100	125
Other tobacco-related litigation charges									5	34	2	19
Asset impairment and exit charges							38					99
Gain on divestiture												(3,506)
One-time benefit from NPM Partial Settlement										(219)	(34)	(70)
Transaction-related costs											38	54
MTM pension/postretirement adjustment	—	—	—	(43)	1,527	49	110	145	329	—	—	—
Total adjustments	<u>588</u>	<u>387</u>	<u>127</u>	<u>22</u>	<u>1,935</u>	<u>672</u>	<u>240</u>	<u>419</u>	<u>649</u>	<u>(111)</u>	<u>574</u>	<u>(3,082)</u>
<b>Adjusted operating income</b>	\$1,470	\$1,846	\$2,057	\$2,440	\$2,502	\$2,435	\$2,672	\$2,818	\$2,863	\$3,021	\$3,105	\$3,181
Net income per diluted share:												
Reported GAAP	\$0.69	\$0.89	\$1.03	\$1.18	\$0.38	\$0.82	\$0.96	\$1.20	\$1.12	\$1.57	\$1.37	\$2.45
Non-GAAP adjusted	\$0.83	\$0.98	\$1.02	\$1.19	\$1.20	\$1.32	\$1.32	\$1.41	\$1.49	\$1.59	\$1.71	\$1.50
Net Sales	\$8,323	\$8,256	\$8,510	\$9,023	\$8,845	\$8,419	\$8,551	\$8,541	\$8,304	\$8,236	\$8,471	\$7,621
Operating margins:												
GAAP	10.6%	17.7%	22.7%	26.8%	6.4%	20.9%	28.4%	28.1%	26.7%	38.0%	29.9%	82.2%
Adjusted	17.7%	22.4%	24.2%	27.0%	28.3%	28.9%	31.2%	33.0%	34.5%	36.6%	36.7%	41.7%

(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.

## Appendix 2

**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.

	Nine Months Ended September 30,					
	2015			2014		
	Operating Income	Net Income	Diluted EPS	Operating Income	Net Income	Diluted EPS
<b>GAAP results</b>	\$ 6,263	\$ 2,974	\$ 2.45	\$ 2,238	\$ 1,322	\$ 1.23
The GAAP results include the following:						
Gain on divestiture	(3,506)	(1,473)	(1.21)	-	-	-
2003 NPM adjustment claim	(70)	(43)	(0.03)	-	-	-
One-time benefit from the NPM Partial Settlement	-	-	-	(34)	(21)	(0.02)
Implementation costs	197	125	0.10	12	8	0.01
Gain on discontinued operations	-	-	-	-	(25)	(0.02)
<i>Engle</i> Progeny cases	125	79	0.06	84	53	0.05
Tobacco-related and other litigation	2	1	-	9	6	0.01
Transaction-related costs	54	43	0.04	23	18	0.01
Asset impairment and exit charges	99	63	0.05	-	-	-
Financing costs	-	38	0.03	-	9	0.01
Total adjustments	(3,082)	(1,157)	(0.95)	87	43	0.04
<b>Adjusted results</b>	<u>\$ 3,181</u>	<u>\$ 1,817</u>	<u>\$ 1.50</u>	<u>\$ 2,325</u>	<u>\$ 1,365</u>	<u>\$ 1.27</u>