

[Reynolds American Inc.](#) (NYSE: RAI) is the parent company of [R.J. Reynolds Tobacco Company](#); [American Snuff Company, LLC](#); [Santa Fe Natural Tobacco Company, Inc.](#); and [Niconovum AB](#). R.J. Reynolds Tobacco Company is the second-largest U.S. tobacco company. The company's brands include many of the best-selling U.S. cigarette brands: Camel, Pall Mall, Winston, Kool, Doral and Salem. American Snuff Company, LLC is the nation's second-largest manufacturer of smokeless tobacco products. Its leading brands are Grizzly, Kodiak, and Levi Garrett. Santa Fe Natural Tobacco Company, Inc. manufactures Natural American Spirit cigarettes and other additive-free tobacco products, and manages and markets other super-premium brands. Niconovum AB markets innovative nicotine replacement therapy products under the Zonnic brand name in Sweden and Denmark. Copies of RAI's news releases, annual reports, SEC filings and other financial materials are available at www.ReynoldsAmerican.com.

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The Company at a Glance

Reynolds American Inc.

Reynolds American Inc. (NYSE: RAI) became a public company on July 30, 2004, following completion of a business transaction that combined the No. 2 and No. 3 U.S. tobacco companies, R.J. Reynolds Tobacco Company (RJR Tobacco) and the U.S. operations of Brown & Williamson Tobacco Corp. (B&W), under the Reynolds Tobacco name. At that time, R.J. Reynolds Tobacco Holdings, Inc. (NYSE: RJR), became a wholly owned subsidiary of Reynolds American - and RJR shareholders received one share of Reynolds American stock for every share of RJR stock they tendered. Since the time RAI stock began trading, former RJR Holdings shareholders have owned approximately 58 percent of the new company, and approximately 42 percent has been held by British American Tobacco p.l.c., through its Brown & Williamson subsidiary. Full integration of the operations of RJR Tobacco and B&W was completed in 2006. At the time of the business combination, RAI also purchased Lane, Limited from British American Tobacco. Reynolds American acquired Conwood, the second-largest U.S. smokeless tobacco company, in May 2006 (Conwood's name was changed Jan. 1, 2010 to American Snuff Company, LLC). Reynolds American acquired Niconovum AB, a Swedish-based nicotine replacement therapy company, in December 2009.

For more information about the 2004 business combination, [click here](#).

[Click here](#) to view the prospectus that was sent to RJR shareholders to solicit their approval of these combination transactions.

- **Corporate Structure:** Reynolds American Inc. is the parent company of [R.J. Reynolds Tobacco Company](#) (R.J. Reynolds; R.J. Reynolds Tobacco; Reynolds Tobacco; RJR Tobacco or RJRT), [American Snuff Company, LLC](#) (American Snuff Co.), [Santa Fe Natural Tobacco Company, Inc.](#) (Santa Fe; SFNTC) and [Niconovum AB](#) (Niconovum).
- **Listing:** New York Stock Exchange

Reynolds American Inc. common stock began trading on the New York Stock Exchange on Aug. 2, 2004.
- **Ticker symbol:** RAI
- **Shares outstanding:** Approximately 582,911,836 million (Sept. 30, 2011)
- **Current Annualized Dividend:** \$2.12 per share ([click here for more information](#))
- **Litigation:** Some of Reynolds American Inc.'s subsidiaries are a party to a variety of litigation matters, ranging from business and commercial cases to employee benefit cases. One or more of RAI's subsidiaries are also named in some tobacco-related litigation.

For more information about tobacco litigation, please select a link below:

- [Click here](#) to view the prospectus that was sent to RJR shareholders to solicit their approval of the combination transactions. See the section called "Reynolds American Business – Litigation Affecting the Cigarette Industry."
- [Click here](#) to view RAI's latest Annual Report on Form 10-K filed with the SEC through the EDGAR database. See the section called "Litigation Affecting the Cigarette Industry."
- [Click here](#) to view RAI's latest Quarterly Report on Form 10-Q filed with the SEC through the EDGAR database. See the section called "Legal Proceedings."

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Financial Highlights

RAI reports higher 3Q11 adjusted earnings, tightens full-year guidance and increases dividend

On Oct. 25, 2011, in its [Third-Quarter 2011 Earnings Release](#) Reynolds American announced third-quarter 2011 adjusted EPS of \$0.70, up 2.9 percent from the prior-year quarter as higher pricing and productivity improvements more than offset cigarette volume declines. Adjusted results exclude a charge of \$0.07 per share for accruals for four *Engle* progeny lawsuits and implementation and integration costs. Third-quarter reported EPS was \$0.63, down 3.1 percent.

For the first nine months of 2011, adjusted EPS was \$1.96, up 3.7 percent, while reported EPS was \$1.75, up 26.8 percent. Nine-month adjusted results exclude the above items as well as the charge for the *Scott* lawsuit, tax items, and 2010 charges for health-care changes and Canadian governments' settlements. Both third-quarter and nine-month earnings results reflect the impact of the sale of Lane, Limited earlier this year.

RAI tightened its 2011 adjusted EPS guidance to a range of \$2.63 to \$2.68. This guidance excludes charges related to the *Scott* lawsuit, the accruals for four Engle progeny lawsuits, implementation and integration costs, and tax items.

GAAP Balance Sheet Highlights (as of Sept. 30, 2011)

Cash and short-term investments:	\$2.0 billion
Debt:	\$3.2 billion
Equity:	\$6.7 billion

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Company History

- **Reynolds American Inc. (RAI)** became the parent company of [R.J. Reynolds Tobacco Company](#), [Santa Fe Natural Tobacco Company, Inc.](#) and Lane Limited on July 30, 2004, following completion of a business transaction that combined the No. 2 and No. 3 U.S. tobacco companies, R.J. Reynolds Tobacco Company and the U.S. operations of Brown & Williamson Tobacco Corp., under the Reynolds Tobacco name. At that time, R.J. Reynolds Tobacco Holdings, Inc., became a wholly owned subsidiary of Reynolds American. RAI began trading on the New York Stock Exchange under the ticker symbol RAI on Aug. 2, 2004.
- **R.J. Reynolds Tobacco Company was founded in 1875**, when 25-year-old Richard Joshua Reynolds started a chewing-tobacco manufacturing operation in the town of Winston, N.C. (Winston would later merge with the nearby village of Salem, creating the city known today as Winston-Salem.)

Although the town of Winston had only a few hundred residents and no paved roads, Mr. Reynolds saw two potential keys to business success: Winston was a production center for flue-cured tobacco leaf, and the town sat on a newly built railroad line.

Mr. Reynolds was the sixth of 16 children, and a Virginia native. He was

a hands-on manager, who personally selected "recipes" and packaging for his products, and knew virtually every employee by name. He was instrumental in getting roads built in the town, helped establish a savings bank, and served as a city commissioner. He and his wife supported numerous educational and human-service efforts in the community.

Someone once said about Mr. Reynolds, "He can see further ahead than most people can see behind them." Having started a chewing-tobacco business, he correctly anticipated the growth in popularity of smoking tobaccos - and introduced pipe tobaccos supported by memorable advertising campaigns. He then went on to revolutionize U.S. cigarette blends, marketing and packaging.

In 1912, Mr. Reynolds devised an employee stock plan. It's been said that he feared Wall Street like he feared the devil - and he wanted as much voting stock as possible in the hands of his employees. He used a profit-sharing formula that paid shareholders an extra dividend - and would make many RJRT employees very "comfortable" in the years ahead.

- Around the same time, in the late 1870s, Brown Brothers Tobacco Manufacturing Co. was the largest tobacco company in nearby Mocksville, N.C. It was operated by George Brown and his brother, Rufus, who were sons of a tobacco merchant. In 1893, George Brown formed a new partnership with his brother-in-law, Robert Williamson, whose father owned two tobacco factories. One of these factories was located in the same town as Mr. Reynolds' factory, the town of Winston, and the other one was in Caswell County, N.C. Initially, the partnership took over Robert's father's business. Then the new company, **Brown & Williamson**, leased a small facility, hired 30 employees, and **began manufacturing in February 1894**.
- **In 1913, Reynolds Tobacco introduced Camel cigarettes**, containing a blend of several different types of tobacco - a blend that would come to be called "the American blend." Supported by a unique introductory "teaser" advertising campaign, Camel became the first nationally popular cigarette in the United States.
- **Reynolds Tobacco established virtually every packaging standard in the U.S. cigarette industry.** The 20-cigarette pack was introduced by Reynolds Tobacco in 1913, and in 1915 the company introduced the one-piece, 10-pack carton. In 1931, Reynolds Tobacco became the first company to package its cigarettes with a moisture-proof, sealed cellophane outerwrap to preserve freshness.
- In 1918, **Richard Joshua Reynolds** - Reynolds Tobacco's founder - **died at the age of 68**.
- In 1925, Brown & Williamson purchased J.G. Flynt Tobacco Co. and its trademarks, including the popular **Sir Walter Raleigh** smoking tobacco.

The following year, the company bought R.P. Richardson Company, which had just started to market manufactured cigarettes.

- **On March 24, 1927**, in Winston-Salem, an announcement was made that **Brown & Williamson was being acquired by London-based British American Tobacco p.l.c. (BAT) and reorganized as Brown & Williamson Tobacco Corporation**. This enabled the company to increase its production capacity and expand its distribution beyond the Southeast.
- To expand its manufacturing capacity, construction began on a **new Brown & Williamson factory in Louisville, Ky., in 1927**. The company's Winston-Salem office personnel relocated to Louisville in January 1929, and in 1931, the company's executive offices in New York also moved to Louisville.
- Meanwhile, B&W's first national brand, **Raleigh**, was launched as a premium cigarette in 1928.
- In 1933, B&W launched **KOOL** cigarettes, the first U.S. menthol brand to gain nationwide distribution.
- In 1936, B&W introduced **Viceroy** as the industry's first cork-tipped filter product. In 1952, B&W began marketing Viceroy with a new "cellulose acetate" filter.
- In 1954, Reynolds Tobacco introduced **Winston** - the first filter cigarette to achieve a major success in the marketplace.
- Reynolds Tobacco introduced **Salem** - the first filter-tipped menthol cigarette, in 1956.
- The **Belair** menthol brand was launched nationally by B&W in 1960.
- The **Doral** brand was first introduced by Reynolds Tobacco in 1969. (It was repositioned and re-introduced in 1984.)
- **Santa Fe Natural Tobacco Company, Inc.**, maker of Natural American Spirit additive-free tobacco products, was founded in Santa Fe, N.M., in 1982 with the purpose of producing high-quality, natural, additive-free cigarettes and other tobacco products.
- B&W introduced **Barclay** in 1980, as an ultra-low "tar" product featuring an "Actron" filter. In 1984, B&W acquired the marketing rights for **GPC**. In 1987, B&W introduced **Capri**, a stylish cigarette with a circumference of only 17 millimeters, the first "superslim" cigarette.
- **Reynolds Tobacco began diversifying** into foods and other non-tobacco businesses in the 1960s. In 1970, the corporation formed a new parent company called **R.J. Reynolds Industries, Inc.**

- In September 1985, Reynolds Industries acquired Nabisco Brands. In 1986, the parent company was re-named **RJR Nabisco, Inc.**
- In November 1988, **RJR Nabisco entered a merger agreement with Kohlberg Kravis Roberts & Co. (KKR)** for the acquisition of RJR Nabisco by KKR. The merger was completed in April 1989. The acquisition was valued at \$25 billion, marking the largest corporate transaction in history at that time. After being privately held for a period, the company's common stock returned to the stock market in 1991. In early 1995, KKR divested its remaining holdings in RJR Nabisco.
- As a result of BAT's acquisition of American Tobacco Company in 1994, the **Carlton, Pall Mall, Misty, Tareyton** and **Lucky Strike** brands were added to the B&W brand family, as those operations were integrated into B&W in 1995.
- Prior to 1999, RJR was a subsidiary of RJR Nabisco Holdings Corp. (RJRN). In 1999, following **the sale of the company's international tobacco business to Japan Tobacco, Inc.**, the remaining tobacco and food businesses were separated, and RJRN was renamed Nabisco Group Holdings Corp. (NGH).
- **On June 15, 1999, the former parent company, RJR Nabisco, Inc., was renamed R.J. Reynolds Tobacco Holdings, Inc., and became an independent, publicly traded company again, with R.J. Reynolds Tobacco Company as its wholly owned subsidiary.** The separation was accomplished through a spin-off of the domestic tobacco business, on a tax-free basis in the United States, to RJR Nabisco's stockholders. In a stock distribution on June 14, 1999, RJR Nabisco stockholders of record as of May 27, 1999, received one share of RJR for every three shares of RJR Nabisco they owned.
- During the 1990s, totally separate and apart from its cigarette business, R.J. Reynolds Tobacco Company began designing, synthesizing and testing a portfolio of nicotinic compounds that might have therapeutic potential. These compounds have the potential to treat the symptoms, and possibly arrest the progress, of various diseases that have been shown to respond to nicotine and other compounds that have effects similar to those of nicotine.

Targacept, Inc. was spun off from R.J. Reynolds Tobacco Company as a private, independent company in August 2000. Today, Targacept is a privately held company dedicated to the discovery and development of therapeutic products that interact with nicotinic receptors in the human nervous system with the potential to treat Alzheimer's disease, Parkinson's disease, depression, pain, schizophrenia, ulcerative colitis, obesity, anxiety, Lewy body dementia and Tourette's syndrome, among others. Reynolds American continues to own a minority interest in Targacept

For further information about Targacept, Inc., please visit their Web site at www.Targacept.com.

- **On Dec. 11, 2000, R.J. Reynolds Tobacco Holdings, Inc. acquired its former parent company, Nabisco Group Holdings Corp., in a transaction that netted RJR \$1.6 billion in cash.**
- In 2001 in Indianapolis, B&W began testing **Advance Lights**, a cigarette with reduced levels of many of the principal toxins found in cigarette smoke.
- **On Jan. 16, 2002, R.J. Reynolds Tobacco Holdings, Inc. acquired Santa Fe Natural Tobacco Company, Inc.** for \$340 million in cash. Santa Fe Natural Tobacco Company, Inc. manufactures Natural American Spirit cigarettes and other tobacco products, and markets them both nationally and internationally.
- **On July 16, 2002, R.J. Reynolds Tobacco Holdings, Inc. and Gallaher Group Plc entered into a joint venture** to manufacture and market a limited portfolio of American-blend cigarette brands, initially in four markets - France, Spain, the Canary Islands and Italy. The joint venture company, R.J. Reynolds-Gallaher International Sarl, is headquartered in Switzerland. It has since expanded into additional markets.
- **On Oct. 27, 2003, R.J. Reynolds Tobacco Holdings, Inc. and British American Tobacco p.l.c.** announced that they had signed an agreement to combine the U.S. assets and operations of R.J. Reynolds Tobacco Company and Brown & Williamson Tobacco Corporation, the second- and third-largest tobacco companies in the United States.
- **On July 30, 2004**, following approval by RJR shareholders and U.S. and European regulatory authorities, **Reynolds American Inc. became the parent company of R.J. Reynolds Tobacco Company, Santa Fe Natural Tobacco Company and Lane Limited.** On a combined 2003 basis, the company would have had annual revenues of approximately \$8.4 billion, annual U.S. domestic cigarette volume of 119 billion units, and more than 30 percent of the cigarette sales in the United States. Full integration of the operations of RJR Tobacco and B&W is expected to take 18 to 24 months after completion of the transaction and to yield at least \$500 million in synergies.
- **On April 25, 2006, RAI announced that it would acquire Conwood, the second-largest smokeless tobacco manufacturer in the United States, for \$3.5 billion. (Conwood changed its name Jan. 1, 2010 to American Snuff Company, LLC – see later item)** The purchase will be financed with \$300 million in cash and \$3.2 billion in new debt. Conwood has the No. 1 or No. 2 position in every smokeless category, and it has been the growth leader in the moist snuff category, where it has built a 23 percent share of market. The moist snuff category itself has been growing at an annual rate of 4 percent to 5

percent for the past five years. This acquisition provides RAI with an opportunity to gain immediate scale and strength in the growing moist snuff category -an important and significant platform that would have taken years to build. For more information about this acquisition, [click here to see the April 25, 2006 Conwood press release](#).

- **On May 31, 2006, RAI completed its acquisition of Conwood**, the second-largest U.S. smokeless tobacco company. (See preceding item.) For more information about the completion of this acquisition, [click here to see the May 31, 2006 Conwood press release](#).
- **On Nov. 24, 2009, Conwood announced it would change its name to American Snuff Company, LLC, effective Jan. 1, 2010.** For more information, [click here to see the Nov. 24, 2009 press release](#).
- **On Dec. 2, 2009, RAI announced it would acquire Nicovum AB, a Swedish developer of nicotine replacement therapy products, for 310 million Swedish kronor, or approximately \$44 million.** Nicovum markets innovative nicotine replacement therapy (NRT) products under the Zonic brand name in Sweden and Denmark. Its nicotine gum, mouth spray and pouches use proprietary technology for nicotine delivery. For more information, [click here to see the Dec. 2, 2009 RAI press release](#).
- **On Dec. 9, 2009, RAI completed its acquisition of Nicovum AB, a Swedish-based nicotine replacement therapy company.** For more information, [click here for the Dec. 9, 2009 RAI press release](#).
- **On Oct. 15, 2010, RAI announced a dividend increase, a two-for-one stock split and the 2011 retirement of CEO Susan Ivey.** For more information, [click here for the Oct. 15, 2010 RAI press release](#)
- **On Dec. 6, 2010, RAI announced an increase to its dividend payout policy.** For more information, [click here for the Dec. 6, 2010 RAI press release](#)
- **On Jan. 14, 2011, RAI announced it had reached an agreement to sell Lane, Limited to Scandinavian Tobacco Group A/S.** For more information, [click here for the Jan. 14, 2011 RAI press release](#)
- **On Feb. 16, 2011, RAI's board of directors announced an 8.2 percent dividend increase, bringing the dividend in line with the 80 percent dividend payout target that the company announced in December.** For more information, [click here for the Feb. 16, 2011 RAI press release](#)
- **On March 1, 2011, RAI announced it had completed the sale of Lane, Limited to Scandinavian Tobacco Group A/S.** For more information, [click here for the March 1, 2011 RAI press release](#)
- **On Oct. 25, 2011, RAI announced a 5.7 percent, or \$0.03 per share, increase in its dividend to an annualized \$2.24 per share, payable**

on Jan. 3, 2012, to shareholders of record on Dec. 9, 2011. For more information, [click here for the Oct. 25, 2011 RAI press release](#)

RISK FACTORS

Statements included in this news release that are not historical in nature are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements regarding future events or the future performance or results of RAI and its subsidiaries inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. These risks and uncertainties include:

These risks and uncertainties include:

- the substantial and increasing taxation and regulation of tobacco products, including the 2009 federal excise-tax increases, and the regulation of tobacco products by the U.S. Food and Drug Administration (FDA);
- the possibility that the FDA will issue a regulation prohibiting menthol as a flavor in cigarettes or prohibit mint or wintergreen as a flavor in smokeless tobacco products;
- decreased sales resulting from the future issuance of “corrective communications” required by the order in the *U.S. Department of Justice* case on five subjects, including smoking and health and addiction;
- various legal actions, proceedings and claims relating to the sale, distribution, manufacture, development, advertising, marketing and claimed health effects of tobacco products that are pending or may be instituted against RAI or its subsidiaries;
- the potential difficulty of obtaining bonds as a result of litigation outcomes and the challenges to the Florida bond statute applicable to the *Engle* Progeny cases;
- the substantial payment obligations with respect to cigarette sales, and the substantial limitations on the advertising and marketing of cigarettes (and of R.J. Reynolds’ smoke-free tobacco products) under the State Settlement Agreements;
- the continuing decline in volume in the U.S. cigarette industry and RAI’s dependence on the U.S. cigarette industry;
- concentration of a material amount of sales with a single customer or distributor;
- competition from other manufacturers, including industry consolidations or any new entrants in the marketplace;

- increased promotional activities by competitors, including deep-discount cigarette brands;
- the success or failure of new product innovations and acquisitions;
- the responsiveness of both the trade and consumers to new products, marketing strategies and promotional programs;
- the ability to achieve efficiencies in the businesses of RAI's operating companies, including outsourcing functions and expansion of R.J. Reynolds' field trade-marketing organization, without negatively affecting financial or operating results;
- the reliance on a limited number of suppliers for certain raw materials;
- the cost of tobacco leaf and other raw materials and other commodities used in products;
- the effect of market conditions on interest-rate risk, foreign currency exchange-rate risk and the return on corporate cash;
- changes in the financial position or strength of lenders participating in RAI's credit facility;
- the impairment of goodwill and other intangible assets, including trademarks;
- the effect of market conditions on the performance of pension assets or any adverse effects of any new legislation or regulations changing pension expense accounting or required pension funding levels;
- the substantial amount of RAI debt;
- the credit rating of RAI and its securities;
- any restrictive covenants imposed under RAI's debt agreements;
- the possibility of natural or man-made disasters or other disruptions that may adversely affect manufacturing and other facilities;
- the significant ownership interest of Brown & Williamson Holdings, Inc., RAI's largest shareholder, in RAI and the rights of B&W under the governance agreement between the companies; and
- the expiration of the standstill provisions of the governance agreement.

Due to these risks and uncertainties, you are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this news release. 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.

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