

March 2009

My Fellow Shareholders:

I am pleased to report that Reynolds American and its operating companies posted solid results in 2008. This demonstrates our resilience, and the power of our strategies and resources to deliver profitable growth, even in the face of a rapidly changing economic and competitive climate.

A 2.3 percent increase in net income, to \$1.3 billion, contributed to reported EPS of \$4.57, up 3.2 percent from the previous year. On an adjusted basis, after accounting for impairment, restructuring and other charges, earnings of \$4.80 per share were 5 percent higher than 2007. Those results reflect the underlying strength of our operating companies, and the benefits of our total-tobacco business model and growth strategy.

In 2008, Reynolds American and its operating companies further enhanced their growth platforms and made great strides in preparing for the challenges that lie ahead. Last year's reorganizations at RAI and R.J. Reynolds have made our businesses more nimble and efficient, while sharpening our focus on innovations that will drive profitable growth by meeting the changing desires of adults who enjoy tobacco.

All of the changes that RAI's operating companies have undergone during the past few years — the hard work to develop new products, processes and programs, and the talents of our people — have put us in a position to successfully compete in today's tobacco environment.

As social and economic pressures continue to transform the tobacco industry, our total-tobacco structure and strategy position us well to offer adult smokers alternative tobacco products within the Reynolds American family as they migrate to other forms of tobacco. 2009 will present additional challenges, but it will also present opportunities for businesses like ours that offer a broad range of tobacco products.

At R.J. Reynolds, 2008 was very much a year of preparing for the challenges and opportunities ahead, with productivity and pricing improvements more than offsetting lower cigarette volumes. R.J. Reynolds refined its portfolio strategy, further eliminating low-margin and non-core styles to reduce complexity. It also reclassified Kool to a support brand and shifted focus to Camel's menthol brands as the company's key driver in the growing menthol category.

The company's two growth brands – Camel and Pall Mall – increased their share of the U.S. cigarette market by 0.8 share points, ending 2008 with a combined market share of 10.7 percent.

Camel's performance was boosted by the highly successful launch of Camel Crush, which uses innovative technology developed by R.J. Reynolds to offer adult smokers the option of regular or menthol with each cigarette.

Another of the company's innovations, Camel Snus, performed well in 2008, as it continued to lead the development of the modern smoke-free tobacco category in the United States. Camel Snus, a smoke-free, spitless tobacco product, was expanded to major metropolitan markets across the country last year and was made available nationally in the first quarter of 2009.

Camel Dissolvables — a new line of smoke-free products designed to fully dissolve in the mouth — is another Camel innovation that was unveiled in 2008. Camel Sticks, Strips and Orbs are being launched in lead markets this year.

At Conwood, 2008 saw outstanding results, with strong gains in volume, share, profits and margins. The company continued to demonstrate its power as the growth leader in a tobacco category that grew more than 7 percent last year.

Grizzly, Conwood's flagship brand, captured half of all category growth in 2008 and ended the year as the nation's best-selling moist-snuff brand. Grizzly's full-year share of shipments was 23.3 percent, up 2.2 percentage points from 2007. Contributing to that strong performance was the highly successful launch of two new styles — Grizzly Snuff and Grizzly Wintergreen Pouches.

Our Santa Fe Natural Tobacco subsidiary also had a very successful year, with its super-premium Natural American Spirit brand delivering double-digit volume growth both domestically and internationally.

As you can see from their performance in 2008, our operating companies and their key brands provide a strong foundation for RAI's continued success.

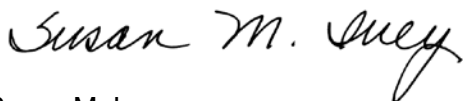
I'm also pleased to report to shareholders that RAI's strength was recognized and further enhanced in 2008, with credit-rating agencies upgrading RAI's credit to investment grade.

In addition, RAI's sustainability efforts were recognized, with membership awarded in the 2008-2009 Dow Jones Sustainability North America Index.

RAI remains committed to returning shareholder value. The company bought back \$207 million of its shares in 2008, while maintaining its commitment to return approximately 75 percent of net income to RAI shareholders.

In summary, 2008 was another successful year for Reynolds American and its operating companies. We continued to enhance our total-tobacco structure and strategy — and our solid performance confirms my confidence that we have the products, platforms, programs and passion to meet the challenges, and seize the opportunities, that lie ahead in 2009 and beyond.

Sincerely

A handwritten signature in cursive script that reads "Susan M. Ivey". The signature is written in black ink and is positioned above the printed name.

Susan M. Ivey