

REYNOLDS AMERICAN INC.

Consolidated Financial Statements

December 31, 2022 and 2021

(With Independent Auditors' Report Thereon)

REYNOLDS AMERICAN INC.
Consolidated Financial Statements

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KPMG LLP
Suite 1000
620 S. Tryon Street
Charlotte, North Carolina 28202-1842

Independent Auditors' Report

The Board of Directors
Reynolds American Inc.:

Opinion

We have audited the consolidated financial statements of Reynolds American Inc. and its subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.



In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

KPMG LLP

Charlotte, North Carolina
February 15, 2023

REYNOLDS AMERICAN INC.
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in Millions)

	For the Years Ended December 31,	
	2022	2021
Net sales ⁽¹⁾	\$ 15,583	\$ 16,043
Net sales, related party	37	63
Net sales	15,620	16,106
Costs and expenses:		
Cost of products sold ⁽¹⁾	5,032	5,592
Selling, general and administrative expenses	2,006	2,068
Amortization expense	91	86
Asset impairment charges	95	—
Operating income	8,396	8,360
Interest and debt expense	429	428
Interest expense, related party	187	167
Interest income, related party	(40)	—
Net periodic benefit income, excluding service cost	(263)	(211)
Other expense, net	4	10
Other expense, related party	50	37
Income before income taxes	8,029	7,929
Provision for income taxes	1,923	1,887
Net income	\$ 6,106	\$ 6,042

⁽¹⁾ Excludes excise taxes of \$2,973 million and \$3,517 million for the years ended December 31, 2022 and 2021, respectively.

See Notes to Consolidated Financial Statements

REYNOLDS AMERICAN INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in Millions)

	For the Years Ended December 31,	
	2022	2021
Net income	\$ 6,106	\$ 6,042
Other comprehensive (loss) income, net of tax (benefit) expense:		
Retirement benefits, net of tax (benefit) expense:		
(2022 — \$(14); 2021 — \$42)	(46)	134
Comprehensive income	\$ 6,060	\$ 6,176

See Notes to Consolidated Financial Statements

REYNOLDS AMERICAN INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Millions)

	For the Years Ended December 31,	
	2022	2021
Cash flows from (used in) operating activities:		
Net income	\$ 6,106	\$ 6,042
Adjustments to reconcile to net cash flows from operating activities:		
Depreciation and amortization expense	216	213
Asset impairment charges	95	—
Deferred income tax expense	10	25
Other changes that provided (used) cash:		
Accounts and other receivables	(47)	38
Inventories	149	38
Related party, net	12	50
Accounts payable	(130)	161
Accrued liabilities, including other working capital	202	(8)
Income taxes	87	119
Tobacco settlement accruals	(179)	(323)
Pension and postretirement	(314)	(262)
Other, net	29	64
Net cash flows from operating activities	6,236	6,157
Cash flows from (used in) investing activities:		
Capital expenditures	(114)	(157)
Proceeds from sale of subsidiary	—	73
Proceeds from sale of intangibles	—	19
Amounts due from related party – cash management agreements	(998)	(597)
Acquisition of intangibles	—	(32)
Other, net	6	8
Net cash flows used in investing activities	(1,106)	(686)
Cash flows from (used in) financing activities:		
Dividends paid on common stock	(5,717)	(5,281)
Borrowings under notes payable to related party	872	—
Repayments of notes payable to related party	(246)	(151)
Other, net	(38)	(39)
Net cash flows used in financing activities	(5,129)	(5,471)
Net change in cash	1	—
Cash at beginning of year	—	—
Cash at end of year	\$ 1	\$ —
Income taxes paid, net of refunds	\$ 1,615	\$ 1,543
Income taxes paid to parent	\$ 210	\$ 158
Interest paid	\$ 427	\$ 427

See Notes to Consolidated Financial Statements

REYNOLDS AMERICAN INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in Millions)

	As of December 31,	
	2022	2021
Assets		
Current assets:		
Cash	\$ 1	\$ —
Accounts receivable	70	25
Accounts receivable, related party	32	32
Other receivables	14	12
Inventories	1,114	1,263
Amounts due from related party – cash management agreements	4,506	3,468
Other current assets	175	179
Total current assets	<u>5,912</u>	<u>4,979</u>
Property, plant and equipment, net	1,404	1,475
Trademarks and other intangible assets, net of accumulated amortization	29,312	29,411
Goodwill	15,977	15,977
Long-term deferred income taxes	26	32
Pension assets	682	627
Other assets and deferred charges	86	101
Total assets	<u>\$ 53,399</u>	<u>\$ 52,602</u>
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	\$ 415	\$ 545
Tobacco settlement accruals	2,637	2,816
Due to related party	130	118
Current maturities of long-term debt	614	8
Notes and interest payable to related party	161	247
Other current liabilities	1,687	1,408
Total current liabilities	<u>5,644</u>	<u>5,142</u>
Long-term debt (less current maturities)	7,315	7,869
Long-term deferred income taxes	6,258	6,269
Long-term retirement benefits (less current portion)	605	802
Long-term notes payable to related party	4,927	4,216
Other noncurrent liabilities	341	330
Commitments and contingencies		
Shareholders' equity:		
Common stock (shares issued: 2022 and 2021 — 1,426,125,631)	—	—
Paid-in capital	18,316	18,324
Retained earnings	9,941	9,552
Accumulated other comprehensive income	52	98
Total shareholders' equity	<u>28,309</u>	<u>27,974</u>
Total liabilities and shareholders' equity	<u>\$ 53,399</u>	<u>\$ 52,602</u>

See Notes to Consolidated Financial Statements

REYNOLDS AMERICAN INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Dollars in Millions, Except Per Share Amounts)

	Common Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2020	\$ —	\$ 18,329	\$ 8,791	\$ (36)	\$ 27,084
Net income	—	—	6,042	—	6,042
Retirement benefits, net of \$42 tax expense	—	—	—	134	134
Dividends — \$3.70 per share	—	—	(5,281)	—	(5,281)
Stock-based compensation	—	(5)	—	—	(5)
Balance at December 31, 2021	—	18,324	9,552	98	27,974
Net income	—	—	6,106	—	6,106
Retirement benefits, net of \$14 tax benefit	—	—	—	(46)	(46)
Dividends — \$4.01 per share	—	—	(5,717)	—	(5,717)
Stock-based compensation	—	(8)	—	—	(8)
Balance at December 31, 2022	\$ —	\$ 18,316	\$ 9,941	\$ 52	\$ 28,309

See Notes to Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Business and Summary of Significant Accounting Policies

Overview

The consolidated financial statements include the accounts of Reynolds American Inc., referred to as RAI, and its wholly owned subsidiaries. RAI's wholly owned operating subsidiaries include R. J. Reynolds Tobacco Company; Santa Fe Natural Tobacco Company, Inc., referred to as SFNTC; American Snuff Company, LLC, referred to as American Snuff Co.; R. J. Reynolds Vapor Company, referred to as RJRV and Modoral Brands Inc., referred to as MBI.

On January 16, 2017, RAI, British American Tobacco p.l.c., referred to as BAT, BATUS Holdings Inc., an indirect, wholly owned subsidiary of BAT referred to as BHI, and Flight Acquisition Corporation, an indirect, wholly owned subsidiary of BAT, referred to as Merger Sub, entered into an Agreement and Plan of Merger, as it and the plan of merger contained therein were amended on June 8, 2017, referred to as the Merger Agreement, pursuant to which Merger Sub merged with and into RAI, referred to as the BAT Merger, with RAI surviving as an indirect, wholly owned subsidiary of BAT. Pursuant to the terms of the Merger Agreement, the BAT Merger was completed on July 25, 2017.

RAI elected not to apply pushdown accounting in its separate consolidated financial statements upon completion of the BAT Merger.

RAI was incorporated as a holding company in the State of North Carolina in 2004. RAI was created to facilitate the business combination of the United States, referred to as U.S., business of Brown & Williamson Holdings, Inc., referred to as B&W, an indirect wholly owned subsidiary of BAT, with R. J. Reynolds Tobacco Company, a wholly owned subsidiary of R.J. Reynolds Tobacco Holdings, Inc., referred to as RJR, on July 30, 2004, with such combination referred to as the B&W business combination.

References to RJR Tobacco prior to July 30, 2004, relate to R. J. Reynolds Tobacco Company, a New Jersey corporation. References to RJR Tobacco on and subsequent to July 30, 2004 and until June 12, 2015, relate to the combined U.S. assets, liabilities and operations of B&W and R. J. Reynolds Tobacco Company. Concurrent with the completion of the B&W business combination, RJR Tobacco became a North Carolina corporation. References to RJR Tobacco on and subsequent to June 12, 2015, relate to R. J. Reynolds Tobacco Company, a North Carolina corporation, and reflect the effects of (1) RAI's acquisition, referred to as the Lorillard Merger, on June 12, 2015, of Lorillard, Inc., n/k/a Lorillard LLC, referred to as Lorillard, and (2) the divestiture on June 12, 2015, referred to as the Divestiture, of certain assets including the brands WINSTON, SALEM, KOOL and MAVERICK, referred to as the Acquired Brands by subsidiaries or affiliates of RAI and Lorillard, together with the transfer of certain employees and certain liabilities, to a wholly owned subsidiary of Imperial Brands PLC. Additionally on June 12, 2015, shortly after the completion of the Lorillard Merger, Lorillard Tobacco Company, LLC, a wholly owned subsidiary of Lorillard, referred to as Lorillard Tobacco, merged with and into RJR Tobacco, with RJR Tobacco continuing as the surviving entity, referred to as the Lorillard Tobacco Merger.

Nature of Operations

RAI's primary operating subsidiaries are RJR Tobacco, SFNTC, American Snuff Co. and RJRV. RAI's operating subsidiaries conduct substantially all of their business in the U.S. and its territories.

RAI's largest operating subsidiary, RJR Tobacco, is the second largest tobacco company in the U.S. Its brands include three of the top four best-selling cigarettes in the U.S.: NEWPORT, CAMEL and PALL MALL. These brands, together with its other brands, including LUCKY STRIKE, DORAL, MISTY and CAPRI, are manufactured in a variety of styles and marketed in the U.S. As part of its total tobacco strategy, RJR Tobacco also offers a smoke-free tobacco product, CAMEL Snus. RJR Tobacco manages the export of tobacco products to U.S. territories, U.S. duty-free shops and U.S. overseas military bases. RJR Tobacco also manages the premium brands, DUNHILL and STATE EXPRESS 555, which are licensed from BAT. For additional information regarding related parties, see Note 11.

SFNTC manufactures and markets premium cigarettes and other tobacco products under the NATURAL AMERICAN SPIRIT brand in the U.S.

American Snuff Co. is the second largest smokeless tobacco products manufacturer in the U.S. American Snuff Co.'s primary brands include its largest selling moist snuff brands, GRIZZLY and KODIAK.

RJRV is the largest vapor company in the U.S. RJRV manufactures and markets e-cigarettes, e-pods and e-liquids under the VUSE brand name. Other operating subsidiaries include MBI that markets modern oral products under the VELO brand name. These subsidiaries operate in the U.S.

During 2021, RAI sold Kentucky BioProcessing, Inc., referred to as KBP, to an affiliated subsidiary of BAT. KBP was engaged in the business of development of products based on plant-made proteins including vaccines and other drug therapies. RAI received proceeds of approximately \$73 million. Prior to the sale of KBP shares, KBP assigned certain intellectual property rights to the same entity for \$19 million. Accordingly, KBP's financial results for 2021 through the date of the sale are included in the RAI consolidated results.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

Major U.S. Customers and Foreign Sales

Sales to McLane Company, Inc., a distributor, constituted approximately 22% of RAI's consolidated net sales in 2022 and 21% in 2021. Sales to Core-Mark International, Inc., a distributor, represented approximately 15% of RAI's consolidated net sales in 2022 and 22% in 2021. McLane Company, Inc. and Core-Mark International, Inc. are customers of RJR Tobacco, SFNTC, American Snuff Co., RJRV and MBI. No other customer accounted for 10% or more of RAI's consolidated net sales during those periods.

Sales by RAI's operating subsidiaries to foreign countries, primarily to related parties, for the years ended December 31, 2022 and 2021 were \$37 million and \$63 million, respectively.

Revenue Recognition

On January 1, 2018, RAI adopted Accounting Standards Codification, referred to as ASC, 606, *Revenue from Contracts with Customers*. RAI's operating subsidiaries recognize revenue when they have satisfied their performance obligation under the contract, which occurs at a point in time, by shipment of their product to the customer. At this point, the customer obtains control of the product and ownership of such product and risk of loss transfers to the customer. Revenue is measured as the amount of consideration the RAI operating subsidiary expects to receive in exchange for shipping its product, which includes variable consideration such as estimates of customer sales incentives and trade promotional allowances.

RAI's operating subsidiaries generally receive payment either in advance of the shipment of product to the customer or on the date of expected delivery of product to the customer. When payment from the customer is received prior to the shipment of the product, recognition of revenue is deferred until the product is shipped and the RAI operating subsidiary's performance obligation is satisfied, generally within two days of receiving the payment. For product shipments where payment is not received in advance, amounts due from the customer are billed on shipment date and are included in accounts receivable on the consolidated balance sheets.

For further discussion on revenue recognition, refer to Note 10.

Basis of Presentation

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, referred to as GAAP, requires estimates and assumptions to be made that affect the reported amounts in the consolidated financial statements and accompanying notes. Volatile credit and equity markets, changes to regulatory and legal environments, and consumer spending may affect the uncertainty inherent in such estimates and assumptions. Actual results could materially differ from those estimates. All material intercompany balances have been eliminated.

Certain reclassifications were made to conform the prior year's financial statements to the current presentation. Certain amounts presented in Note 7 are rounded in the aggregate and may not sum from the individually presented components. All dollar amounts, other than per share amounts, are presented in millions, except for amounts set forth in Note 7 and as otherwise noted.

Leases

On January 1, 2019, RAI adopted ASC 842, *Leases*, using the prospective transition method. RAI did not reassess whether any expired or existing contracts contain a lease, the classification of leases or the initial direct costs. The adoption of ASC 842 did not have a material effect on RAI's consolidated financial statements. RAI has operating leases primarily for automobiles, office space, warehouse space and certain machinery and equipment. RAI has finance leases for certain machinery and equipment. A contract contains a lease if the contract conveys a right to control the use of the identified asset for a period of time in exchange for consideration. Operating leases are included in other assets and deferred charges and other current liabilities and other noncurrent liabilities in the consolidated balance sheets. Finance leases are included in property, plant and equipment, current maturities of long-term debt and long-term debt in the consolidated balance sheets. Lease payments for leases with an original term less than one year that do not contain renewal options which are reasonably certain to renew are recognized on a straight-line basis over the lease term and variable payments are recognized in the period in which the obligation is incurred.

Right-of-use assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the leases. Operating and finance lease assets and liabilities are recognized at the commencement date based on the present value of lease payments over the lease term. RAI uses an implicit interest rate in determining the present value of lease payments when readily determinable, and a collateralized incremental borrowing rate when an implicit rate is not available. Lease terms consider options to extend or terminate based on the determination of whether the exercise of such renewal or termination options are deemed reasonably certain. Rent expense on operating leases is generally recorded using the straight-line method over the appropriate lease terms.

Lease agreements that contain non-lease components are generally accounted for as a single lease component. Variable costs, such as maintenance expenses, property and sales taxes and index-based rate increases, are expensed as they are incurred.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

Cash

Cash balances are recorded net of book overdrafts when a bank right-of-offset exists. All other book overdrafts are recorded in accounts payable.

Fair Value Measurement

RAI's reporting entity determines the fair value of assets and liabilities using a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity and the reporting entity's own assumptions about market participant assumptions based on the best information available in the circumstances.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, essentially an exit price.

The levels of the fair value hierarchy are:

Level 1: inputs are quoted prices, unadjusted, in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. A Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: inputs are unobservable and reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

RAI sponsors a number of non-contributory defined benefit pension plans covering certain employees of RAI and its subsidiaries, and invests in debt, equity and other securities and investments, that are carried at fair value, to fund payments required by those retirement obligations. For additional information regarding the fair value of these plan assets, see Note 9.

Inventories

Inventories, other than those accounted for under the last-in, first-out, or LIFO, method are stated at the lower of cost or net realizable value. Inventories accounted for under the LIFO method are stated at the lower of cost or market. The cost of RJR Tobacco's leaf tobacco inventories is determined principally under LIFO and is calculated at the end of each year. The cost of work in process and finished goods includes materials, direct labor, variable costs and overhead and full absorption of fixed manufacturing overhead. Stocks of tobacco, which have an operating cycle that exceeds twelve months due to aging requirements, are classified as current assets, consistent with recognized industry practice. The remaining inventories not valued under LIFO are valued under the first-in, first-out method.

Long-lived Assets

Long-lived assets, such as property, plant and equipment, goodwill, trademarks and other intangible assets, are reviewed for impairment whenever events or changes in circumstances indicate that the book value of the asset may not be recoverable. Impairment of the carrying value of long-lived assets would be indicated if the best estimate of future undiscounted cash flows expected to be generated by the asset grouping is less than its carrying value. If an impairment is indicated, any loss is measured as the difference between estimated fair value and carrying value and is recognized as an operating expense.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the assets. Useful lives range from 20 to 50 years for buildings and improvements, and from 3 to 30 years for machinery and equipment. The cost and related accumulated depreciation of assets sold or retired are removed from the accounts and the gain or loss on disposition is recognized in operating income. Depreciation expense was \$125 million and \$127 million for the years ended December 31, 2022 and 2021, respectively.

For the year ended December 31, 2022, RAI recorded \$95 million in asset impairment charges related to the announced closure of certain facilities in the consolidated statements of income. These charges relate to impairments of the carrying value of certain machinery, equipment, and manufacturing sites based on future cash flows and appraised values.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

The components of property, plant and equipment at December 31 were as follows:

	2022	2021
Property, plant and equipment, at cost:		
Land and land improvements	\$ 86	\$ 91
Buildings and leasehold improvements	703	730
Machinery and equipment	2,310	2,364
Construction-in-process	213	149
Total property, plant and equipment	3,312	3,334
Accumulated depreciation	(1,908)	(1,859)
Property, plant and equipment, net	\$ 1,404	\$ 1,475

Intangible Assets

Intangible assets include goodwill, trademarks and other intangible assets and are capitalized when acquired. The determination of fair value involves considerable estimates and judgment. In particular, the fair value of a reporting unit involves, among other things, developing forecasts of future cash flows, determining an appropriate discount rate, and when goodwill impairment is implied, determining the fair value of individual assets and liabilities, including unrecorded intangibles. Goodwill, trademarks and other intangible assets with indefinite lives are not amortized, but are tested for impairment annually, in the fourth quarter, and more frequently if events and circumstances indicate that the asset might be impaired. Trademarks and other intangible assets with finite lives, which are amortized using the straight-line method over their remaining useful lives of 1 to 15 years, consistent with the pattern of economic benefits estimated to be received, are tested for impairment if events and circumstances indicate that the asset is impaired.

Although RAI believes it has based its impairment testing of its intangible assets on reasonable estimates and assumptions, the use of different estimates and assumptions could result in materially different results.

On April 28, 2022, the Food and Drug Administration, referred to as the FDA, announced a proposed product standard to prohibit menthol as a characterizing flavor in cigarettes, consistent with their previously stated timeline. Further to this, on June 21, 2022, the FDA announced plans to develop a proposed product standard that would establish a maximum nicotine level in cigarettes and certain other combustible tobacco products to reduce addictiveness. Management notes these proposals do not constitute a ban on menthol or restrict nicotine levels in cigarettes given the proposed standards are still required to go through the established U.S. comprehensive rule-making process, the timetable and outcome for which was, and remains, uncertain. In December 2022, the sale of most tobacco products with characterizing flavors (including menthol) other than tobacco were banned in the state of California. The impact the FDA proposed product standards as well as the California Menthol ban do not present an indicator of a potential impairment for RAI goodwill or any of the indefinite-lived intangibles.

If the current legal and regulatory environment, business or competitive climate worsens, or RAI's operating companies' strategic initiatives adversely affect their financial performance, the fair value of goodwill, trademarks and other intangible assets could be impaired in future periods.

Cost of Products Sold

RJR Tobacco, as an original participating manufacturer, and SFNTC, as a subsequent participating manufacturer, are participants in the Master Settlement Agreement, referred to as the MSA, and RJR Tobacco is a participant in the other state settlement agreements with the states of Mississippi, Florida, Texas and Minnesota, which together with the MSA are collectively referred to as the State Settlement Agreements. RJR Tobacco's and SFNTC's obligations and the related expense charges under these agreements are subject to adjustments based upon, among other things, the volume of cigarettes sold by the operating subsidiaries, their relative market share, their operating profit and inflation. Since relative market share is based on cigarette shipments, the best estimate of the allocation of charges to RJR Tobacco and SFNTC under these agreements is recorded in cost of products sold as the products are shipped. Included in these adjustments is the MSA non-participating manufacturer adjustment, referred to as the NPM Adjustment, that potentially reduces the annual payment obligation of RJR Tobacco, SFNTC and other participating manufacturers, referred to as the PMs. Adjustments to these estimates are recorded in the period that the change becomes probable and the amount can be reasonably estimated. American Snuff Co. is not a participant in the State Settlement Agreements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

Cost of products sold includes, among other expenses, the expenses for the State Settlement Agreements, and the user fees charged by the FDA. These expenses were as follows for the years ended December 31:

	<u>2022</u>	<u>2021</u>
State Settlement Agreements	\$ 2,951	\$ 3,420
FDA user fees	186	196

In 2012, RJR Tobacco, Lorillard Tobacco, SFNTC and certain other PMs, entered into a term sheet, referred to as the Term Sheet, with 17 states, the District of Columbia and Puerto Rico to settle certain claims related to the NPM Adjustment. The Term Sheet resolved claims related to volume years from 2003 through 2012 and puts in place a revised method to determine future adjustments from 2013 forward. In 2013 and 2014, five additional states joined the Term Sheet, including two states that were found to not have diligently enforced their qualifying statutes in 2003. An additional two states joined the Term Sheet in 2017.

During 2017, the NPM Adjustment Settlement Agreement, referred to as NPM Agreement, a formal agreement incorporating the terms and provisions of the Term Sheet, was executed by the PMs and the states that previously joined the Term Sheet. With execution of the agreement, the PMs and the states settled the 2015 volume year. An additional ten states joined the NPM Agreement in 2018 and one additional state joined in 2022. The parties to the NPM Agreement represent an allocable share of 67.18%. In 2018, the NPM Agreement signatory states and PMs agreed to settle the 2016 and 2017 volume years and in 2020, the NPM Agreement signatory states and PMs agreed to settle 2018 through 2022 volume years.

As a result of meeting the performance requirements associated with the NPM Agreement, RJR Tobacco and SFNTC, collectively, recognized credits of \$171 million and \$165 million for the years ended December 31, 2022 and 2021, respectively.

In October 2015, RJR Tobacco, SFNTC and certain other PMs entered into a settlement agreement, referred to as the NY Settlement Agreement, with the State of New York to settle certain claims related to the NPM Adjustment. The NY Settlement Agreement resolved NPM Adjustment claims related to payment years from 2004 through 2014 and put in place a new method to determine future adjustments from 2015 forward as to New York.

In 2022, RJR Tobacco recognized \$37 million in additional expenses within cost of products sold related to a settlement with Philip Morris USA, Inc, referred to as PM USA, resolving prior operating profit disputes under the MSA related to the Acquired Brands.

For additional information related to the NPM Adjustment settlement, see “— Litigation Affecting the Cigarette Industry — State Settlement Agreements — Enforcement and Validity; Adjustments” in Note 7. For additional information related to the resolution of claims related to the State Settlement Agreements in the states of Mississippi, Florida, Texas and Minnesota, see “— Litigation Affecting the Cigarette Industry — State Settlement Agreements — Enforcement and Validity; Adjustments” in Note 7.

Advertising

Advertising costs, which are expensed as incurred, were \$78 million and \$178 million for the years ended December 31, 2022 and 2021, respectively.

Research and Development

Research and development costs, which are expensed as incurred, were \$53 million and \$101 million for the years ended December 31, 2022 and 2021, respectively.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Interest and penalties related to uncertain tax positions are accounted for as tax expense.

For federal income tax purposes, RAI’s results are included in the consolidated U.S. federal income tax return of BHI. For state income tax purposes RAI’s results are included in 29 combined state income tax returns that include members of the consolidated U.S. federal income tax return of BHI. For financial reporting purposes, RAI’s current and deferred income taxes are calculated using the separate return method. All current and deferred tax expense and current and deferred tax liabilities are calculated as if RAI files separate federal and state income tax returns that exclude the income, deductions and tax attributes of BHI.

RAI accounts for uncertain tax positions which require that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not (a likelihood of more than 50%) that the position would be sustained upon

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement.

The Tax Cuts and Jobs Act, referred to as the Tax Reform Act, requires a U.S. shareholder of any controlled foreign corporations, referred to as CFC, to include in taxable income its pro rata share of global intangible low-taxed income, referred to as GILTI. GILTI is considered the excess of the shareholder's net CFC tested income over the shareholder's net deemed tangible income return. This amount is further reduced by a 50 percent special deduction and foreign tax credits. Although RAI does not expect to have a GILTI inclusion for the foreseeable future, management has made a policy election to treat GILTI income, if applicable, as a current period tax expense.

Stock-Based Compensation

Stock-based compensation expense is recognized for all forms of share-based payment awards, including BAT American Depository shares issued to employees under restricted stock units.

Litigation

RAI discloses information concerning litigation for which an unfavorable outcome is more than remote. RAI and its subsidiaries record their legal expenses and other litigation costs and related administrative costs as selling, general and administrative expenses as these costs are incurred. RAI and its subsidiaries will record any loss related to litigation at such time as an unfavorable outcome becomes probable and the amount can be reasonably estimated on an individual case-by-case basis. When the reasonable estimate is a range, the recorded loss will be the best estimate within the range. If no amount in the range is a better estimate than any other amount, the minimum amount of the range will be recorded. For additional information related to litigation, see Note 7.

Pension and Postretirement

Pension and postretirement benefits require balance sheet recognition of the net asset for the overfunded status or net liability for the underfunded status of defined benefit pension and postretirement benefit plans, on a plan-by-plan basis, and recognition of changes in the funded status in the year in which the changes occur.

Actuarial (gains) losses are changes in the amount of either the benefit obligation or the fair value of plan assets resulting from experience different from that assumed or from changes in assumptions. Differences between actual results and actuarial assumptions are accumulated and recognized as a mark-to-market adjustment, referred to as an MTM adjustment, to the extent such accumulated net (gains) losses exceed 10% of the greater of the fair value of plan assets or benefit obligations, referred to as the corridor. Net (gains) losses outside the corridor are generally recognized annually as of December 31, or when a plan is remeasured during an interim period.

Prior service costs (credits) of pension benefits, which are changes in benefit obligations due to plan amendments, are amortized on a straight-line basis over the average remaining service period for active employees, or average remaining life expectancies for inactive employees if most of the plan obligations are due to inactive employees. Prior service costs (credits) of postretirement benefits, which are changes in benefit obligations due to plan amendments, are amortized on a straight-line basis over the expected service period to full eligibility age for active employees, or average remaining life expectancies for inactive employees if most of the plan obligations are due to inactive employees.

Subsequent Events

Subsequent events have been evaluated through February 15, 2023, the date the financial statements were issued. Aside from the matters disclosed in Note 7 and the dividends of \$1.517 billion declared on January 3, 2023 and paid on January 5, 2023, RAI has determined that there are no other items to disclose.

Recently Adopted Accounting Pronouncements

Effective January 1, 2022, RAI adopted the following new accounting standard:

- In March 2020, the Financial Accounting Standards Board, referred to as FASB, issued ASU No. 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting* and in January 2021 issued ASU No. 2021-01, *Reference Rate Reform (Topic 848): Scope*. This guidance provides temporary optional expedients and exceptions to existing guidance on contract modifications and hedge accounting to facilitate the market transition from existing reference rates, such as the London Interbank Offered Rate, referred to as LIBOR, which was phased out beginning at the end of 2021, to alternate reference rates, such as a secured overnight reference rate. These standards were effective upon issuance and allowed application to contract changes as early as January 1, 2020. Beginning December 1, 2021, the Secured Overnight Financing Rate, referred to as SOFR, was used as the reference rate. The amended guidance did not have a material impact on RAI's results of operations, cash flows and financial position.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

Recently Issued Accounting Pronouncements

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326)*, which replaces the current incurred loss impairment methodology for recognizing credit losses for financial instruments with a methodology that reflects expected credit losses and requires consideration for a broader range of reasonable and supportable information for estimating credit losses. The amended guidance is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. The amended guidance is not expected to have a material impact on RAI’s results of operations, cash flows and financial position.

In September 2022, the FASB issued ASU No. 2022-04, *Liabilities-Supplier Finance Programs (Subtopic 405-50): Disclosure of Supplier Finance Program Obligations*. This guidance enhances the transparency about the use of supplier finance programs for investors and other allocators of capital. This ASU is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2022, except for the pending content in paragraph 405-50-50-3(b)(2), which shall be effective for fiscal years beginning after December 15, 2023. The guidance is not expected to have a material impact on RAI’s results of operations, cash flows and financial position.

Note 2 — Intangible Assets

The carrying amounts of goodwill is as follows:

Balance as of December 31, 2022 and 2021	\$ 15,977
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The carrying amounts of indefinite-lived intangibles were as follows:

	<u>Trademarks</u>	<u>Other</u>
Balance as of December 31, 2022 and 2021	\$ 28,848	\$ 36

The changes in the carrying amounts of finite-lived intangible assets subject to amortization were as follows:

	<u>Trademarks</u>	<u>Other</u>
Balance as of December 31, 2020	\$ 209	\$ 372
Acquisitions	—	32
Amortization	(16)	(70)
Balance as of December 31, 2021	193	334
Amortization	(15)	(76)
Other	—	(8)
Balance as of December 31, 2022	\$ 178	\$ 250

Details of finite-lived intangible assets at December 31 were as follows:

	<u>2022</u>			<u>2021</u>		
	<u>Gross</u>	<u>Accumulated Amortization</u>	<u>Net</u>	<u>Gross</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Trademarks	\$ 380	\$ (202)	\$ 178	\$ 380	\$ (187)	\$ 193
Customer Lists	240	(91)	149	240	(79)	161
Other intangibles	297	(196)	101	305	(132)	173
	<u>\$ 917</u>	<u>\$ (489)</u>	<u>\$ 428</u>	<u>\$ 925</u>	<u>\$ (398)</u>	<u>\$ 527</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

The remaining annual amortization expense associated with finite-lived intangible assets is expected to be as follows:

<u>Year</u>	<u>Amount</u>
2023	\$ 79
2024	61
2025	30
2026	29
2027	24
Thereafter	<u>205</u>
	<u>\$ 428</u>

During 2020, MBI entered into an asset purchase agreement with Dryft Sciences, LLC, to acquire certain manufacturing equipment, recipes and manufacturing knowledge for nicotine pouch products and the rights to certain trademarks. In 2022, there was an \$8 million adjustment to the cost basis of these intangibles.

During 2021, certain subsidiaries of RAI acquired intellectual property rights to certain patented technology related to the vapor space. The purchases were made for \$32 million in aggregate.

The impairment testing of trademarks in the fourth quarters of 2022 and 2021 assumed a rate of decline in projected net sales of certain brands, comparable with that assumed in RAI's strategic plan. The fair value of trademarks used in impairment testing was determined by an income approach using a discounted cash flow valuation model under a relief-from-royalty methodology. The relief-from-royalty model includes estimates of a royalty rate that a market participant might assume, projected revenues and judgment regarding the discount rate applied to those estimated cash flows, with that discount rate varying by brand between 6.75% and 7.10% during 2022 and 6.5% and 7.25% for all brands during 2021. The determination of the discount rates was based on a weighted average cost of capital. As a result of these analyses, an impairment charge is recognized if the carrying value of a trademark exceeds its estimated fair value. No impairment charges were recognized in 2022 or 2021 for trademarks.

For the annual impairment testing of the goodwill of RAI's reporting units, each reporting unit's estimated fair value was compared with its carrying value. A reporting unit is an operating segment or one level below an operating segment. The determination of estimated fair value of each reporting unit was calculated primarily utilizing an income approach model, based on the present value of the estimated future cash flows of the reporting unit assuming a discount rate during 2022 of 6.90% for all reporting units and during 2021 of 6.25% for all reporting units. The determination of the discount rate was based on a weighted average cost of capital. No impairment charges were recognized in 2022 or 2021 for the RJR Tobacco, American Snuff Co. or SFNTC reporting units.

Note 3 — Inventories

The major components of inventories at December 31 were as follows:

	<u>2022</u>	<u>2021</u>
Leaf tobacco	\$ 898	\$ 902
Other raw materials	69	65
Work in process	90	80
Finished products	230	364
Other	<u>10</u>	<u>11</u>
Total	1,297	1,422
LIFO allowance	<u>(183)</u>	<u>(159)</u>
	<u>\$ 1,114</u>	<u>\$ 1,263</u>

Inventories valued under the LIFO method were \$393 million and \$407 million at December 31, 2022 and 2021, respectively, net of the LIFO allowance. The LIFO allowance reflects the excess of the current cost of LIFO inventories at December 31, 2022 and 2021, compared with the amount at which these inventories were carried on the consolidated balance sheets. RAI recognized expense of \$24 million and income of \$12 million from LIFO inventory changes during 2022 and 2021, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

Note 4 — Other Current Liabilities

Other current liabilities at December 31 included the following:

	<u>2022</u>	<u>2021</u>
Payroll and employee benefits	\$ 139	\$ 151
Pension and postretirement benefits	68	70
Marketing and advertising	519	382
Excise, franchise and property taxes	129	158
Interest payable	102	103
Income taxes	379	292
Other	351	252
	<u>\$ 1,687</u>	<u>\$ 1,408</u>

Note 5 — Income Taxes

The components of the provision for income taxes for the years ended December 31 were as follows:

	<u>2022</u>	<u>2021</u>
Current:		
Federal	\$ 1,617	\$ 1,510
State and other	296	354
	<u>1,913</u>	<u>1,864</u>
Deferred:		
Federal	10	87
State and other	—	(64)
	<u>10</u>	<u>23</u>
Provision for income taxes	<u>\$ 1,923</u>	<u>\$ 1,887</u>

Significant components of deferred tax assets and liabilities as of December 31 included the following:

	<u>2022</u>	<u>2021</u>
Deferred tax assets:		
Pension and postretirement liabilities	\$ 12	\$ 64
Tobacco settlement accruals	641	692
Other accrued liabilities	93	101
Other noncurrent liabilities	173	144
Subtotal	919	1,001
Less: valuation allowance	(12)	(12)
	<u>907</u>	<u>989</u>
Deferred tax liabilities:		
Inventories	(86)	(99)
Property and equipment	(175)	(215)
Trademarks and other intangibles	(6,860)	(6,893)
Other	(18)	(19)
	<u>(7,139)</u>	<u>(7,226)</u>
Net deferred tax liability	<u>\$ (6,232)</u>	<u>\$ (6,237)</u>

RAI had no federal capital loss carryforwards at December 31, 2022 and 2021, respectively.

As of December 31, 2022 and 2021, a valuation allowance of \$12 million was recorded on deferred tax assets related to a partnership interest and state net operating losses. RAI believes it is more likely than not that these deferred tax assets will not be realized.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

Pre-tax income for domestic and foreign continuing operations for the years ended December 31 consisted of the following:

	<u>2022</u>	<u>2021</u>
Domestic (includes U.S. exports)	\$ 8,029	\$ 7,929

The differences between the provision for income taxes and income taxes computed at statutory U.S. federal income tax rates for the years ended December 31 were as follows:

	<u>2022</u>	<u>2021</u>
Income taxes computed at the statutory U.S. federal income tax rate	\$ 1,686	\$ 1,667
State and local income taxes, net of federal tax benefits	241	188
Other items, net	(4)	32
Provision for income taxes	<u>\$ 1,923</u>	<u>\$ 1,887</u>
Effective tax rate	<u>24.0%</u>	<u>23.8%</u>

The effective tax rate for 2022 and 2021 was impacted by state income taxes and certain nondeductible items, respectively, in each year.

The component of deferred tax benefits included in accumulated other comprehensive income as of December 31 was as follows:

	<u>2022</u>	<u>2021</u>
Retirement benefits	\$ 42	\$ 28

The accruals for gross unrecognized income tax benefits, including interest and penalties, reflected in other noncurrent liabilities as of December 31 were as follows:

	<u>2022</u>	<u>2021</u>
Unrecognized tax benefits	\$ 219	\$ 218
Accrued interest	43	47
Accrued penalties	6	6
	<u>\$ 268</u>	<u>\$ 271</u>

A reconciliation of the gross unrecognized income tax benefits as of December 31 was as follows:

	<u>2022</u>	<u>2021</u>
Balance at beginning of year	\$ 218	\$ 199
Gross increases related to current period tax positions	35	29
Gross increases related to tax positions in prior periods	1	7
Gross decreases related to tax positions in prior periods	(9)	(4)
Gross decreases related to audit settlements	—	—
Gross decreases related to lapse of applicable statute of limitations	(26)	(13)
Balance at end of year	<u>\$ 219</u>	<u>\$ 218</u>

At December 31, 2022, \$212 million of unrecognized income tax benefits including interest and penalties, if recognized, would decrease RAI's effective tax rate.

RAI and its subsidiaries are subject to income taxes in the U.S. and various state and foreign jurisdictions. Several years may elapse before a tax matter, for which RAI has established an accrual, is audited and finally resolved. The number of years with open tax audits varies depending on the tax jurisdiction.

The federal statute of limitations remains open for the year 2019 and forward. State and foreign jurisdictions have statutes of limitations generally ranging from three to five years. Certain of RAI's state tax returns are currently under examination by various states as part of routine audits conducted in the ordinary course of business.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

RAI and its subsidiaries are included in the consolidated U.S. federal income tax return of BHI. For state income tax purposes RAI's results are included in 29 combined state income tax returns that include members of the consolidated U.S. federal income tax return of BHI. For financial reporting purposes, RAI's current and deferred income taxes are calculated using the separate return method. All current and deferred tax expense and current and deferred tax liabilities are calculated as if RAI files separate federal and state income tax returns that exclude the income, deductions and tax attributes of BHI.

Note 6 — Long-Term Debt

Information, including a schedule of maturities, regarding RAI's and RJR Tobacco's long-term debt is provided below:

RAI and RJR Tobacco Long-Term Debt

	For the years ended December 31,	
	2022	2021
RAI		
3.750% notes due 05/20/2023	\$ 30	\$ 30
4.850% notes due 09/15/2023	550	550
4.450% notes due 06/12/2025	2,500	2,500
5.700% notes due 08/15/2035	750	750
7.250% notes due 06/15/2037	450	450
8.125% notes due 05/01/2040	237	237
7.000% notes due 08/04/2041	240	240
4.750% notes due 11/01/2042	173	173
6.150% notes due 09/15/2043	550	550
5.850% notes due 08/15/2045	2,250	2,250
Total principal	<u>7,730</u>	<u>7,730</u>
Fair value adjustments	104	106
Unamortized discounts	(17)	(18)
Unamortized debt issuance costs	(34)	(37)
Total RAI long-term notes at carrying value	<u>\$ 7,783</u>	<u>\$ 7,781</u>
RJR Tobacco		
3.750% notes due 05/20/2023	\$ 19	\$ 19
8.125% notes due 05/01/2040	13	13
7.000% notes due 08/04/2041	9	9
Total principal	<u>41</u>	<u>41</u>
Fair value adjustments	5	5
Total RJR Tobacco long-term notes at carrying value	<u>\$ 46</u>	<u>\$ 46</u>
 Total long-term notes at carrying value	 <u>\$ 7,829</u>	 <u>\$ 7,827</u>

A reconciliation of the components of long-term debt is as follows:

	For the years ended December 31,	
	2022	2021
Total long-term notes at carrying value	\$ 7,829	\$ 7,827
Total finance leases at carrying value	100	50
Total long-term debt at carrying value	<u>7,929</u>	<u>7,877</u>
Less current maturities of long-term notes at carrying value	598	—
Less current maturities of finance leases at carrying value	16	8
Total current maturities of long-term debt	<u>614</u>	<u>8</u>
Total long-term debt (less current maturities) at carrying value	<u>\$ 7,315</u>	<u>\$ 7,869</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

As of December 31, 2022, the maturities of RAI’s and RJR Tobacco’s notes, excluding fair value adjustments and unamortized discounts and debt issuance costs, were as follows:

<u>Year</u>	<u>RAI</u>	<u>RJR Tobacco</u>	<u>Total</u>
2023	\$ 580	\$ 19	\$ 599
2024	—	—	—
2025	2,500	—	2,500
2026	—	—	—
2027	—	—	—
Thereafter	4,650	22	4,672
	<u>\$ 7,730</u>	<u>\$ 41</u>	<u>\$ 7,771</u>

Subsequent to the BAT Merger, RAI terminated the credit agreement entered into in December 2014, referred to as the Credit Agreement, and, in doing so, the related subsidiary guarantees of the Credit Agreement also terminated and were released. The RAI indenture provides that a guarantor that is released from its guarantee of the Credit Agreement (or any successor) also will be released from its guarantee of the RAI notes. Accordingly, in connection with the termination of the Credit Agreement, all of the subsidiary guarantees of the RAI notes were released automatically at the same time. Although RJR’s guarantee of the RAI notes also was released automatically, it was replaced simultaneously by a new guarantee in order to comply with a covenant of the RAI indenture. The guarantees by RAI and RJR of the RJR Tobacco notes were not released.

In addition, BAT extended separate guarantees of the outstanding senior notes of RAI and RJR Tobacco.

Fair Value of Debt

The estimated fair value of RAI’s outstanding consolidated debt, in the aggregate, was \$7.3 billion and \$9.1 billion as of December 31, 2022 and 2021, respectively, with an effective annual interest rate of approximately 5.5% for the years ended December 31, 2022 and 2021. The fair value is derived from a third-party pricing source and is classified in Level 2 of the fair value hierarchy.

Note 7 — Commitments and Contingencies

Tobacco Litigation — General

Introduction

Litigation, claims, and other legal proceedings relating to the use of, exposure to, or purchase of tobacco products and/or e-cigarettes are pending or may be instituted in the future against RJR Tobacco (including as successor by merger to Lorillard Tobacco), American Snuff Co., SFNTC, RJRV, RAI, Lorillard, other RAI affiliates, and indemnitees (including but not limited to B&W), sometimes referred to collectively as Reynolds Defendants. These pending legal proceedings include claims relating to cigarette products manufactured by RJR Tobacco, Lorillard Tobacco, SFNTC or certain of their affiliates or indemnitees, smokeless tobacco products manufactured by American Snuff Co., and e-cigarette products manufactured on behalf of and marketed by RJRV. A discussion of the legal proceedings relating to cigarette products (and e-cigarettes) is set forth below under the heading “— Litigation Affecting the Cigarette Industry.” All of the references under that heading to tobacco-related litigation, smoking and health litigation and other similar references are references to legal proceedings relating to cigarette products or e-cigarettes, as the case may be, and are not references to legal proceedings involving smokeless tobacco products, and case numbers under that heading include only cases involving cigarette products and e-cigarettes. The legal proceedings relating to the smokeless tobacco products manufactured by American Snuff Co. are discussed separately under the heading “— Smokeless Tobacco Litigation” below.

In connection with the B&W business combination, RJR Tobacco undertook certain indemnification obligations with respect to B&W and its affiliates, including its indirect parent, BAT. As a result of the BAT Merger, these indemnification obligations are now intercompany obligations. See “— Litigation Affecting the Cigarette Industry — Overview — Introduction” below. In connection with the Lorillard Merger and the Divestiture, as applicable, RAI and RJR Tobacco undertook certain indemnification obligations. See “— Litigation Affecting the Cigarette Industry — Overview — Introduction,” “— Other Contingencies — ITG Indemnity,” and “— Other Contingencies — Loews Indemnity” below. In addition, in connection with the sale of the international tobacco business to JTI pursuant to the 1999 Purchase Agreement, as well as in connection with the sale of the non-U.S. operations and business of the NATURAL AMERICAN SPIRIT brand, several RAI affiliates and JTI agreed to certain indemnities. See “— Other Contingencies — JTI Indemnities” below.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

Certain Terms and Phrases

Certain terms and phrases used in this footnote may require some explanation. The term “judgment” or “final judgment” refers to the final decision of the court resolving the dispute and determining the rights and obligations of the parties. At the trial court level, for example, a final judgment generally is entered by the court after a jury verdict and after post-verdict motions have been decided. In most cases, the losing party can appeal only after a final judgment has been entered by the trial court.

The term “damages” refers to the amount of money sought by a plaintiff in a complaint, or awarded to a party by a jury or, in some cases, by a judge. “Compensatory damages” are awarded to compensate the prevailing party for losses suffered, if liability is proved. In cases in which there is a finding that a defendant has acted willfully, maliciously, or fraudulently, generally based on a higher burden of proof than is required for a finding of liability for compensatory damages, a plaintiff also may be awarded “punitive damages.” Although damages may be awarded at the trial court stage, a losing party generally may be protected from paying any damages until all appellate avenues have been exhausted by posting a supersedeas bond. The amount of such a bond is governed by the law of the relevant jurisdiction and generally is set at the amount of damages plus some measure of statutory interest, modified at the discretion of the appropriate court or subject to limits set by a court or statute.

The term “*per curiam*” refers to a decision entered by an appellate court that is not signed by an individual judge. In most cases, it is used to indicate that the opinion entered is a brief announcement of the court’s decision and is not accompanied by an explanation of the court’s reasoning.

The term “settlement” refers to certain types of cases in which cigarette manufacturers, including RJR Tobacco, B&W and Lorillard Tobacco, have agreed to resolve disputes with certain plaintiffs without resolving the cases through trial. The principal terms of certain settlements entered into by RJR Tobacco, B&W and Lorillard Tobacco are explained below under “— Accounting for Tobacco-Related Litigation Contingencies.”

Theories of Recovery

The plaintiffs seek recovery on a variety of legal theories, including negligence, strict liability in tort, design defect, failure to warn, fraud, misrepresentation, violations of unfair and deceptive trade practices statutes, conspiracy, public nuisance, medical monitoring, and violations of state and federal antitrust laws. In certain of these cases, the plaintiffs claim that cigarette smoking exacerbated injuries caused by exposure to asbestos or, in the case of certain claims asserted against Lorillard Tobacco, that they were injured by exposure to filters containing asbestos used in one cigarette brand for roughly four years before 1957, the latter cases referred to as Filter Cases.

The plaintiffs seek various forms of relief, including compensatory and, where available, punitive damages, treble or multiple damages and statutory damages and penalties, prejudgment and post judgment interest, creation of medical monitoring and smoking cessation funds, disgorgement of profits, and injunctive and other equitable relief. Although alleged damages often are not determinable from a complaint, and the law governing the pleading and calculation of damages varies from jurisdiction to jurisdiction, compensatory and punitive damages have been specifically pleaded in a number of cases, sometimes in amounts ranging into the hundreds of millions and even billions of dollars.

Defenses

The defenses raised by Reynolds Defendants include, where applicable and otherwise appropriate, preemption by the Federal Cigarette Labeling and Advertising Act of some or all claims arising after 1969, or by the Comprehensive Smokeless Tobacco Health Education Act for claims arising after 1986, the lack of any defect in the product, assumption of the risk, contributory or comparative fault, lack of proximate cause, remoteness, lack of standing, statutes of limitations or repose and others. RAI, RJR, and Lorillard have asserted additional defenses, including jurisdictional defenses, in many of the cases in which they are named.

Accounting for Tobacco-Related Litigation Contingencies

In accordance with GAAP, RAI and its subsidiaries record any loss concerning litigation at such time as an unfavorable outcome becomes probable and the amount can be reasonably estimated on an individual case-by-case basis. For the reasons set forth below, RAI’s management continues to conclude that the loss of any particular pending tobacco-related litigation claim against the Reynolds Defendants, when viewed on an individual basis, is not probable, except for certain *Engle* Progeny cases noted below.

Reynolds Defendants believe that they have valid defenses to the tobacco-related litigation claims against them, as well as valid bases for appeal of adverse verdicts against them. Reynolds Defendants have, through their counsel, filed pleadings and memoranda in pending tobacco-related litigation that set forth and discuss a number of grounds and defenses that they and their counsel believe have a valid basis in law and fact. With the exception of the *Engle* Progeny cases described below, Reynolds Defendants continue to win the majority of tobacco-related litigation claims that reach trial, and a very high percentage of the tobacco-related litigation claims brought against them, including *Engle* Progeny cases, continue to be dismissed at or before trial. Based on their experience in tobacco-related

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

litigation and the strength of the defenses available to them in such litigation, Reynolds Defendants believe that their successful defense of tobacco-related litigation in the past will continue in the future.

RAI's consolidated balance sheet as of December 31, 2022, contains an accrual for approximately \$53 million for 14 *Engle* Progeny cases and 3 *Engle* Progeny resolution bundles as set forth below under “— Litigation Affecting the Cigarette Industry – *Engle* and *Engle* Progeny Cases.” In 2022, RJR Tobacco paid approximately \$32.3 million in satisfaction of judgments, including attorneys' fees and interest, in 11 *Engle* Progeny Cases. As other cases proceed through the appellate process, RAI will evaluate the need for further accruals on an individual case-by-case basis if an unfavorable outcome becomes probable and the amount can be reasonably estimated.

It is the policy of Reynolds Defendants to defend tobacco-related litigation claims vigorously; generally, Reynolds Defendants and indemnitees do not settle such claims. However, Reynolds Defendants may enter into settlement discussions in some cases, if they believe it is in their best interests to do so. Exceptions to this general approach include, but are not limited to, actions taken pursuant to “offer of judgment” statutes, as described below in “— Litigation Affecting the Cigarette Industry — Overview,” and Filter Cases, as described below in “— Litigation Affecting the Cigarette Industry – Filter Cases,” as well as other historical examples discussed below.

With respect to smoking and health tobacco litigation claims, the only significant settlements reached by RJR Tobacco, Lorillard Tobacco and B&W involved:

- the State Settlement Agreements and the funding by various tobacco companies of a \$5.2 billion trust fund contemplated by the MSA to benefit tobacco growers;
- the original *Broin* flight attendant case discussed below under “— Litigation Affecting the Cigarette Industry — *Broin II* Cases,” and
- most of the *Engle* Progeny cases pending in federal court, after the initial docket of over 4,000 such cases was reduced to approximately 400 cases.

The circumstances surrounding the State Settlement Agreements and the funding of a trust fund to benefit the tobacco growers are readily distinguishable from the current categories of tobacco-related litigation claims involving Reynolds Defendants. In the claims underlying the State Settlement Agreements, the states sought to recover funds paid for health care and medical and other assistance to state citizens suffering from diseases and conditions allegedly related to tobacco use. The State Settlement Agreements settled all the health-care cost recovery actions brought by, or on behalf of, the settling jurisdictions and contain releases of various additional present and future claims. In accordance with the MSA, various tobacco companies agreed to fund a \$5.2 billion trust fund to be used to address the possible adverse economic impact of the MSA on tobacco growers. A discussion of the State Settlement Agreements, and a table depicting the related payment schedule, is set forth below under “— Litigation Affecting the Cigarette Industry — Health-Care Cost Recovery Cases.”

As with claims that were resolved by the State Settlement Agreements, the other cases settled by RJR Tobacco can be distinguished from existing cases pending against the Reynolds Defendants. The original *Broin* case, discussed below under “— Litigation Affecting the Cigarette Industry — *Broin II* Cases,” was settled in the middle of trial during negotiations concerning a possible nation-wide settlement of claims similar to those underlying the State Settlement Agreements.

The federal *Engle* Progeny cases likewise presented exceptional circumstances not present in the state *Engle* Progeny cases or elsewhere. All of the federal *Engle* Progeny cases subject to the settlement were pending in the same court, were coordinated by the same judge, and involved the same sets of plaintiffs' lawyers. Moreover, RJR Tobacco settled only after approximately 90% of the federal *Engle* Progeny cases otherwise had been resolved. A discussion of the *Engle* Progeny cases and the settlement of the federal *Engle* Progeny cases is set forth below under “— Litigation Affecting the Cigarette Industry — *Engle* and *Engle* Progeny Cases.”

In 2010, RJR Tobacco entered into a comprehensive agreement with the Canadian federal, provincial, and territorial governments, which resolved all civil claims related to the movement of contraband tobacco products in Canada during the period 1985 through 1999 that the Canadian governments could assert against RJR Tobacco and its affiliates. These claims involved different theories of recovery than the other tobacco-related litigation claims pending against the Reynolds Defendants.

Also, in 2004, RJR Tobacco and B&W separately settled the antitrust case *DeLoach v. Philip Morris Cos., Inc.*, which was brought by a unique class of plaintiffs: a class of all tobacco growers and tobacco allotment holders. The plaintiffs asserted that the defendants conspired to fix the price of tobacco leaf and to destroy the federal government's tobacco quota and price support program. Despite legal defenses they believed to be valid, RJR Tobacco and B&W separately settled this case to avoid a long and contentious trial with the tobacco growers. The *DeLoach* case involved different types of plaintiffs and different theories of recovery under the antitrust laws than the other tobacco-related litigation claims pending against the Reynolds Defendants.

Finally, as discussed under “— Litigation Affecting the Cigarette Industry — State Settlement Agreements—Enforcement and Validity; Adjustments,” RJR Tobacco, B&W and Lorillard Tobacco each has settled certain cases brought by states concerning the enforcement of State Settlement Agreements. Despite legal defenses believed to be valid, these cases were settled to avoid further

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

contentious litigation with the states involved. These enforcement actions involved alleged breaches of State Settlement Agreements based on specific actions taken by particular defendants. Accordingly, any future enforcement actions involving State Settlement Agreements will be reviewed by RJR Tobacco on the merits and should not be affected by the settlement of prior enforcement cases.

Cautionary Statement

Even though RAI's management continues to believe that the loss of particular pending tobacco-related litigation claims against Reynolds Defendants, when viewed on an individual case-by-case basis, is not probable or estimable (except for certain *Engle* Progeny cases described below), the possibility of material losses related to such litigation is more than remote. Litigation is subject to many uncertainties, and generally, it is not possible to predict the outcome of any particular litigation pending against Reynolds Defendants, or to reasonably estimate the amount or range of any possible loss.

Although Reynolds Defendants believe that they have valid bases for appeals of adverse verdicts in their pending cases and valid defenses to all actions and intend to defend them vigorously as described above, it is possible that there could be further adverse developments in pending cases, and that additional cases could be decided unfavorably against Reynolds Defendants. Determinations of liability or adverse rulings in such cases or in similar cases involving other cigarette manufacturers as defendants, even if such judgments are not final, could have a material adverse effect on the litigation against Reynolds Defendants and could encourage the commencement of additional tobacco-related litigation. Reynolds Defendants also may enter into settlement discussions in some cases, if they believe it is in their best interests to do so. In addition, a number of political, legislative, regulatory and other developments relating to the tobacco industry and cigarette smoking have received wide media attention. These developments may negatively affect the outcomes of tobacco-related legal actions and encourage the commencement of additional similar litigation.

Although it is impossible to predict the outcome of such events on pending litigation and the rate new lawsuits may be filed against Reynolds Defendants, a significant increase in litigation or in adverse outcomes for tobacco defendants, or difficulties in obtaining the bonding required to stay execution of judgments on appeal, could have a material adverse effect on any or all of these entities. Moreover, notwithstanding the quality of defenses available to Reynolds Defendants in litigation matters, it is possible that RAI's results of operations, cash flows or financial position could be materially adversely affected by the ultimate outcome of certain pending litigation or future claims against Reynolds Defendants.

Litigation Affecting the Cigarette Industry

Overview

Introduction. In connection with the B&W business combination, RJR Tobacco agreed to indemnify B&W and its affiliates against, among other things, certain litigation liabilities, costs and expenses incurred by B&W or its affiliates arising out of the U.S. cigarette and tobacco business of B&W. Also, in connection with the Lorillard Merger, Lorillard Tobacco was merged into RJR Tobacco with RJR Tobacco being the surviving entity, Lorillard Tobacco ceasing to exist, and RJR Tobacco succeeding to Lorillard Tobacco's liabilities, including Lorillard Tobacco's litigation liabilities, costs and expenses. Although Lorillard Tobacco no longer exists as a result of the Lorillard Tobacco Merger, it will remain as a named party in cases pending on the date of the Lorillard Tobacco Merger until courts grant motions to substitute RJR Tobacco for Lorillard Tobacco or the claims are dismissed. The cases discussed below include cases brought against RJR Tobacco, Lorillard Tobacco and their affiliates and indemnitees, including RAI, RJR, B&W and Lorillard. Cases brought against SFNTC and RJRV also are discussed.

During 2022, 78 tobacco-related cases were served against Reynolds Defendants. On December 31, 2022, there were, subject to the exclusions described immediately below, 306 cases pending against Reynolds Defendants: 289 in the United States and 17 in Canada, as compared with 319 total cases on December 31, 2021. Of the U.S. cases pending on December 31, 2022, 36 are pending in federal court, 251 in state court and one in tribal court, primarily in the following states: Florida (72 cases); Massachusetts (49 cases); Illinois (48 cases); New Mexico (34 cases); New York (14 cases); and Pennsylvania (9 cases). The U.S. case number excludes the 665 *Engle* Progeny cases, involving approximately 838 individual plaintiffs, and 1,183 *Broin II* cases, pending in the United States against RJR Tobacco, Lorillard Tobacco or certain other Reynolds Defendants.

The following table lists the categories of the U.S. tobacco-related cases pending against Reynolds Defendants as of December 31, 2022, and the change in the number of cases pending against Reynolds Defendants since December 31, 2021, and a cross-reference to the discussion of each case type.

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Case Type	U.S. Case Numbers as of December 31, 2022	Change in Number of Cases Since December 31, 2021 Increase/(Decrease)
Individual Smoking and Health Cases	206	(16)
<i>Engle</i> Progeny Cases (Number of Plaintiffs)**	665 (approx. 838)	(406) (466)
<i>Broin II</i> Cases	1,183	(17)
Class-Action Suits	20	No change
Filter Cases	46	No change
Health-Care Cost Recovery Cases	2	No change
State Settlement Agreements—Enforcement and Validity; Adjustments	1	(1)
Other Litigation and Developments	14	5

** The *Engle* Progeny cases have been separated from the Individual Smoking and Health cases for reporting purposes. The number of cases will fluctuate as cases are dismissed or if any of the dismissed cases are appealed.

The Florida state court class-action case, *Engle v. R. J. Reynolds Tobacco Co.*, and the related cases commonly referred to as *Engle* Progeny cases have attracted significant attention. After the Florida Supreme Court’s 2006 ruling that members of the formerly certified class could file individual actions, roughly 10,000 claims or actions were filed in Florida state or federal courts before the deadline set by the Florida Supreme Court. No new or additional such claims may be filed. As reflected in the table above, 665 *Engle* Progeny cases were pending as of December 31, 2022, that included claims asserted on behalf of 838 plaintiffs. Following an agreement to settle most *Engle* Progeny cases that remained pending in federal courts in the first quarter of 2015, nearly all *Engle* Progeny cases currently pending are in Florida state courts. Since 2009, there have been over 300 *Engle* Progeny trials in Florida state or federal courts involving RJR Tobacco or Lorillard Tobacco. As described more fully immediately below in “— *Scheduled Trials*” and “— *Trial Results*,” additional *Engle* Progeny cases involving RJR Tobacco are being tried and set for trial on an ongoing basis. Juries in *Engle* Progeny cases have awarded substantial amounts in compensatory and punitive damage awards, many of which currently are at various stages in the appellate process. RJR Tobacco and Lorillard Tobacco also have paid substantial amounts in compensatory and punitive damage awards in *Engle* Progeny cases. For a detailed description of these cases, see “— *Engle* and *Engle* Progeny cases” below.

In November 1998, the major U.S. cigarette manufacturers, including RJR Tobacco, B&W and Lorillard Tobacco, entered into the MSA with 46 U.S. states, Washington, D.C. and certain U.S. territories and possessions. These cigarette manufacturers previously settled four other cases, brought on behalf of Mississippi, Florida, Texas and Minnesota, by separate agreements with each state. These State Settlement Agreements:

- settled all health-care cost recovery actions brought by, or on behalf of, the settling jurisdictions;
- released the major U.S. cigarette manufacturers from various additional present and potential future claims;
- imposed future payment obligations in perpetuity on RJR Tobacco, B&W, Lorillard Tobacco and other major U.S. cigarette manufacturers; and
- placed significant restrictions on their ability to market and sell cigarettes and smokeless tobacco products.

Payments under the State Settlement Agreements are subject to various adjustments for, among other things, the volume of cigarettes sold, relative market share, operating profit and inflation. See “— *Health-Care Cost Recovery Cases — State Settlement Agreements*” below for a detailed discussion of the State Settlement Agreements, including RAI’s operating subsidiaries’ monetary obligations under these agreements. RJR Tobacco records the allocation of settlement charges as products are shipped.

Scheduled Trials. Trial schedules are subject to change, and many cases are dismissed before trial. There are 48 cases, exclusive of *Engle* Progeny cases, scheduled for trial as of December 31, 2022 through December 31, 2023, for RJR Tobacco, B&W, Lorillard Tobacco or their affiliates and indemnitees: 35 individual smoking and health cases, 11 Filter Cases, and two other non-smoking and health cases. There are also approximately 77 *Engle* Progeny cases against RJR Tobacco, B&W and/or Lorillard Tobacco set for trial through December 31, 2023. It is not known how many of these cases will actually be tried.

Trial Results. From January 1, 2020 through December 31, 2022, 44 individual smoking and health, *Engle* Progeny, and patent cases in which RJR Tobacco, B&W and/or Lorillard Tobacco were defendants were tried, including nine trials for cases where mistrials were declared in the original proceedings. Verdicts in favor of RJR Tobacco, B&W and Lorillard Tobacco and, in some cases, other defendants, were returned in 8 cases, tried in Florida (5), Oregon (1), and Massachusetts (2). There were also seven mistrials in Florida. Verdicts in favor of the plaintiffs were returned in 23 cases tried in Florida (18), Massachusetts (1), New Mexico (1), Oregon (2) and North Carolina (1). Three of the cases (in Florida) were dismissed during trial. One of the cases was a punitive damages re-trial.

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In 2022, 19 *Engle* Progeny cases in which RJR Tobacco and/or Lorillard Tobacco was a defendant were tried:

Total number of trials	19
Number of trials resulting in plaintiffs' verdicts	9
Total damages awarded in final judgments against RJR Tobacco	\$43,450,000
Amount of overall damages comprising 'compensatory damages' (approximately)	\$29,955,000 (of overall \$43,450,000)
Amount of overall damages comprising 'punitive damages' (approximately)	\$13,495,000 (of overall \$43,450,000)
Number of adverse judgments appealed by RJR Tobacco	4
Number of adverse judgments (not yet appealed), in which RJR Tobacco still has time to file an appeal	1
Number of adverse judgments in which no appeal was sought	4

In 2022, seven non-*Engle* Progeny individual smoking and health cases, in which RJR Tobacco, B&W and/or Lorillard Tobacco was a defendant, were tried:

- In *Hunt v. R. J. Reynolds Tobacco Co.*, on March 21, 2022, the jury returned a verdict in favor of the plaintiff and awarded \$4.2 million in compensatory damages and no punitive damages.
- In *Phelps v. R. J. Reynolds Tobacco Co.*, on May 17, 2022, the jury returned a verdict in favor of the plaintiff, found the decedent 90% at fault and RJR Tobacco 10% at fault, and awarded \$150,000 in compensatory damages.
- In *Thorpe v. R. J. Reynolds Tobacco Co.*, on June 27, 2022, the jury returned a verdict in favor of the plaintiff, found the decedent 50% at fault and RJR Tobacco 50% at fault, and awarded \$1.6 million in compensatory damages. Punitive damages were not awarded.
- In *Haywood v. R.J. Reynolds Tobacco Co.*, on August 8, 2022, the court declared a mistrial after the foreperson reported that a juror had conducted outside research.
- In *Mendez v. R. J. Reynolds Tobacco Co.*, on September 23, 2022, the jury returned a verdict in favor of the plaintiff, found the decedent 80% at fault, PM USA 13% at fault, and RJR Tobacco 7% at fault, and awarded \$4.5 million in compensatory damages and no punitive damages.
- In *Higgs v. R. J. Reynolds Tobacco Co.*, on October 26, 2022, the jury returned a verdict in favor of the plaintiff, found the plaintiff 30% at fault and RJR Tobacco 70% at fault, and awarded \$18.1 million in compensatory damages.
- In *Perez v. R. J. Reynolds Tobacco Co.*, on December 13, 2022, the court declared a mistrial due to the jury's inability to reach a verdict.

In 2022, no Filter cases, in which RJR Tobacco and/or Lorillard Tobacco was a defendant, were tried.

In addition, since the end of 2022, one other *Engle* Progeny case and one non-*Engle* individual smoking and health case, in which RJR Tobacco, B&W, and/or Lorillard was a defendant were tried:

- In *Dubins v. R. J. Reynolds Tobacco Co.*, on January 25, 2023, the jury returned a verdict in favor of the plaintiff, found the decedent 48% at fault and RJR Tobacco 52% at fault, and awarded \$6 million in compensatory damages.
- In *Kinnally v. R. J. Reynolds Tobacco Co.*, on January 30, 2023, the jury returned a verdict in favor of the defendants, including RJR Tobacco.

For information on the verdicts in the *Engle* Progeny cases that have been tried and remain pending as of December 31, 2022, in which verdicts have been returned against RJR Tobacco, Lorillard Tobacco or B&W, or all three, see the *Engle* Progeny cases charts at “— *Engle* and *Engle* Progeny Cases” below. The following chart reflects the verdicts in the non-*Engle* Progeny smoking and health cases, health-care cost recovery cases or Filter Cases that have been tried, remain pending as of December 31, 2022 or that were resolved in 2022, where verdicts were returned against RJR Tobacco, B&W or Lorillard Tobacco, or all three.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

Date of Verdict	Case Name/Type	Jurisdiction	Verdict	Status
August 17, 2006	United States v. Philip Morris USA, Inc. [Governmental Health-Care Cost Recovery]	U.S. District Court, District of Columbia, (Washington, D.C.)	RJR Tobacco, B&W and Lorillard Tobacco were found liable for civil RICO claims; were enjoined from using certain brand descriptors and from making certain misrepresentations; and were ordered to make corrective communications on five subjects, including smoking and health and addiction, to reimburse the U.S. Department of Justice appropriate costs associated with the lawsuit, and to maintain document web sites.	Compelled public statements began appearing in US newspapers on November 27, 2017 and ran serially over four months. They began appearing on national US broadcast television networks on November 27, 2017 and ran several times per week for one year. The statements also began appearing on RJR Tobacco websites on June 18, 2018 and first appeared on package onserts beginning in November 2018 (the onserts were distributed periodically through 2020). On December 6, 2022, the district court entered a consent order requiring the tobacco company defendants to have the compelled public statements displayed in all participating retailer locations from October 1, 2023 through June 30, 2025.
August 23, 2018	<i>Brown v. R. J. Reynolds Tobacco Co.</i> [Individual]	Superior Court, Division of St. Thomas and St. John, Virgin Islands	\$70 million in compensatory damages; 70% of fault assigned to Lorillard; \$12.3 million in punitive damages. Comparative fault did not apply to the final judgment.	Final judgment was entered on December 12, 2018; post-trial motions were not ruled on by May 10, 2019 (local rules deemed them denied); RJR Tobacco filed a notice of appeal to the VI Supreme Court on June 6, 2019; RJR Tobacco moved to consolidate the appeal with the appeal in Gerald, described below, which was granted; oral argument occurred on December 8, 2020; on July 7, 2022, the Virgin Islands Supreme Court affirmed the \$12.3 million punitive damages award, vacated the \$70 million compensatory damages award, remanded the case for a new trial on compensatory damages, and vacated the award of prejudgment interest. RJR Tobacco paid approximately \$17.7 million in satisfaction of the judgment on December 7, 2022.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

Date of Verdict	Case Name/Type	Jurisdiction	Verdict	Status
August 24, 2018	<i>Gerald v. R. J. Reynolds Tobacco Co.</i> [Individual]	Superior Court, Division of St. Thomas and St. John, Virgin Islands	\$1 million in compensatory damages; 60% of fault assigned to Lorillard; \$30 million in punitive damages. Comparative fault did not apply to the final judgment.	Final judgment was entered on December 12, 2018; post-trial motions were not ruled on by May 10, 2019 (local rules deemed them denied); RJR Tobacco filed a notice of appeal to the VI Supreme Court on June 6, 2019; RJR Tobacco moved to consolidate the appeal with the appeal in Brown, described above, which was granted; oral argument occurred on December 8, 2020; on July 7, 2022, the Virgin Islands Supreme Court affirmed the \$1 million compensatory damages award, reduced the punitive damages award from \$30 million to \$14.4 million, and vacated the award of prejudgment interest. RJR Tobacco paid approximately \$17.7 million in satisfaction of the judgment on August 10, 2022.
March 28, 2019	<i>Coates v. R. J. Reynolds Tobacco Co.</i> [Individual]	Circuit Court, Orange County, Florida (Orlando, FL)	\$300,000 in compensatory damages; 50% of fault assigned to RJR Tobacco; \$16 million in punitive damages	Final judgment was entered against RJR Tobacco in the amount of \$150,000 in compensatory damages and \$16 million in punitive damages on July 25, 2019; on October 23, 2020, the Fifth DCA reversed the plaintiff's \$16 million punitive award as excessive in light of the \$150,000 compensatory award and remanded the case to the trial court for remittitur or new trial on punitive damages; on January 7, 2021, the Fifth District Court of Appeal denied the plaintiff's motion for rehearing but granted the plaintiff's motion for certification to the Florida Supreme Court. On February 5, 2021, the plaintiff filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court. The Florida Supreme Court accepted jurisdiction of the case on July 8, 2021. On January 5, 2023, the Florida Supreme Court held that under Florida law a punitive damages award is impermissible if it does not have a reasonable relationship to the compensatory damages award in the case. As a result, the punitive damages award was reversed.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

Date of Verdict	Case Name/Type	Jurisdiction	Verdict	Status
May 31, 2019	<i>Coyne v. R. J. Reynolds Tobacco Co.</i> [Individual]	Superior Court, Middlesex County, Massachusetts (Woburn, MA)	\$6.3 million in compensatory damages; 50.42% of fault assigned to RJR Tobacco; \$11.275 million in punitive damages.	Final judgment was entered in June 2020 in the amount of approximately \$20.9 million. Post-trial motions were denied on December 3, 2021; RJR Tobacco filed a notice of appeal to the Massachusetts Appeals Court on January 3, 2022; oral argument is scheduled for February 3, 2023.
May 24, 2021	<i>Gordon v. R. J. Reynolds Tobacco Co.</i> [Individual]	Circuit Court, Gadsden County, Florida (Quincy, FL)	\$3 million in compensatory damages	Final judgment was entered in May 2021 in the amount of approximately \$3 million. Post-trial motions were denied on August 2, 2021. RJR Tobacco filed a notice of appeal to the First DCA on August 20, 2021 and posted a supersedeas bond in the amount of approximately \$3.23 million. On November 23, 2022, the First DCA ruled that the trial court erred in denying RJR Tobacco’s motions for directed verdict as to the plaintiff’s design-defect and failure-to-warn claims, which were the only claims in the case. The First DCA remanded the case and ordered the trial court to grant a directed verdict on all claims, which will result in a defense victory. On January 3, 2023, the plaintiff filed a motion for rehearing, clarification, motion for rehearing <i>en banc</i> and certification to the Florida Supreme Court, which was denied on January 6, 2023.
March 21, 2022	<i>Hunt v. R. J. Reynolds Tobacco Co.</i> [Individual]	Superior Court, Middlesex County, Massachusetts (Woburn, MA)	\$4.2 million in compensatory damages	Plaintiff filed Supplemental Memorandum Concerning Chapter 93A claim on May 6, 2022. Before the trial court resolved the plaintiff’s still-pending state statutory claims, the parties agreed to resolve the case (including interest, fees, and costs) for \$8.2 million. RJR Tobacco paid the agreed upon amount on November 23, 2022.
May 17, 2022	<i>Phelps v. R. J. Reynolds Tobacco Co.</i> [Individual]	Circuit Court, Miami-Dade County, Florida (Miami, FL)	\$150,000 in compensatory damages; 90% of fault assigned to plaintiff, 10% fault assigned to RJR Tobacco	On June 10, 2022, the court entered final judgment against RJR Tobacco in the amount of \$15,000. RJR Tobacco has decided not to appeal. Payment date is to be determined.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

Date of Verdict	Case Name/Type	Jurisdiction	Verdict	Status
June 27, 2022	<i>Thorpe v. R. J. Reynolds Tobacco Co.</i> [Individual]	Circuit Court, Multnomah County, Oregon (Portland, OR)	\$1.6 million in compensatory damages; 50% of fault assigned to plaintiff, 50% fault assigned to RJR Tobacco	Final judgment was entered against RJR Tobacco in the amount of \$550,000 on September 16, 2022. RJR Tobacco paid approximately \$675,000 in satisfaction of the judgment on December 14, 2022.
September 23, 2022	<i>Mendez v. R. J. Reynolds Tobacco Co.</i> [Individual]	Circuit Court, Miami-Dade County, Florida (Miami, FL)	\$4.5 million in compensatory damages; 80% of fault assigned to plaintiff, 13% of fault assigned to PM, 7% fault assigned to RJR Tobacco; no punitive damages	Post-trial motions were denied October 27, 2022. The plaintiff filed a notice of appeal to the Third DCA on October 28, 2022 and an amended notice to appeal on November 14, 2022. The defendants filed a notice of cross appeal on November 21, 2022. Briefing is underway.
October 26, 2022	<i>Higgs v. R. J. Reynolds Tobacco Co.</i> [Individual]	Circuit Court, Multnomah County, Oregon (Portland, OR)	\$100,000 in economic damages, \$18 million in noneconomic damages; 30% of fault assigned to plaintiff, 70% of fault assigned to RJR Tobacco	Final judgment was entered against RJR Tobacco in the amount of \$18.1 million on November 8, 2022. Post-trial motions are pending.

For information on the post-trial status of individual smoking and health cases, the governmental health-care cost recovery case and the Filter Cases, see “— Individual Smoking and Health Cases,” “— Health-Care Cost Recovery Cases — U.S. Department of Justice Case,” and “— Filter Cases,” respectively, below.

Individual Smoking and Health Cases

As of December 31, 2022, 206 individual cases were pending in the United States against RJR Tobacco, B&W (as RJR Tobacco’s indemnitee), Lorillard Tobacco or all three. This category of cases includes smoking and health cases alleging personal injuries caused by tobacco use or exposure brought by or on behalf of individual plaintiffs based on theories of negligence, strict liability, breach of express or implied warranty, and violations of state deceptive trade practices or consumer protection statutes. The plaintiffs seek to recover compensatory damages, attorneys’ fees and costs, and punitive damages. The category does not include the *Broin II*, *Engle Progeny*, or Filter cases discussed below. One of the individual cases is brought by or on behalf of an individual or his/her survivors alleging personal injury as a result of exposure to environmental tobacco smoke, referred to as ETS.

Engle and Engle Progeny Cases

In July 1998, trial began in *Engle v. R. J. Reynolds Tobacco Co.*, a then-certified class action filed in Circuit Court, Miami-Dade County, Florida, against U.S. cigarette manufacturers, including RJR Tobacco, B&W, Lorillard Tobacco, Philip Morris USA Inc., and others. The then-certified class consisted of Florida citizens and residents, and their survivors, who suffered from smoking-related diseases that first manifested between May 5, 1990, and November 21, 1996, and were caused by an addiction to cigarettes. In July 1999, the jury in Phase I found against RJR Tobacco, B&W, Lorillard Tobacco and the other defendants on common issues relating to the defendants’ conduct, general causation, the addictiveness of cigarettes, and entitlement to punitive damages.

On July 14, 2000, the jury in Phase II awarded the class a total of approximately \$145 billion in punitive damages, which were apportioned \$36.3 billion to RJR Tobacco, \$17.6 billion to B&W, and \$16.3 billion to Lorillard Tobacco. The defendants appealed.

On December 21, 2006, the Florida Supreme Court prospectively decertified the class and set aside the jury’s Phase II punitive damages award. But the court preserved certain of the jury’s Phase I findings, including that cigarettes can cause certain diseases, nicotine is addictive, and defendants placed defective cigarettes on the market, breached duties of care, concealed health-related information, and conspired. The court also authorized former class members to file individual lawsuits within one year, and it stated that the preserved findings would have *res judicata* effect in those actions.

In the year after the Florida Supreme Court’s *Engle* decision, putative class members filed thousands of individual actions against RJR Tobacco, B&W, Lorillard Tobacco, Philip Morris USA Inc., and the other *Engle* defendants, which actions commonly are referred to as *Engle Progeny* cases. As of December 31, 2022, 664 *Engle Progeny* cases were pending in state courts, and 1 *Engle Progeny* case was pending in federal court against RJR Tobacco, B&W and/or Lorillard Tobacco. Those cases include claims by or on behalf of approximately 838 plaintiffs. As of December 31, 2022, RJR Tobacco also was aware of five additional *Engle Progeny* cases that have

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

been filed but not served. The number of pending cases fluctuates for a variety of reasons, including voluntary and involuntary dismissals. Voluntary dismissals include cases in which a plaintiff accepts an “offer of judgment,” referred to in Florida statutes as “proposals for settlement,” from RJR Tobacco, Lorillard Tobacco and/or RJR Tobacco’s affiliates and indemnitees. An offer of judgment, if rejected by the plaintiff, in certain circumstances preserves RJR Tobacco’s and Lorillard Tobacco’s right to recover attorneys’ fees under Florida law in the event of a verdict favorable to RJR Tobacco or Lorillard Tobacco. Such offers are sometimes made through court-ordered mediations.

At the beginning of the *Engle* Progeny litigation, a central issue was the proper use of the preserved *Engle* findings. RJR Tobacco has argued that use of the *Engle* findings to establish individual elements of progeny claims (such as defect, negligence, and fraudulent concealment) is a violation of federal due process. In 2013, however, both the Florida Supreme Court and the U.S. Court of Appeals for the Eleventh Circuit, referred to as the Eleventh Circuit, rejected that argument. In addition to this global due process argument, RJR Tobacco and Lorillard Tobacco raise many other factual and legal defenses as appropriate in each case. These defenses may include, among other things, arguing that the plaintiff is not a proper member of the *Engle* class, that the plaintiff did not rely on any statements by any tobacco company, that the trial was conducted unfairly, that some or all claims are preempted or barred by applicable statutes of limitation, or that any injury was caused by the smoker’s own conduct. In *Hess v. Philip Morris USA Inc.* and *Russo v. Philip Morris USA Inc.*, decided on April 2, 2015, the Florida Supreme Court held that, in *Engle* Progeny cases, the defendants cannot raise a statute of repose defense to claims for concealment or conspiracy. On April 8, 2015, in *Graham v. R. J. Reynolds Tobacco Co.*, the Eleventh Circuit held that federal law impliedly preempts use of the preserved *Engle* findings to establish claims for strict liability or negligence. On January 21, 2016, the Eleventh Circuit granted the plaintiff’s motion for rehearing *en banc* and vacated the panel decision. On May 18, 2017, the *en banc* Eleventh Circuit rejected RJR Tobacco’s due process and implied preemption arguments. On January 8, 2018, the U.S. Supreme Court denied RJR Tobacco’s petition for writ of certiorari. On January 6, 2016, in *Marotta v. R. J. Reynolds Tobacco Co.*, the Fourth DCA disagreed with the *Graham* panel decision and held that federal law does not impliedly preempt any tort claims against cigarette manufacturers, including those of *Engle* Progeny plaintiffs. The Florida Supreme Court accepted jurisdiction in *Marotta*, heard oral argument, and on April 6, 2017, found that federal law does not preempt the *Engle* Progeny plaintiffs’ claims and remanded for further proceedings on punitive damages.

In June 2009, Florida amended its existing bond cap statute by adding a \$200 million bond cap that applied to all *Engle* Progeny cases in the aggregate. In May 2011, Florida removed the provision that would have allowed the bond cap to expire on December 31, 2012. The bond cap for any given individual *Engle* Progeny case varies depending on the number of judgments on appeal at a given time, but never exceeds \$5 million per case for appeals within the Florida state court system. The legislation, which became effective in June 2009 and 2011, applied to judgments entered after the original 2009 effective date.

During 2015, RJR Tobacco and Lorillard Tobacco, together with Philip Morris USA Inc., settled virtually all of the *Engle* Progeny cases then pending against them in federal district court. The total amount of the settlement was \$100 million divided as follows: RJR Tobacco - \$42.5 million; Philip Morris USA Inc. - \$42.5 million; and Lorillard Tobacco - \$15 million. The settlement covered more than 400 federal progeny cases but did not cover 12 federal progeny cases previously tried to verdict and then pending on post-trial motions or appeal; and 2 federal progeny cases filed by different lawyers from the ones who negotiated the settlement for the plaintiffs.

Thirty-one *Engle* Progeny cases have been tried in Florida state and federal courts since the beginning of 2020 through December 31, 2022, and additional state court trials are scheduled for 2023. Since the beginning of 2020 through December 31, 2022, RJR Tobacco or Lorillard Tobacco has paid judgments in 24 *Engle* Progeny cases. Those payments totaled \$144.6 million and included \$101 million for compensatory or punitive damages and \$43.6 million for attorneys’ fees and statutory interest. The payments made in 2022 are detailed in the following chart:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

Plaintiff Case Name	RJR Tobacco Allocation of Fault	Lorillard Tobacco Allocation of Fault	Compensatory Damages (as adjusted) ⁽¹⁾	Punitive Damages	Appeal Status
<i>Hardin</i>	13%	—	\$ 100,900	\$ —	Third DCA remanded the case for a new trial on punitive damages for the non-intentional tort claims; punitive damages retrial began February 5, 2018; on February 15, 2018, the court granted RJR Tobacco’s motion for directed verdict; on August 5, 2020, the Third DCA affirmed the order granting RJR Tobacco’s motion for directed verdict that resulted in the final judgment in RJR Tobacco’s favor; the plaintiff filed a motion for rehearing on August 20, 2020; on December 16, 2020, the Third DCA denied the plaintiff’s motion for rehearing and affirmed the trial court’s order granting a directed verdict in favor of RJR Tobacco due to insufficient evidence; on January 15, 2021, the plaintiff filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court; on June 7, 2021, the Florida Supreme Court declined to accept jurisdiction of the case. The plaintiff did not seek further review. RJR Tobacco paid approximately \$262,000 in satisfaction of the judgment on January 23, 2022.
<i>Starr-Blundell</i>	10%	—	50,000 ⁽²⁾	—	First DCA, <i>per curiam</i> , reversed and remanded its May 29, 2015 opinion to the trial court for reconsideration in light of the decision in <i>Soffer</i> ; in the punitive damages retrial, on February 27, 2018, the jury did not award punitive damages; the trial court entered final judgment against RJR Tobacco in the amount of \$50,000 on December 19, 2019; the plaintiff filed a notice of appeal to the First DCA on January 21, 2020 And RJR Tobacco filed a notice of cross appeal; on July 21, 2021, the First DCA affirmed the final judgment of the trial court. The plaintiff did not seek review of the Florida Supreme Court. RJR Tobacco paid \$100,000 in satisfaction of the judgment on May 19, 2022.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

Plaintiff Case Name	RJR Tobacco Allocation of Fault	Lorillard Tobacco Allocation of Fault	Compensatory Damages (as adjusted) ⁽¹⁾	Punitive Damages	Appeal Status
<i>Hancock</i>	40%	—	600,000	—	Final judgment was entered against RJR Tobacco on May 9, 2022; on May 13, 2022, RJR Tobacco paid \$810,000 in satisfaction of the judgment.
<i>Burgess</i>	80%	—	3,000,000	—	Final judgment was entered against RJR Tobacco on June 24, 2018; on February 26, 2020, the Fourth DCA affirmed the final judgment of the trial court; RJR Tobacco filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court, which was denied on November 23, 2022; on May 31, 2022, RJR Tobacco paid approximately \$5.03 million in satisfaction of the judgment.
<i>Wyerick</i>	35%	—	350,000	—	Final judgment was entered against RJR Tobacco in the amount of \$350,000 on June 23, 2022. RJR Tobacco paid \$1.85 million in satisfaction of the judgment on July 28, 2022.
<i>Margaret Harris</i>	70%	—	4,000,000	—	Final judgment was entered against RJR Tobacco in the amount of \$4 million in compensatory damages and \$6 million in punitive damages on March 1, 2019; RJR Tobacco filed a notice of appeal to the First DCA on May 3, 2019; on July 6, 2022, the First DCA reversed the punitive damages award and remanded the case for further proceedings limited to punitive damages. On September 20, 2022, the plaintiff's motion for rehearing <i>en banc</i> was denied. Claims were resolved on October 17, 2022. RJR Tobacco paid approximately \$10 million in satisfaction of the judgment on November 16, 2022.
<i>Janice Durrance Jones</i>	40%	—	200,000	—	Final judgment was entered against RJR Tobacco in the amount of \$200,000 in compensatory damages and \$3.25 million in punitive damages on May 22, 2019; RJR Tobacco filed a notice of appeal to the Second DCA and posted a supersedeas bond in the amount of \$3.45 million on September 13, 2019; on March 3, 2021, the Second DCA affirmed the judgment of the trial court; on March 31, 2021, RJR

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

Plaintiff Case Name	RJR Tobacco Allocation of Fault	Lorillard Tobacco Allocation of Fault	Compensatory Damages (as adjusted)⁽¹⁾	Punitive Damages	Appeal Status
					Tobacco filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court; On February 4, 2022, the Florida Supreme Court granted RJR Tobacco’s petition for review, quashed the March 3, 2021 decision of the Second DCA, and remanded the case to the trial court for reconsideration upon application of the Court’s decision in <i>Sheffield</i> . On April 20, 2022, the Second DCA issued an opinion reversing the punitive damages award and remanding the case to the trial court for further proceedings. RJR Tobacco’s motion for clarification or rehearing was denied on June 14, 2022. RJR Tobacco paid approximately \$311,000 in satisfaction of the judgment on July 29, 2022.
<i>Morse</i>	70%	—	5,000,000 ⁽²⁾	—	Final judgment was entered on November 23, 2021. Post-trial motions were denied on January 7, 2022; RJR Tobacco filed a notice of appeal to the Fifth DCA on February 7, 2022. On December 16, 2022, RJR Tobacco paid \$7.75 million in satisfaction of the judgement.
<i>Yount</i>	53.1%	—	2,700,000	—	Final judgment was entered on June 28, 2021; RJR Tobacco posted a supersedeas bond in the amount of approximately \$2.7 million on September 1, 2021 and filed a notice of appeal to the Third DCA on September 16, 2021; On November 1, 2022, the parties filed a joint notice of settlement and requested a stay of appeal pending finalization. The court granted the stay on November 4, 2022; RJR Tobacco paid approximately \$5.7 million in satisfaction of the judgment on December 16, 2022.
<i>Danielle Miller</i>	15%	—	330,000	—	RJR Tobacco paid approximately \$383,000 in satisfaction of the judgment on December 29, 2022.
Totals			<u>\$ 16,330,900</u>	<u>\$ —</u>	

In addition, as of December 31, 2022, approximately \$23.2 million for compensatory and punitive damages for the following Engle Progeny cases was accrued in RAI’s consolidated balance sheet as reflected in the following chart:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

Plaintiff Case Name	RJR Tobacco Allocation of Fault	Lorillard Tobacco Allocation of Fault	Compensatory Damages (as adjusted) ⁽¹⁾	Punitive Damages	Appeal Status
<i>Blackwood (Cooper)</i>	40%	—	\$ 1,200,000	\$ —	On January 10, 2018, the Fourth DCA affirmed judgment on compensatory damages for plaintiff and remanded for a new trial on punitive damages on the non-intentional tort claims; the new trial on punitive damages has not been scheduled.
<i>Konzelman</i>	85%	—	7,476,000	—	Fourth DCA, on May 19, 2018, held that the pre-1999 version of the punitive damages statute “applies in an <i>Engle</i> Progeny personal injury suit that is converted into a wrongful death action upon the smoker’s death”; on the plaintiff’s cross appeal, the court found that the trial court erred in reducing the compensatory damages award based on comparative fault and remanded for further proceedings consistent with <i>Schoeff</i> ; RJR Tobacco filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court on September 11, 2018; on February 18, 2022, the Florida Supreme Court accepted jurisdiction, summarily quashed the decision being reviewed, and remanded the case to the district court for reconsideration in light of the decision in <i>Sheffield</i> . On March 16, 2022, the Fourth DCA issued a <i>per curiam</i> opinion reversing and remanding the case to the trial court for application of the amended punitive damage statute as required by <i>Sheffield</i> .
<i>Ledo</i>	49%	—	2,940,000	—	On April 10, 2019, the Third DCA affirmed the trial court’s judgment against RJR Tobacco and denial of RJR Tobacco’s motion for a new trial; on the plaintiff’s cross appeal, the Third DCA reversed and remanded the order directing verdict in favor of RJR Tobacco on plaintiff’s punitive damages claim; the Third DCA reinstated the jury’s finding as to liability on that claim and remanded the case for a new trial on the amount of punitive damages; on October 18, 2021, the jury returned a verdict awarding \$2 million in punitive damages against RJR Tobacco. On August 22, 2022, the court granted RJR Tobacco’s motion for a mistrial and reversed the \$2 million punitive damages award. A new trial on punitive damages is scheduled for April 3, 2023.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

Plaintiff Case Name	RJR Tobacco Allocation of Fault	Lorillard Tobacco Allocation of Fault	Compensatory Damages (as adjusted) ⁽¹⁾	Punitive Damages	Appeal Status
<i>Leidinger</i>	67%	—	—	—	Final judgment was entered on December 5, 2021. RJR Tobacco posted a supersedeas bond in the amount of \$5 million on February 17, 2022. On June 7, 2022, the court granted RJR Tobacco’s renewed motion for directed verdict, or alternatively, for a new trial. The new trial has not been scheduled. On June 21, 2022, the plaintiff filed a notice of appeal to the Second DCA. RJR Tobacco filed a notice of cross-appeal on July 1, 2022. On October 28, 2022, claims were resolved against RJR Tobacco. The parties filed a stipulation for dismissal of the appeal, which was granted on October 31, 2022. RJR Tobacco paid \$4 million in satisfaction of the judgment on January 5, 2023.
<i>Wlasiuk</i>	68%	—	6,000,000 ⁽²⁾	—	Final judgment was entered on September 14, 2022. On September 16, 2022, RJR Tobacco filed a motion to set aside the verdict or alternatively for a new trial. On October 6, 2022, RJR Tobacco filed a supersedeas bond in the amount of \$5 million. On October 25, 2022, the parties executed a confidential settlement regarding final judgment. RJR Tobacco paid \$7.5 million in satisfaction of the judgment on January 6, 2023.
Totals			\$ 17,616,000	\$ —	

⁽¹⁾ Compensatory damages are adjusted to reflect the reduction that may be required by the allocation of fault. Punitive damages are not adjusted and reflect the amount of the final judgment(s) signed by the trial court judge(s). The amount listed above does not include attorneys’ fees or statutory interest of approximately \$4.6 million in *Blackwood, Konzelman, Ledo, Leidinger, or Wlasiuk*.

⁽²⁾ The court did not apply comparative fault in the final judgment.

The following chart lists judgments in all other individual *Engle* Progeny cases pending as of December 31, 2022, in which a verdict or judgment has been returned against RJR Tobacco, B&W, and/or Lorillard Tobacco and the verdict or judgment has or has not been set aside on appeal. No liability for any of these cases has been recorded in RAI’s consolidated balance sheet as of December 31, 2022. This chart does not include the mistrials or verdicts returned in favor of RJR Tobacco, B&W, and/or Lorillard Tobacco.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

Plaintiff Case Name	RJR Tobacco Allocation of Fault	Lorillard Tobacco Allocation of Fault	Compensatory Damages (as adjusted) ⁽¹⁾	Punitive Damages	Appeal Status
<i>Calloway</i>	—	—	\$ —	\$ —	Fourth DCA granted rehearing <i>en banc</i> and substituted a new opinion ordering a new trial based on improper argument; the new trial has not been scheduled.
<i>Robinson</i>	71%	—	—	—	Final judgment was entered in favor of RJR Tobacco on July 30, 2019; the plaintiff filed a notice of appeal to the First DCA on August 8, 2019; RJR Tobacco filed a notice of cross appeal on August 20, 2019; on September 29, 2021, the First DCA affirmed the judgment of the trial court, <i>per curiam</i> , with a citation to <i>Prentice</i> , described below; on October 29, 2021, the plaintiff filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court. On May 18, 2022, the Florida Supreme Court entered an order requiring the plaintiff to show cause as to why the Court’s decision in <i>Prentice</i> is not controlling in this case, and why the Court should not decline jurisdiction. The plaintiff filed a response on June 1, 2022, and RJR Tobacco responded on June 13, 2022. On October 28, 2022, the Florida Supreme Court denied the plaintiff’s petition for review. Per counsel, claims against RJR Tobacco have been resolved.
<i>Irimi</i>	—	—	—	—	On February 5, 2019, the Florida Supreme Court dismissed the plaintiff’s petition for review finding that the court had determined that it lacked jurisdiction, and it therefore dismissed the petition as improvidently granted; the new trial is scheduled for September 26, 2023.
<i>Rintoul (Caprio)</i>	49%	—	4,600,000	74,123,000	On November 13, 2019, the jury returned a verdict in favor of the plaintiff, found RJR Tobacco 49% at fault, PM USA 49% at fault, and the plaintiff 2% at fault, and awarded approximately \$9.2 million in compensatory damages; on November 15, 2019, the jury awarded approximately \$74.1 million in punitive damages against RJR Tobacco and approximately \$74.1 million in punitive damages against PM USA; on March 9, 2020, the trial court denied the defendants’ motions for a new trial and for judgment as a matter of law, granted their motion for stay of execution and for setoff, and took the remittitur motions under advisement; on August 4, 2020, the trial court entered an order on the post-trial motions, which updated the remittitur taken under advisement. The defendants’ motion for a new trial based on the excessiveness of the Phase I damages awards or, in the alternative, for remittitur of the Phase I awards was denied as to non-economic

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

Plaintiff Case Name	RJR Tobacco Allocation of Fault	Lorillard Tobacco Allocation of Fault	Compensatory Damages (as adjusted) ⁽¹⁾	Punitive Damages	Appeal Status
					damages and was granted as to economic damages. The economic damages award was reduced from \$200,000 to \$155,866.82. The defendants’ motion for a new trial based on the excessiveness of the punitive damages awards or, in the alternative for remittitur of the punitive damages award was denied; the defendants filed a notice of appeal to the Fourth DCA on September 3, 2020; RJR Tobacco posted a supersedeas bond in the amount of \$2.5 million on September 9, 2020; the plaintiff filed a notice of cross appeal on September 11, 2020. On May 11, 2022, the Fourth DCA reversed the final judgment against RJR Tobacco and PM and remanded the case for a new trial on all issues. The new trial has not been scheduled. On June 10, 2022, the plaintiff filed a motion for certification of question of great importance to the Florida Supreme Court. The motion was denied on July 13, 2022. On August 9, 2022, the plaintiff filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court. On August 24, 2022, the Florida Supreme Court stayed the case pending its disposition of <i>Ripple v. CBS Corp.</i> – a non-tobacco case presenting the question of whether a plaintiff/wife can recover loss of consortium damages for injuries resulting from exposure to asbestos before she and the decedent married.
<i>Ryan</i>	—	—	—	—	Fourth DCA reversed and remanded the case for a new trial on December 13, 2017; on July 18, 2019, the Florida Supreme Court denied the plaintiff’s petition for review. The new trial has been scheduled for September 26, 2023.
<i>McCoy</i>	—	—	—	—	Fourth DCA reversed and remanded the case for a new trial on November 8, 2017; in November 2019, the Florida Supreme Court denied the petition for review and declined to accept jurisdiction of the case. The new trial has not been scheduled.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

Plaintiff Case Name	RJR Tobacco Allocation of Fault	Lorillard Tobacco Allocation of Fault	Compensatory Damages (as adjusted) ⁽¹⁾	Punitive Damages	Appeal Status
<i>Duignan</i>	30%	—	—	—	The second new trial began on January 27, 2020; on February 18, 2020, the jury returned a verdict in favor of the plaintiff, found the decedent 30% at fault, RJR Tobacco 30% at fault and PM USA 40% at fault, and awarded \$2.75 million in compensatory damages and \$12 million in punitive damages against each defendant; the defendants filed a notice of appeal to the Second DCA, and RJR Tobacco posted a supersedeas bond in the amount of \$2.5 million on September 15, 2020; on March 9, 2022, the Second DCA affirmed the final judgment of the trial court, <i>per curiam</i> . RJR Tobacco and PM filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court on March 10, 2022. On March 11, 2022, the Florida Supreme Court entered an order staying the petition pending the disposition of <i>Prentice</i> , described below. On May 18, 2022, the Florida Supreme Court entered an order directing the plaintiff to show cause why the decision in <i>Prentice</i> is not controlling, and why the court should not quash the decision and remand for review in light of <i>Prentice</i> . Plaintiff filed a response to the order to show cause on June 2, 2022, and RJR Tobacco filed a reply on June 13, 2022. On November 23, 2022, the Florida Supreme Court granted review, quashed the March 9, 2022 decision of the Second DCA that affirmed the trial court's final judgment, and remanded the case to the trial court for reconsideration upon application of the decision in <i>Prentice</i> . On January 3, 2023, the parties filed supplemental briefs in the Second DCA.
<i>Oshinsky-Blacker</i>	—	—	—	—	On July 19, 2018, the Fourth DCA affirmed, <i>per curiam</i> , the trial court's order granting the defendants' motion for a new trial; new trial has not been scheduled. A case management conference is scheduled for January 24, 2023.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

Plaintiff Case Name	RJR Tobacco Allocation of Fault	Lorillard Tobacco Allocation of Fault	Compensatory Damages (as adjusted) ⁽¹⁾	Punitive Damages	Appeal Status
<i>Prentice</i>	—	—	—	—	On October 24, 2019, the First DCA reversed the judgment of the trial court and remanded the case for a new trial; on August 11, 2020, the Florida Supreme Court accepted jurisdiction of the case; oral argument occurred on June 2, 2021. On March 17, 2022, the Florida Supreme Court approved the First DCA’s decision and found that an <i>Engle</i> progeny plaintiff must prove that they relied on a statement made by an <i>Engle</i> defendant or co-conspirator and that concealed or omitted material information about the health effects or addictiveness of smoking cigarettes. The plaintiff filed a motion for rehearing, which was denied on May 17, 2022. The new trial has not been scheduled.
<i>Schlefstein</i>	—	—	—	—	On March 15, 2018, the court entered an amended final judgment against RJR Tobacco in the amount of approximately \$13.97 million in compensatory damages and \$28 million in punitive damages; on August 28, 2019, the Fourth DCA reversed the judgment of the trial court and remanded the case for a new trial on all issues; on April 6, 2020, the Florida Supreme Court declined to accept jurisdiction of the case; the new trial has not been scheduled. A case management conference is scheduled for June 8, 2023.
<i>Gloger</i>	57%	—	—	—	On November 8, 2019, the jury returned a verdict in favor of the plaintiff, found the plaintiff 10% at fault, RJR Tobacco 57% at fault, and PM USA 33% at fault, and awarded \$15 million in compensatory damages; on November 13, 2019, the jury awarded \$16.5 million in punitive damages against RJR Tobacco and \$11 million in punitive damages against PM USA; the defendants filed a notice of appeal to the Third DCA on January 6, 2020; RJR Tobacco posted a supersedeas bond in the amount of approximately \$2.2 million; oral argument occurred on September 8, 2021; on February 2, 2022, the Third DCA reversed the trial court’s judgment and remanded the case for a new trial. The new trial began on September 19, 2022, and on September 30, 2022, the court declared a mistrial due to the inability to seat a jury. A hearing will be scheduled to discuss a new trial.
<i>Kaplan</i>	—	—	—	—	Final judgment was entered against RJR Tobacco and the remaining defendant in the amount of approximately \$2.1 million in compensatory damages and \$671,000 in

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

Plaintiff Case Name	RJR Tobacco Allocation of Fault	Lorillard Tobacco Allocation of Fault	Compensatory Damages (as adjusted) ⁽¹⁾	Punitive Damages	Appeal Status
<i>Bessent-Dixon</i>	58%	—	—	—	<p>punitive damages against RJR Tobacco and \$2.3 million in punitive damages against the remaining defendant on August 30, 2018; defendants filed a joint notice of appeal to the Fourth DCA on September 24, 2018; RJR Tobacco posted a supersedeas bond in the amount of approximately \$1.7 million on September 27, 2018; the plaintiff filed a notice of cross appeal on October 4, 2018; on December 9, 2020, the Fourth DCA affirmed the final judgment of the trial court; on June 23, 2021, the Fourth DCA denied the defendants’ motion for rehearing <i>en banc</i> and issued a revised written opinion reminding trial judges of the option to use indirect civil contempt monetary sanctions for repeated violations of court rulings; the defendants filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court on July 23, 2021; on February 18, 2022, the Florida Supreme Court accepted jurisdiction, summarily quashed the decision being reviewed, and remanded the case to the district court for reconsideration in light of the decision in <i>Sheffield</i>. On March 16, 2022, the Fourth DCA issued a <i>per curiam</i> opinion reversing and remanding the case to the trial court for application of the amended punitive damages statute in determining the punitive damages award as required by <i>Sheffield</i>. On August 17, 2018, the court declared a mistrial as to Phase II only; the court deferred entering judgment for Phase I; retrial on punitive damages began on February 4, 2019; on February 7, 2019, the jury awarded \$13.5 million in punitive damages; on January 15, 2021, the First DCA reversed the judgement of the trial court based on improper jury instructions and remanded the case for a new trial; the plaintiff filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court on February 12, 2021; on May 18, 2022, the Florida Supreme Court entered an order directing the plaintiff to show cause why the decision in <i>Prentice</i> is not controlling, and why the court should not decline jurisdiction. Plaintiff filed a response to the order to show cause on June 2, 2022, and RJR Tobacco filed a reply on June 13, 2022. On October 28, 2022, the Florida Supreme Court denied the plaintiff’s petition for review. The plaintiff did not file a petition for writ of certiorari with the U.S.</p>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

Plaintiff Case Name	RJR Tobacco Allocation of Fault	Lorillard Tobacco Allocation of Fault	Compensatory Damages (as adjusted) ⁽¹⁾	Punitive Damages	Appeal Status
<i>Mahfuz</i>	45%	—	—	—	Supreme Court by the January 26, 2023 deadline. Final judgment was entered against RJR Tobacco and PM USA in the amount of approximately \$12 million in compensatory damages and \$15 million in punitive damages against RJR Tobacco and \$10 million in punitive damages against PM USA on March 2, 2019; the defendants filed a notice of appeal to the Fourth DCA on July 12, 2019, and RJR Tobacco posted a supersedeas bond in the amount of approximately \$2.8 million; the plaintiff filed a notice of cross appeal on July 17, 2019; on June 30, 2021, the Fourth DCA reversed the final judgment of the trial court and remanded the case for a new trial; the plaintiff filed a motion for rehearing <i>en banc</i> on August 4, 2021, which was denied on October 6, 2021; on April 19, 2022, the Florida Supreme Court declined to accept jurisdiction of the case. The new trial has not been scheduled.
<i>Neff</i>	80%	—	—	—	Final judgment was entered on March 22, 2019 against RJR Tobacco and PM USA, jointly and severally, in the amount of approximately \$4 million in compensatory damages and \$4 million in punitive damages against RJR Tobacco and \$2 million in punitive damages against PM USA; the defendants filed a notice of appeal to the Fourth DCA on August 20, 2019, and RJR Tobacco posted a supersedeas bond in the amount of approximately \$3 million; plaintiff filed a notice of cross appeal on August 21, 2019; on July 14, 2021, the Fourth DCA reversed the final judgment of the trial court and remanded the case for a new trial; on April 28, 2022, the Florida Supreme Court denied the plaintiff's petition for review. The new trial is scheduled for June 5, 2023.
<i>Robert Hamilton</i>	77.5%	—	—	—	Final judgment was entered on July 9, 2019; RJR Tobacco filed a notice of appeal to the Fourth DCA and posted a supersedeas bond in the amount of \$5 million on August 26, 2019; on February 10, 2021, the Fourth DCA reversed the final judgment of the trial court and remanded the case for a new trial on all issues except for the fraudulent concealment claim; the plaintiff filed a motion for rehearing on April 5, 2021, which was denied on May 26, 2021; on June 24, 2021, the plaintiff filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court; on January 26,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

Plaintiff Case Name	RJR Tobacco Allocation of Fault	Lorillard Tobacco Allocation of Fault	Compensatory Damages (as adjusted)⁽¹⁾	Punitive Damages	Appeal Status
<i>Spurlock</i>	30%	—	162,000	2,000,000	2022, the Florida Supreme Court declined to accept jurisdiction and denied the plaintiff's petition for review. The new trial has not been scheduled. On October 6, 2021, the court granted RJR Tobacco's directed verdict motion on the conspiracy claim. As a result, the decedent's 70% comparative fault applies to the compensatory damages verdict. On January 24, 2022, the court denied RJR Tobacco's motion for a new trial on punitive damages. Final judgment was entered on February 4, 2022 against RJR Tobacco in the amount of approximately \$2.2 million. RJR Tobacco filed a notice of appeal to the Fourth DCA on March 3, 2022, and the plaintiff filed a notice of cross-appeal on March 4, 2022. Briefing is underway.
<i>Wydra</i>	65%	—	3,000,000 ⁽²⁾	3,000,000	Final judgment was entered on November 23, 2021. RJR Tobacco posted a supersedeas bond in the amount of \$5 million on December 10, 2021. Post-trial motions were denied on March 1, 2022. RJR Tobacco filed a notice of appeal to the First DCA on March 28, 2022. Briefing is underway.
<i>Rutkowski</i>	90%	—	5,000,000 ⁽²⁾	5,000,000	Final judgment was entered against RJR Tobacco in the amount of approximately \$5 million in compensatory damages and \$5 million in punitive damages. On March 23, 2022, the court denied the defendant's post-trial motions. RJR Tobacco filed a notice of appeal to the Second DCA on April 18, 2022, and the plaintiff filed a notice of cross-appeal on April 20, 2022. The plaintiff withdrew its cross-appeal on January 9, 2023. Briefing is underway.
<i>Long</i>	60%	—	9,750,000 ⁽²⁾	—	RJR Tobacco filed post-trial motions on February 14, 2022. Final judgment was entered against RJR Tobacco in the amount of \$9.75 million in compensatory damages on February 15, 2022. On February 22, 2022, RJR Tobacco posted a supersedeas bond in the amount of \$5 million. The trial court denied the post-trial motions on June 21, 2022. RJR Tobacco filed a notice of appeal to the Second DCA on July 18, 2022. Briefing is underway.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

Plaintiff Case Name	RJR Tobacco Allocation of Fault	Lorillard Tobacco Allocation of Fault	Compensatory Damages (as adjusted) ⁽¹⁾	Punitive Damages	Appeal Status
<i>Giambalvo</i>	50%	—	7,000,000	8,495,000	Final judgment was entered on March 6, 2022. RJR Tobacco filed post-trial motions on March 10, 2022 and posted a supersedeas bond in the amount of \$5 million on March 17, 2022. On August 31, 2022, the court denied the defendant’s post-trial motions. RJR Tobacco filed a notice of appeal to the Second DCA on September 26, 2022. Briefing is underway.
<i>Schertzer</i>	22%	—	910,000	—	Final judgment was entered on May 5, 2022. On September 6, 2022, the court denied the defendant’s post-trial motions. RJR Tobacco and PM filed a notice of appeal to the Third DCA on September 26, 2022. Briefing is underway.
<i>Dubins</i>	52%	—	6,000,000	—	Final judgement has not been entered.
Totals			<u>\$ 36,422,000</u>	<u>\$ 92,618,000</u>	

⁽¹⁾ Unless otherwise noted, compensatory damages in these cases are adjusted to reflect the jury’s allocation of comparative fault. Punitive damages are not so adjusted. The amounts listed above do not include attorneys’ fees or statutory interest that may apply to the judgments and such fees and interest may be material.

⁽²⁾ The court did not apply comparative fault in the final judgment.

⁽³⁾ Should the pending post-trial motions be denied, RJR Tobacco will likely file a notice of appeal with the appropriate appellate court.

As reflected in the preceding chart, as of December 31, 2022, verdicts or judgments in favor of *Engle* Progeny plaintiffs have been entered and remain outstanding against RJR Tobacco or Lorillard Tobacco totaling \$36.4 million in compensatory damages (as adjusted) and \$92.6 million in punitive damages, which is a combined total of approximately \$129 million. These verdicts or judgments are at various stages in the post-trial or appellate process. RJR Tobacco believes that RJR Tobacco and Lorillard Tobacco have valid defenses in these cases, including case-specific issues beyond the due process issue discussed above, and, as described in more detail above in “— Accounting for Tobacco-Related Litigation Contingencies,” RJR Tobacco and its affiliates vigorously defend smoking and health claims, including *Engle* Progeny cases.

Should RJR Tobacco or Lorillard Tobacco not prevail in any particular individual *Engle* Progeny case or determine that in any individual *Engle* Progeny case an unfavorable outcome has become probable and the amount can be reasonably estimated, a loss would be recognized, which could have a material adverse effect on the results of operations, cash flows and financial position of RAI. This position on loss recognition for *Engle* Progeny cases as of December 31, 2022 is consistent with RAI’s and RJR Tobacco’s historic position on loss recognition for other smoking and health litigation. It is the policy of RJR Tobacco to record any loss concerning litigation at such time as an unfavorable outcome becomes probable and the amount can be reasonably estimated on an individual case-by-case basis.

Broin II Cases

Broin v. Philip Morris, Inc. (Cir. Ct. Miami-Dade County, Fla., filed 1991) was a class action brought on behalf of flight attendants alleged to have suffered from diseases or ailments caused by exposure to ETS in airplane cabins. In October 1997, RJR Tobacco, Lorillard Tobacco, B&W and other cigarette manufacturer defendants settled *Broin*, agreeing to pay a total of \$300 million in three annual \$100 million installments, allocated among the companies by market share, to fund research on the early detection and cure of diseases associated with tobacco smoke. It also required those companies to pay a total of \$49 million for the plaintiffs’ counsel’s fees and expenses. RJR Tobacco’s portion of these payments was approximately \$86 million; Lorillard Tobacco’s was approximately \$57 million; and B&W’s was approximately \$31 million. The settlement agreement, among other things, limits the types of claims class members may bring and eliminates claims for punitive damages. The settlement agreement also provides that, in individual cases by class members that are referred to as *Broin II* lawsuits, the defendant will bear the burden of proof with respect to whether ETS can cause certain specifically enumerated diseases, referred to as “general causation.” With respect to all other liability issues, including

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

whether an individual plaintiff's disease was caused by his or her exposure to ETS in airplane cabins, referred to as "specific causation," individual plaintiffs will bear the burden of proof. On September 7, 1999, the Florida Supreme Court approved the settlement.

As of December 31, 2022, there were 1,183 *Broin II* lawsuits pending in Florida. There have been no *Broin II* trials since 2007.

Class-Action Suits

Overview. As of December 31, 2022, 20 class-action cases, excluding the shareholder cases described below, were pending in the United States against Reynolds Defendants. These class actions seek recovery for personal injuries allegedly caused by cigarette smoking or, in some cases, for economic damages allegedly incurred by cigarette or e-cigarette consumers.

In 1996, the Fifth Circuit Court of Appeals in *Castano v. American Tobacco Co.* overturned the certification of a nation-wide class of persons whose claims related to alleged addiction to tobacco products, finding that the district court failed to properly assess variations in the governing state laws and whether common issues predominated over individual issues. Since the Fifth Circuit's ruling in *Castano*, few smoker class-action complaints have been certified or, if certified, have survived on appeal. Eighteen federal courts, including two courts of appeals, and most state courts that have considered the issue have rejected class certification in such cases. Apart from *Castano*, only two smoker class actions have been certified by a federal court – *In re Simon (II) Litigation* and *Schwab [McLaughlin] v. Philip Morris USA Inc.*, both of which were filed in the U.S. District Court for the Eastern District of New York and were later decertified.

Class-action suits based on claims that class members are at a greater risk of injury or were injured by the use of tobacco or exposure to ETS or claims that seek primarily economic damages were pending against RJR Tobacco, Lorillard Tobacco, or their affiliates or indemnitees in state or federal courts in California, District of Columbia, Florida, Illinois, Louisiana, Missouri, New Mexico, New York, North Carolina, West Virginia and the U.S. Virgin Islands. All pending class-action cases are discussed below.

Several class actions relating to claims in advertising and promotional materials for SFNTC's NATURAL AMERICAN SPIRIT brand cigarettes are pending in federal courts. A total of 17 such actions have been filed in nine U.S. district courts. In general, these plaintiffs allege that use of the words "natural," "additive-free," "organic" or "tobacco and water" in NATURAL AMERICAN SPIRIT advertising and promotional materials suggests that those cigarettes are less harmful than other cigarettes and, for that reason, violated state consumer protection statutes or amounted to fraud or a negligent or intentional misrepresentation. These cases are discussed below under "— No Additive/Natural Claim Cases."

Additional class actions relating to alleged personal injuries purportedly caused by use of cigarettes or exposure to ETS are pending. These cases are discussed below under "— Other Class Actions."

Finally, certain third-party payers have filed health-care cost recovery actions in the form of class actions. These cases are discussed separately below under "— Health-Care Cost Recovery Cases."

"Lights" Cases

Beginning in roughly 2000, several class action lawsuits were filed against RJR Tobacco, its affiliates or indemnitees, and other cigarette manufacturers alleging that the use of the term "lights" constituted an unfair and deceptive trade practice under state law and violated federal RICO. The seminal "lights" class action was *Price v. Philip Morris, Inc.* (Cir. Ct. Madison County, Ill. filed 2000), where the trial court awarded \$7.1 billion in compensatory damages and \$3 billion in punitive damages. The Illinois Supreme Court later reversed the trial court's judgment and directed that the case be dismissed. No "lights" class actions are pending against RJR Tobacco, its affiliates, or its indemnitees.

No Additive/Natural/Organic Claim Cases

Following the FDA's August 27, 2015, warning letter to SFNTC relating to the use of the words "natural" and "additive-free" in the labeling, advertising and promotional materials for NATURAL AMERICAN SPIRIT brand cigarettes, plaintiffs purporting to bring claims on behalf of themselves and others have filed putative nationwide and/or state-specific class actions against SFNTC and, in some instances, RAI. In various combinations, plaintiffs in these cases generally allege violations of state deceptive and unfair trade practice statutes and assert claims for state common law fraud, negligent misrepresentation, and unjust enrichment based on the use of descriptors such as "natural," "organic" and "100% additive-free" in the marketing, labeling, advertising, and promotion of SFNTC's NATURAL AMERICAN SPIRIT brand cigarettes. The actions seek various categories of recovery, including economic damages, injunctive relief (including medical monitoring and cessation programs), interest, restitution, disgorgement, treble and punitive damages, and attorneys' fees and costs.

On January 6, 2016, the plaintiffs in one action filed a motion before the U.S. Judicial Panel on Multidistrict Litigation ("JPML") to consolidate these actions before one district court for pre-trial purposes. On April 11, 2016, the JPML ordered that these cases be consolidated for pre-trial purposes before Judge James O. Browning in the U.S. District Court for the District of New Mexico, referred to as the transferee court, and the then-pending and later-filed cases now are consolidated for pre-trial purposes in that court. The transferee court entered a scheduling order requiring the plaintiffs to file a consolidated amended complaint. On September 19, 2016, the plaintiffs filed a consolidated amended complaint naming SFNTC, RAI, and RJR Tobacco as defendants. That complaint alleges

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violations of 12 states’ deceptive and unfair trade practices statutes – California, Colorado, Florida, Illinois, Massachusetts, Michigan, North Carolina, New Jersey, New Mexico, New York, Ohio, and West Virginia – based on the use of descriptors such as “natural,” “organic” and “100% additive-free” in the marketing, labeling, advertising, and promotion of SFNTC’s NATURAL AMERICAN SPIRIT brand cigarettes. It also asserts unjust enrichment claims under those 12 states’ laws and asserts breach of express warranty claims on behalf of a national class of NATURAL AMERICAN SPIRIT menthol purchasers. The state deceptive and unfair trade practice statutory and unjust enrichment claims are brought on behalf of state-specific classes in the 12 states listed above and, in some instances, state-specific subclasses. The consolidated amended complaint sought class certification, payment for class notice, injunctive relief, monetary damages, prejudgment interest, statutory damages, restitution, and attorneys’ fees and costs. On January 12, 2017, the plaintiffs filed a second amended class action complaint seeking essentially the same relief as the initial consolidated complaint. On February 23, 2017, the defendants moved to dismiss the second amended class action complaint. On December 21, 2017, the transferee court granted the motion to dismiss in part, dismissing a number of claims with prejudice, and denied the motion in part. On December 14-18, 2020, the district court conducted a hearing on the motion for class certification and on the parties’ *Daubert* motion. Post-hearing briefing is complete. A decision is pending.

Other Class Actions

In *April Young v. American Tobacco Co., Inc.* (Cir. Ct. Orleans Parish, La., filed 1997), the plaintiff brought a class action against U.S. cigarette manufacturers, including RJR Tobacco and B&W, and parent companies of U.S. cigarette manufacturers, including RJR, on behalf of a putative class of Louisiana residents who, though not themselves cigarette smokers, allegedly suffered injury as a result of exposure to ETS from cigarettes manufactured by defendants. The plaintiffs seek to recover an unspecified amount of compensatory and punitive damages. In March 2016, the court entered an order staying the case, including all discovery, pending the completion of the smoking cessation program ordered by the court in *Scott v. The American Tobacco Co.*

In *Diana Jones v. American Tobacco Co., Inc.* (Cir. Ct., Jackson County, Mo., filed 1998), the plaintiff filed a class action against the major U.S. cigarette manufacturers, including RJR Tobacco, B&W, Lorillard Tobacco, and parent companies of U.S. cigarette manufacturers, including RJR and Lorillard, on behalf of a putative class of Missouri tobacco product users and purchasers who allegedly became addicted to nicotine. The plaintiffs seek an unspecified amount of compensatory and punitive damages. There is currently no activity in this case.

Filter Cases

Claims have been brought against Lorillard Tobacco and Lorillard by individuals who seek damages for injuries resulting from their alleged exposure to asbestos fibers that were incorporated into filter material used in one brand of cigarettes manufactured by a predecessor to Lorillard Tobacco for a limited period of time ending more than 50 years ago. As of December 31, 2022, Lorillard Tobacco and/or Lorillard was a defendant in 46 Filter Cases. Since January 1, 2020, Lorillard Tobacco and RJR Tobacco have paid, or have reached agreement to pay, a total of approximately \$22.3 million in settlements to resolve 84 Filter Cases.

Pursuant to the terms of a 1952 agreement between P. Lorillard Company and H&V Specialties Co., Inc. (the manufacturer of the filter material), Lorillard Tobacco is required to indemnify Hollingsworth & Vose for legal fees, expenses, judgments and resolutions in cases and claims alleging injury from finished products sold by P. Lorillard Company that contained the filter material.

Health-Care Cost Recovery Cases

Health-care cost recovery cases have been brought by a variety of plaintiffs. Other than certain governmental actions, these cases largely have been unsuccessful on remoteness grounds, which means that one who pays an injured person’s medical expenses is legally too remote to maintain an action against the person allegedly responsible for the injury.

As of December 31, 2022, two health-care cost recovery cases were pending in the United States against RJR Tobacco, B&W, Lorillard Tobacco, or all three, as discussed below after the discussion of the State Settlement Agreements. A limited number of claimants have filed suit against RJR Tobacco, one of its affiliates, and other tobacco industry defendants to recover funds for health care, medical and other assistance paid by foreign provincial governments in treating their citizens. For additional information on these cases, see “— International Cases” below.

State Settlement Agreements. In June 1994, the Mississippi Attorney General brought an action, *Moore v. American Tobacco Co.*, against various industry members, including RJR Tobacco, B&W and Lorillard Tobacco. This case was brought on behalf of the state to recover state funds paid for health care and other assistance to state citizens suffering from diseases and conditions allegedly related to tobacco use. Most other states, through their attorneys general or other state agencies, sued RJR Tobacco, B&W, Lorillard Tobacco and other U.S. cigarette manufacturers based on similar theories. The cigarette manufacturer defendants, including RJR Tobacco, B&W and Lorillard Tobacco, settled the first four of these cases scheduled for trial — Mississippi, Florida, Texas and Minnesota — by separate agreements with each such state.

On November 23, 1998, the major U.S. cigarette manufacturers, including RJR Tobacco, B&W and Lorillard Tobacco, entered into the Master Settlement Agreement with attorneys general representing the remaining 46 states, the District of Columbia, Puerto

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

Rico, Guam, the Virgin Islands, American Samoa and the Northern Marianas. Effective on November 12, 1999, the MSA settled all the health-care cost recovery actions brought by, or on behalf of, the settling jurisdictions and released various additional present and future claims.

In the settling jurisdictions, the MSA released RJR Tobacco, B&W, Lorillard Tobacco, and their affiliates and indemnitees, including RAI and Lorillard, from:

- all claims of the settling states and their respective political subdivisions and other recipients of state health-care funds, relating to past conduct arising out of the use, sale, distribution, manufacture, development, advertising, marketing or health effects of, the exposure to, or research, statements or warnings about, tobacco products; and
- all monetary claims of the settling states and their respective political subdivisions and other recipients of state health-care funds, relating to future conduct arising out of the use of or exposure to, tobacco products that have been manufactured in the ordinary course of business.

RAI’s operating subsidiaries expenses and payments under the State Settlement Agreements for 2021, 2022 and the projected expenses and payments for 2023 and thereafter (in millions) are set forth below. Such payments are subject to adjustments for changes in sales volume, inflation, operating profit and other factors. Payments are allocated among the companies on the basis of relative market share or other methods. The 2021 cash payments include a \$290 million partial prepayment related to the April 2022 annual payment. For further information, see “— State Settlement Agreements—Enforcement and Validity; Adjustments” below.⁽¹⁾

	2021	2022	2023	2024 and thereafter
Settlement expenses	\$3,420	\$2,951		
Settlement cash payments	\$3,744	\$3,129		
Projected settlement expenses <i>(unaudited)</i>			\$>2,800	\$>2,800
Projected settlement cash payments <i>(unaudited)</i>			\$>3,000	\$>2,800

⁽¹⁾ The amounts above reflect the impact of the NPM Settlement and the NY State Settlement described below under “— State Settlement Agreements—Enforcement and Validity; Adjustments — Partial Settlement of Certain NPM Adjustment Claims.”

The State Settlement Agreements also contain provisions restricting the marketing of tobacco products. Among these provisions are restrictions or prohibitions on the use of cartoon characters, brand-name sponsorships, apparel and other merchandise, outdoor and transit advertising, payments for product placement, free sampling and lobbying. Furthermore, the State Settlement Agreements required the dissolution of three industry-sponsored research and trade organizations.

The State Settlement Agreements have materially adversely affected RJR Tobacco’s shipment volumes. RAI believes that these settlement obligations may materially adversely affect the results of operations, cash flows or financial position of RAI and RJR Tobacco in future periods. The degree of the adverse impact will depend, among other things, on the rate of decline in U.S. cigarette sales in the premium and value categories, RJR Tobacco’s share of the domestic premium and value cigarette categories, and the effect of any resulting cost advantage of manufacturers not subject to the State Settlement Agreements.

U.S. Department of Justice Case

In *United States v. Philip Morris USA Inc.* (U.S.D.C. D.D.C., filed 1999), the U.S. Department of Justice brought an action against RJR Tobacco, B&W, Lorillard Tobacco and other tobacco companies seeking (1) recovery of federal funds expended in providing health care to smokers who developed alleged smoking-related diseases pursuant to the Medical Care Recovery Act and Medicare Secondary Payer provisions of the Social Security Act and (2) equitable relief under the civil provisions of RICO, including disgorgement of roughly \$280 billion in profits the government contended were earned as a consequence of a purported racketeering “enterprise.” In September 2000, the district court dismissed the government’s Medical Care Recovery Act and Medicare Secondary Payer claims. In February 2005, the U.S. Court of Appeals for the D.C. Circuit, referred to as the D.C. Circuit, ruled that disgorgement was not an available remedy.

On August 17, 2006, after a non-jury bench trial, the district court found certain defendants, including RJR Tobacco, B&W and Lorillard Tobacco, had violated RICO, but did not impose any direct financial penalties. The district court instead enjoined RJR Tobacco, Lorillard Tobacco and the other defendants from committing future racketeering acts, participating in certain trade organizations, making misrepresentations concerning smoking and health and youth marketing, and using certain brand descriptors such as “low tar,” “light,” “ultra light,” “mild” and “natural.” The district court also ordered RJR Tobacco, Lorillard Tobacco and the other defendants to issue “corrective communications” on five subjects, including smoking and health and addiction, and to comply with further undertakings, including maintaining web sites of historical corporate documents and disseminating certain marketing information on a confidential basis to the government. In addition, the district court placed restrictions on the defendants’ ability to dispose of certain assets for use

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in the United States, unless the transferee agrees to abide by the terms of the district court's order, and ordered certain defendants to reimburse the U.S. Department of Justice its taxable costs incurred in connection with the case.

Defendants, including RJR Tobacco, B&W, and Lorillard Tobacco, appealed, the government cross appealed, and the defendants moved in the district court for clarification and a stay pending appeal. After the district court denied the defendants' motion to stay, the D.C. Circuit granted a stay in October 2006.

The district court then granted the motion for clarification in part and denied it in part. With respect to the meaning and applicability of the general injunctive relief of the August 2006 order, the district court denied the motion for clarification. With respect to the request for clarification as to the scope of the provisions in the order prohibiting the use of descriptors and requiring corrective statements at retail point of sale, the district court granted the motion and also ruled that the provisions prohibiting the use of express or implied health messages or descriptors do apply to the actions of the defendants taken outside of the United States.

In May 2009, the D.C. Circuit largely affirmed both the finding of liability against the tobacco defendants and the remedial order, including the denial of additional remedies, but vacated the order and remanded for further proceedings as to the following four discrete issues:

- the issue of the extent of B&W's control over tobacco operations was remanded for further fact finding and clarification;
- the remedial order was vacated to the extent that it binds all defendants' subsidiaries and was remanded to the district court for determination as to whether inclusion of the subsidiaries and which of the subsidiaries satisfies Rule 65(d) of the Federal Rules of Civil Procedure;
- the D.C. Circuit held that the provision found in paragraph four of the injunction, concerning the use of any express or implied health message or health descriptor for any cigarette brand, should not be read to govern overseas sales. The issue was remanded to the district court with instructions to reformulate the injunction so as to exempt foreign activities that have no substantial, direct and foreseeable domestic effects; and
- the remedial order was vacated regarding "point of sale" displays and remanded for the district court to evaluate and make due provisions for the rights of innocent persons, either by abandoning this part of the remedial order or re-crafting a new version reflecting the rights of third parties.

In June 2010, the U.S. Supreme Court denied all parties' petitions for writs of certiorari.

On December 22, 2010, the district court dismissed B&W from the litigation. In November 2012, the trial court entered an order setting forth the text of the corrective statements and directed the parties to engage in discussions with the Special Master to implement them. After extensive mediation led the parties to an implementation agreement, the district court entered an implementation order on June 2, 2014. The defendants filed a consolidated appeal challenging both the content of the court-ordered statements and the requirement that those statements be published in redundant media. On May 22, 2015, the D.C. Circuit reversed the corrective statements order in part, affirmed in part, and remanded to the district court for further proceedings. On October 1, 2015, the district court ordered the parties to propose new corrective-statements preambles. On February 8, 2016, the district court entered an order adopting the government's proposed corrective-statements preamble. The parties then mediated, per the district court's order, changes to the implementation order necessitated by the new preamble. On April 19, 2016, the district court accepted the parties' mediated agreement on implementation and entered a superseding consent order with respect to implementation. The superseding consent order stayed implementation of the corrective statements until the exhaustion of appeals from the orders establishing the text of those statements and governing implementation details. On April 7, 2016, the defendants and the post-judgment parties regarding remedies appealed to the D.C. Circuit from the district court's order adopting the government's proposed corrective-statement preambles. On May 6, 2016, the defendants and post-judgment parties regarding remedies appealed to the D.C. Circuit from the superseding consent order, and the D.C. Circuit then consolidated the two appeals. On April 25, 2017, the D.C. Circuit affirmed in part, reversed in part, and remanded for further proceedings. Additionally, RJR Tobacco appealed the district court's May 28, 2015, order requiring RJR Tobacco to televise an additional set of corrective statements on behalf of B&W, which order the D.C. Circuit upheld on November 1, 2016. The compelled public statements began appearing in US newspapers on November 24, 2017 and ran serially over four months. They began appearing on national US broadcast television networks on November 27, 2017 and ran several times per week for one year. The statements also began appearing on RJR Tobacco's website in June 2018 and in package inserts beginning in November 2018 and concluded in late 2020. The final issue regarding compelled public statements was their display at retail point of sale. On December 6, 2022, the district court entered a consent order requiring the tobacco company defendants to have the compelled public statements displayed in all participating retailer locations from October 1, 2023 through June 30, 2025. In light of the POS implementation, approximately \$17 million has been accrued for the estimated costs and is included in the consolidated balance sheet as of December 31, 2022.

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Native American Tribe Case

As of December 31, 2022, one Native American tribe case was pending before a tribal court against RJR Tobacco, B&W and Lorillard Tobacco, *Crow Creek Sioux Tribe v. American Tobacco Co.* (Tribal Ct., Crow Creek Sioux, S.D., filed 1997). The plaintiffs seek to recover actual and punitive damages, restitution, funding of a clinical cessation program, funding of a corrective public education program, and disgorgement of unjust profits from sales to minors. The plaintiffs claim that the defendants are liable under the following theories: unlawful marketing and targeting of minors, contributing to the delinquency of minors, unfair and deceptive acts or practices, unreasonable restraint of trade and unfair method of competition, negligence, negligence per se, conspiracy and restitution of unjust enrichment. The case is dormant.

International Cases

Each of the ten Canadian provinces has filed a health-care cost recovery action against Canadian and non-Canadian tobacco-related entities, including RJR Tobacco and one of its affiliates. In these actions, which are described below, each of the Canadian provinces seeks to recover for health care, medical and other assistance paid and to be paid for treating tobacco-related disease. Pursuant to the terms of the 1999 sale of RJR Tobacco's international tobacco business, RJR Tobacco has tendered the defense of these actions to JTI. Subject to a reservation of rights, JTI has assumed the defense of RJR Tobacco and its affiliate in these actions. In the wake of Canadian bankruptcy proceedings involving the three principal Canadian cigarette manufacturers (none of which is a RAI company), all activity in these cases, as well as the class action cases discussed below, has been stayed through March 31, 2023. The stay may be further extended. During the stay, negotiations, under the auspices of the Canadian bankruptcy court, are proceeding regarding a potential resolution of all these cases against all defendants, not just the three principal Canadian cigarette manufacturers that have sought bankruptcy protection.

- *British Columbia* (British Columbia Sup. Ct., Vancouver Registry, filed 1997) - In 1997, British Columbia enacted a statute creating a civil cause of action against tobacco-related entities for the provincial government to recover the costs of health-care benefits incurred for insured British Columbia residents resulting from tobacco-related disease. An initial action brought pursuant to the statute against Canadian and non-Canadian tobacco-related entities, including RJR Tobacco and certain of its affiliates, was dismissed in February 2000 when the British Columbia Supreme Court ruled that the legislation was unconstitutional. British Columbia then enacted a revised statute, pursuant to which an action was filed in January 2001 against many of the same defendants, including RJR Tobacco and one of its affiliates. In that action, the British Columbia government seeks to recover the present value of its total expenditures for health-care benefits provided for insured persons resulting from tobacco-related disease or the risk of tobacco-related disease caused by alleged breaches of duty by the manufacturers, the present value of its estimated total expenditures for health-care benefits that reasonably could be expected to be provided for those insured persons resulting from tobacco-related disease or the risk of tobacco-related disease in the future, court ordered interest, and costs, or in the alternative, special or increased costs. The government alleges that the defendants are liable under the British Columbia statute by reason of their "tobacco related wrongs," which are alleged to include: selling defective products, failure to warn, sale of cigarettes to children and adolescents, strict liability, deceit and misrepresentation, violation of trade practice and competition acts, concerted action, and joint liability. RJR Tobacco and its affiliate filed statements of defense in January 2007. Pre-trial discovery was ongoing, but the case is subject to the stay referenced above.
- *New Brunswick* (Ct. of Queen's Bench of New Brunswick, Jud. Dist. Fredericton, filed 2008) - This claim is brought pursuant to New Brunswick legislation enacted in 2008 that is substantially similar to the revised British Columbia statute described above. It seeks recovery of essentially the same types of damages sought in the British Columbia action based on analogous theories of liability. RJR Tobacco and its affiliate filed statements of defense in March 2010. Pre-trial discovery is ongoing. Trial was set to begin on November 4, 2019, however, on March 7, 2019, the New Brunswick Court of Queen's Bench released a decision which requires the Province to produce a substantial amount of additional documentation and data to the defendants. As a result, the original trial date of November 4, 2019 was delayed. No new trial date has been set, and the case is subject to the stay referenced above.
- *Ontario* (Ontario Super. Ct. Justice, Toronto, filed 2009) - This claim is brought pursuant to Ontario legislation that is substantially similar to the revised British Columbia statute described above. It seeks recovery of essentially the same types of damages sought in the British Columbia action based on analogous theories of liability, although the government also asserted claims based on the illegal importation of cigarettes, which claims were deleted in an amended statement of claim filed in August 2010. RJR Tobacco and its affiliate filed statements of defense in April 2016. Pretrial discovery was ongoing. No trial date has been set, and the case is subject to the stay referenced above.
- *Newfoundland and Labrador* (Sup. Ct. Newfoundland and Labrador, St. John's, filed 2011) - This claim is brought pursuant to Newfoundland and Labrador legislation that is substantially similar to the revised British Columbia statute described above.

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It seeks recovery of essentially the same types of damages sought in the British Columbia action based on analogous theories of liability. RJR Tobacco and its affiliate filed statements of defense in May 2016. Pretrial discovery was ongoing. No trial date has been set, and the case is subject to the stay referenced above.

- *Manitoba* (Ct. of Queen’s Bench, Winnipeg Jud. Centre, filed 2012) - This claim is brought pursuant to Manitoba legislation that is substantially similar to the revised British Columbia statute described above. It seeks recovery of essentially the same types of damages sought in the British Columbia action based on analogous theories of liability. RJR Tobacco and its affiliate filed statements of defense in September 2014. No trial date has been set, and the case is subject to the stay referenced above.
- *Quebec* (Super. Ct. Quebec, Dist. Montreal, filed 2012) - This claim is brought pursuant to Quebec legislation that is substantially similar to the revised British Columbia statute described above. It seeks recovery of essentially the same types of damages being sought in the British Columbia action based on analogous theories of liability. RJR Tobacco and its affiliate filed defenses in December 2014. Pre-trial discovery was ongoing. No trial date has been set, and the case is subject to the stay referenced above.
- *Saskatchewan* (Ct. of Queen’s Bench, Jud. Centre Saskatoon filed 2012) - This claim is brought pursuant to Saskatchewan legislation that is substantially similar to the revised British Columbia statute described above. It seeks recovery of essentially the same types of damages sought in the British Columbia action based on analogous theories of liability. RJR Tobacco and its affiliate filed statements of defense in February 2015. No trial date has been set, and the case is subject to the stay referenced above.
- *Alberta* (Ct. of Queen’s Bench, Alberta Jud. Centre of Calgary filed 2012) - This claim is brought pursuant to Alberta legislation that is substantially similar to the revised British Columbia statute described above. It seeks recovery of essentially the same types of damages sought in the British Columbia action based on analogous theories of liability. RJR Tobacco and its affiliate filed statements of defense in March 2016. No trial date has been set, and the case is subject to the stay referenced above.
- *Prince Edward Island* (Sup. Ct. P.E.I., Charlottetown, filed 2012) - This claim is brought pursuant to Prince Edward Island legislation that is substantially similar to the revised British Columbia statute described above. It seeks recovery of essentially the same types of damages sought in the British Columbia action based on analogous theories of liability. RJR Tobacco and its affiliate filed statements of defense in February 2015. No trial date has been set, and the case is subject to the stay referenced above.
- *Nova Scotia* (Sup. Ct. Nova Scotia, Halifax, filed 2015) - This claim is brought pursuant to Nova Scotia legislation that is substantially similar to the revised British Columbia statute described above. It seeks recovery of essentially the same types of damages sought in the British Columbia action based on analogous theories of liability. RJR Tobacco and its affiliate filed statements of defense in July 2015. No trial date has been set, and the case is subject to the stay referenced above.

Seven putative class actions, which are described below, have been filed against various Canadian and non-Canadian tobacco-related entities, including RJR Tobacco and one of its affiliates, in Canadian provincial courts. In these cases, the plaintiffs allege claims based on fraud, fraudulent concealment, breach of warranty, breach of warranty of merchantability, and of fitness for a particular purpose, failure to warn, design defects, negligence, breach of a “special duty” to children and adolescents, conspiracy, concert of action, unjust enrichment, market share liability, and violations of various trade practices and competition statutes. The plaintiffs seek recovery on behalf of proposed classes of persons allegedly suffering from tobacco-related disease as a result of smoking defendants’ cigarettes and seek recovery of compensatory and punitive damages, restitution, recovery of government health-care benefits, interest, and costs. Pursuant to the terms of the 1999 sale of RJR Tobacco’s international tobacco business, RJR Tobacco has tendered the defense of these seven actions to JTI. Subject to a reservation of rights, JTI has assumed the defense of RJR Tobacco and its current or former affiliates in these actions.

As noted previously, these cases, too, have been stayed pending efforts to negotiate a resolution under the auspices of the Canadian bankruptcy court. Here, too, the status of the cases reported below is as of the entry of the original stay. Before the stay, plaintiffs’ counsel had been actively pursuing only *Bourassa*, the action pending in British Columbia.

- In *Kunka v. Canadian Tobacco Manufacturers’ Council* (Ct. of Queen’s Bench, Winnipeg Jud. Centre, filed 2009), the plaintiff seeks compensatory and punitive damages on behalf of a proposed class of persons who purchased or smoked defendants’ cigarettes and suffered, or currently suffer, from tobacco-related disease, as well as restitution of profits and reimbursement of government expenditure for health-care benefits allegedly caused by the use of tobacco products.
- In *Dorion v. Canadian Tobacco Manufacturers’ Council* (Ct. of Queen’s Bench, Alberta Jud. Centre of Calgary – filed 2009), the plaintiff seeks compensatory and punitive damages on behalf of a proposed class of persons who purchased or smoked

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defendants' cigarettes and suffered, or currently suffer, from tobacco-related disease, as well as restitution of profits and reimbursement of government expenditure for health-care benefits allegedly caused by the use of tobacco products.

- In *Simple v. Canadian Tobacco Manufacturers' Council* (Sup. Ct. Nova Scotia, Halifax, filed 2009), the plaintiff seeks compensatory and punitive damages on behalf of a proposed class comprised of persons who purchased or smoked defendants' cigarettes for the period from January 1, 1954, to the expiry of the opt-out period as set by the court and suffered, or currently suffer, from tobacco-related disease, as well as restitution of profits and reimbursement of government expenditure for health-care costs allegedly caused by the use of tobacco products.
- In *Adams v. Canadian Tobacco Manufacturers' Council* (Ct. of Queen's Bench, Jud. Centre of Regina, filed 2009), the plaintiff seeks compensatory and punitive damages on behalf of a proposed class of persons who were alive on July 10, 2009, and suffered, or currently suffer, from chronic obstructive pulmonary disease, emphysema, heart disease or cancer, after having smoked a minimum of 25,000 of defendants' cigarettes, as well as disgorgement of revenues earned by the defendants. RJR Tobacco and its affiliate have brought a motion challenging the jurisdiction of the Saskatchewan court.
- In *Bourassa v. Imperial Tobacco Canada Ltd.* (Sup. Ct. of British Columbia, Victoria Registry, filed 2010), the plaintiff seeks compensatory and punitive damages on behalf of a proposed class of persons who were alive on June 12, 2007, and suffered, or currently suffer, from chronic respiratory diseases, after having smoked a minimum of 25,000 of defendants' cigarettes, as well as disgorgement of revenues earned by the defendants from January 1, 1954, to the date the claim was filed. RJR Tobacco and its affiliate have filed a challenge to the jurisdiction of the British Columbia court. The plaintiff filed a motion for certification in April 2012 and filed affidavits in support in August 2013. An amended claim was filed in December 2014.
- In *McDermid v. Imperial Tobacco Canada Ltd.* (Sup. Ct. of British Columbia, Victoria Registry, filed 2010), the plaintiff seeks compensatory and punitive damages on behalf of a proposed class of persons who were alive on June 12, 2007, and suffered, or currently suffer, from heart disease, after having smoked a minimum of 25,000 of defendants' cigarettes, as well as disgorgement of revenues earned by the defendants from January 1, 1954, to the date the claim was filed. RJR Tobacco and its affiliate have filed a challenge to the jurisdiction of the British Columbia court.
- In *Jacklin v. Canadian Tobacco Manufacturers' Council* (Ontario Super. Ct. of Justice, St. Catherines, filed 2012), the plaintiff seeks compensatory and punitive damages on behalf of a proposed class of persons who were alive on June 12, 2007, and suffered, or currently suffer, from chronic obstructive pulmonary disease, heart disease, or cancer, after having smoked a minimum of 25,000 of defendants' cigarettes, as well as restitution of profits, and reimbursement of government expenditure for health-care benefits allegedly caused by the use of tobacco products.

State Settlement Agreements—Enforcement and Validity; Adjustments

As of December 31, 2022, there was one case concerning the enforcement, validity or interpretation of the State Settlement Agreements in which RJR Tobacco, B&W or Lorillard Tobacco is a party.

In May 2006, the State of Florida filed a motion, in the Circuit Court of the Fifteenth Judicial Circuit, in and for Palm Beach County, Florida, to enforce the Florida settlement agreement, referred to as the Florida Settlement Agreement, for an accounting by B&W and for an Order of Contempt. The State asserted that B&W failed to report in its net operating profit on its shipments, cigarettes manufactured by B&W under contract for Star Tobacco or its parent, Star Scientific, Inc. The State is seeking approximately \$12.4 million in additional payments under the Florida Settlement Agreement, as well as \$17.0 million in interest payments. This matter is in the discovery phase.

Subsequently, on January 18, 2017, the State of Florida filed a motion to join ITG Brands, LLC ("ITG") as a defendant and to enforce the Florida Settlement Agreement. The State's motion sought payment under the Florida Settlement Agreement with respect to the four brands (WINSTON, SALEM, KOOL and MAVERICK) that were sold to ITG in the Divestiture, referred to as the Acquired Brands. Under the asset purchase agreement relating to the Divestiture (and related documents), ITG was to assume responsibility with respect to these brands. Since the closing of the Divestiture and the transfer of these brands to it, ITG has not made settlement payments to the State with respect to these brands. The State's motion asserted that it "is presently owed more than \$45 million and will continue to suffer annual losses of approximately \$30 million absent the Court's enforcement of the Settlement Agreement..." The State's motion sought, among other things, an order from the court declaring that RJR Tobacco and ITG breached the Florida Settlement Agreement and were required, jointly and severally, to make annual payments to the State under the Florida Settlement Agreement with respect to the Acquired Brands.

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Also, on January 18, 2017, Philip Morris USA filed a motion to enforce the Florida Settlement Agreement. Philip Morris USA, Inc.'s motion asserted, among other things, that RJR Tobacco and ITG breached the Florida Settlement Agreement by failing to comply with the obligations under the Florida Settlement Agreement with respect to the Acquired Brands, which Philip Morris USA asserted improperly shifted settlement payment obligations to Philip Morris USA.

On January 27, 2017, RJR Tobacco sought leave to file a supplemental pleading for breach by ITG of its obligations regarding joinder into the Florida Settlement Agreement asserting that ITG failed to use its reasonable best efforts to join the Florida Settlement Agreement and breached the asset purchase agreement relating to the Divestiture. On March 30, 2017, the Florida court ruled that ITG should be joined into the enforcement action.

On December 18-20, 2017, a three-day bench trial was held on the State's and Philip Morris USA's Motions to Enforce the Florida Settlement Agreement (excluding the issues relating to Profit Adjustment). On December 27, 2017, the Court entered an order holding that RJR Tobacco (not ITG) is liable for annual settlement payments for the Acquired Brands. The court found that ITG did not assume liability for annual settlement payments under the terms of the asset purchase agreement relating to the Divestiture and RJR Tobacco's liability for payments under the Florida Settlement Agreement continues with regard to the Acquired Brands. In January 2018, the auditor of the Florida State Settlements Agreement adjusted the final 2017 invoice for the annual payment and amended the 2015 and 2016 invoices for the respective annual payment and the net operating profit penalty for each of those years under the Florida Settlement Agreement, based on the auditor's interpretation of the court's order. The adjusted invoices reflected amounts due to both the State of Florida and Philip Morris USA. In total, the estimated additional amounts due were \$99 million with \$84 million to the State of Florida and \$16 million to Philip Morris USA. RJR Tobacco advised the auditor that it disputed these amounts, and therefore, no further amounts were due or would be paid for those years pending the final resolution of RJR Tobacco's appeal of the court's order. On February 1, 2018, Philip Morris USA and the State filed a joint motion for the entry of final judgment. The court declined to enter final judgment until after resolution of the dispute between RJR Tobacco and Philip Morris USA. However, on August 15, 2018, the Court entered a Final Judgment in the action. As a result of the final judgment, Philip Morris USA's challenge to RJR Tobacco's accounting assumptions related to the Acquired Brands was rendered moot, subject to reinstatement if ITG joins the Florida State Settlement Agreement or if the final judgment is reversed. In August and September 2018, RJR Tobacco and Philip Morris USA each filed a notice of appeal of the final judgment, which were consolidated on October 1, 2018. On July 29, 2020, Florida's Fourth DCA affirmed the final judgment. On August 12, 2020, RJR Tobacco filed a motion for rehearing or for certification to the Florida Supreme Court of the July 29, 2020 decision. On June 10, 2020, RJR Tobacco posted an additional bond in the amount of \$84,102,984.75, over the \$103,694,155.08 bond initially posted, to cover additional disputed amounts plus two years of statutory interest. The total amount RJR Tobacco bonded for its appeal was \$187,797,139.83. RJR Tobacco's motion for rehearing or certification to the Florida Supreme Court was denied on September 8, 2020, and its motion for rehearing was denied by the Florida Supreme Court on December 18, 2020. On October 5, 2020, RJR Tobacco satisfied the final judgment of \$192,869,589.86 and paid approximately \$3.2 million of Florida's attorneys' fees. RJR Tobacco's appellate bonds were released to RJR Tobacco by order dated November 5, 2020. As described below, RJR Tobacco has secured an order in the Delaware action requiring ITG to indemnify it for amounts paid under the Florida final judgment.

On February 17, 2017, ITG filed a complaint in the Court of Chancery of the State of Delaware seeking declaratory relief against RAI and RJR Tobacco. In its complaint, ITG asked the court to declare various matters related to its rights and obligations under the asset purchase agreement (and related documents) relating to the Divestiture with respect to the above discussed Florida enforcement litigation. On March 24, 2017, RAI and RJR Tobacco answered the ITG complaint and counterclaimed. Cross motions for partial judgment on the pleadings were filed focusing on whether ITG's obligation to use "reasonable best efforts" to join the Florida Settlement continued after the June 12, 2015 closing. On November 30, 2017, following argument, the Delaware court entered a ruling in favor of RJR Tobacco, holding that ITG's obligation to use its reasonable best efforts to join the Florida Settlement Agreement did not terminate due to the closing of the asset purchase agreement relating to the Divestiture. On January 4, 2019, RJR Tobacco filed another motion for partial judgment on the pleadings seeking to resolve two contract-interpretation questions under the asset purchase agreement: (1) to the extent that RJR Tobacco is found liable for settlement payments based on ITG's post-closing sales of Acquired Brands, ITG assumed this liability under the asset purchase agreement; and (2) the asset purchase agreement does not entitle ITG to a unique protection from an equity fee law that does not yet exist in a previous settled state. Argument on RJR Tobacco's motion for partial judgment was heard on June 4, 2019. On September 23, 2019, the Delaware Chancery court declined to resolve, at this time, whether ITG had assumed any liability imposed on RJR Tobacco for making settlement payments on the Acquired Brands. The court concluded that both sides had presented reasonable interpretations of the asset purchase agreement, which was therefore ambiguous, so the court would require parole evidence that may exist to help interpret the intent of the asset purchase agreement on assumed liabilities. The court granted RJR Tobacco's motion on the second issue, ruling ITG could not refuse to join the Florida State Settlement Agreement unless a joinder exempted it from a future equity-fee statute. On October 11, 2019, ITG filed in the Chancery Court a motion to seek interlocutory appeal in the Delaware Supreme Court on the second issue, which was denied on October 31, 2019. On October 31, 2019, ITG filed a notice of interlocutory appeal directly to the Delaware Supreme Court, which was denied on November 7, 2019. On August 20, 2021, RAI and RJR Tobacco amended their counterclaims to account for the resolution of the Florida enforcement litigation, described above, which included adding a claim for indemnification for the Final Judgment in Florida. After discovery was completed in March 2022, the parties briefed cross-motions for summary judgment on that third issue. On September 30, 2022, the court granted

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

summary judgment for RAI and RJR Tobacco, holding that ITG assumed the liability that the Florida judgment imposed on RJR Tobacco for settlement payments to Florida based on ITG's post-closing sales of the Acquired Brands. The parties are engaged in a second round of summary judgment briefing on the amount of indemnifiable damages. A hearing on that issue is scheduled for February 23, 2023.

On June 8, 2015, RJR Tobacco, ITG and the State of Mississippi filed with the state court overseeing the Mississippi State Settlement Agreement a motion with respect to ITG's joinder to the Mississippi State Settlement Agreement. The motion was granted. Philip Morris USA then moved to vacate the order, alleging that the joinder had the effect of modifying the method of allocating among the settling manufacturers a component of their annual payments to Mississippi in a way that adversely impacts Philip Morris. The court denied the motion, and Philip Morris USA appealed. On June 13, 2017, the appeal was dismissed on joint motion by Philip Morris USA and Mississippi. On December 26, 2018, PM USA filed a motion to enforce against RJR Tobacco and ITG with respect to the calculation of the base-year net operating profits for the Acquired Brands claiming damages of approximately \$6 million through 2017. Philip Morris USA also sought a declaration that RJR Tobacco and ITG breached the Mississippi Settlement Agreement and sought an accounting to determine the appropriate amount of base-year profits attributable to the Acquired Brands. A hearing on the Motion to Enforce Settlement Agreement was scheduled for August 11-12, 2021. On June 8, 2021, Philip Morris USA and RJR Tobacco entered into a settlement agreement resolving the outstanding payment calculation issues and on June 14, 2021, RJR Tobacco made a payment of \$5.1 million to Philip Morris USA.

On December 3, 2019, the State of Mississippi filed a Notice of Violation and Motion to Enforce Settlement Agreement in the Chancery Court of Jackson County, Mississippi against RJR Tobacco, Philip Morris USA and ITG, seeking a declaration that the base year 1997 net operating profit to be used in calculating the Net Operating Profit Adjustment was not affected by the change in the federal corporate tax rate in 2018 from 35% to 21%, and an order requiring RJR Tobacco to pay the approximately \$5 million difference in its 2018 payment because of this issue. Determination of this issue may affect RJR Tobacco's annual payment thereafter. A hearing on Mississippi's motion to enforce settlement agreement occurred on October 6-7, 2021. On June 10, 2022, the Mississippi Chancery Court granted the State's motion to enforce, finding that the base year 1997 net operating profit to be used in calculating the Net Operating Profit Adjustment was not affected by the change in the federal corporate tax rate in 2018. RJR Tobacco will appeal the motion to enforce. On July 29, 2022, the parties submitted supplemental briefing on damages, including interest and attorneys' fees. A hearing on damages was scheduled for December 7, 2022, however, the Court advised the parties that the hearing will be rescheduled for a date in 2023; the parties will confer to select a new date.

In January 2021, RJR Tobacco reached an agreement with several MSA states to waive RJR Tobacco's claims under the MSA in connection with a settlement between those MSA states and a non-participating manufacturer, S&M Brands, Inc. ("S&M Brands"), under which the states released certain claims against S&M Brands in exchange for receiving a portion of the funds S&M Brands had deposited into escrow accounts in those states pursuant to the states' escrow statutes. In consideration for waiving claims, RJR Tobacco, together with SFNTC, received approximately \$55.4 million from the escrow funds paid to those MSA states under their settlement with S&M Brands.

On May 27, 2022, Philip Morris USA filed a motion to compel arbitration under the MSA against RJR Tobacco and ITG in North Carolina Superior Court claiming RJR Tobacco and ITG inaccurately calculated the base-year net operating profits for the Acquired Brands and this improperly shifted approximately \$80 million in MSA payment obligations from RJR Tobacco to Philip Morris USA, to date. On June 7, 2022, RJR Tobacco and Philip Morris USA negotiated a resolution of the MSA claims in which RJR Tobacco agreed to, among other things, pay Philip Morris USA the sum of approximately \$37 million.

On July 28, 2022, the State of Iowa filed a Motion to Enforce Consent Decree and Master Settlement Agreement against the Participating Manufacturers (referred to as "PMs") asserting, among other things, claims for breach of contract and violations of the Iowa False Claims Act. Iowa seeks over \$130 million in damages, as well as treble damages. The PMs filed their opposition to Iowa's motion and motion to compel arbitration on September 26, 2022. Iowa filed its opposition to the PMs' motion to compel arbitration on October 6, 2022, and the PMs' filed their reply on October 31, 2022. A hearing on the motion was held on December 21, 2022; a decision is pending.

On November 29, 2022, the State of New Mexico filed a Complaint, or in the alternative, Motion to Enforce Consent Decree and Master Settlement Agreement against the PMs asserting, among other things, claims for breach of contract and violations of New Mexico's Unfair Practices Act. New Mexico seeks compensatory damages in an amount to be determined at trial, as well as treble damages, punitive damages, and declaratory and injunctive relief. The PMs' deadline to answer or respond was December 29, 2022. On

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December 15, 2022, the PMs filed an Opposed Motion for Extension of Deadlines and Pages to file their response on February 10, 2023, which was granted on January 13, 2023.

NPM Adjustment Claims. The MSA includes an adjustment that potentially reduces the annual payment obligations of RJR Tobacco, Lorillard Tobacco and the other PMs. Certain requirements, collectively referred to as the Adjustment Requirements, must be satisfied before the NPM Adjustment for a given year is available:

- an Independent Auditor must determine that the PMs have experienced a market share loss, beyond a triggering threshold, to those manufacturers that do not participate in the MSA, such non-participating manufacturers referred to as NPMs; and
- in a binding arbitration proceeding, a firm of independent economic consultants must find that the disadvantages of the MSA were a significant factor contributing to the loss of market share. This finding is known as a significant factor determination.

When the Adjustment Requirements are satisfied, the MSA provides that the NPM Adjustment applies to reduce the annual payment obligation of the PMs. However, an individual settling state may avoid its share of the NPM Adjustment if it had in place and diligently enforced during the entirety of the relevant year a “Qualifying Statute” that imposes escrow obligations on NPMs that are comparable to what the NPMs would have owed if they had joined the MSA. In such event, the state’s share of the NPM Adjustment is reallocated to other settling states, if any, that did not have in place and diligently enforce a Qualifying Statute.

NPM Adjustment Claims for 2004-2021. From 2006 to 2008, proceedings (including significant factor arbitrations before an independent economic consulting firm) were initiated with respect to the NPM Adjustment for 2004, 2005 and 2006. Ultimately, the Adjustment Requirements were satisfied with respect to each of these NPM Adjustments.

In subsequent years, RJR Tobacco, Lorillard Tobacco, certain other PMs and the settling states entered into five separate agreements, covering fiscal years 2007 to 2009, fiscal years 2010 to 2012, fiscal years 2013 to 2014, fiscal years 2015 to 2017, and fiscal year 2018 to 2019, respectively, wherein the settling states would not contest that the disadvantages of the MSA were “a significant factor contributing to” the market share loss experienced by the PMs in those years. The stipulation pertaining to each of the years covered by the four agreements became effective in February of the year a final determination by the firm of independent economic consultants would otherwise have been expected if the issue had been arbitrated on the merits.

Based on the payment calculations of the Independent Auditor and the agreements described above regarding the significant factor determinations, the Adjustment Requirements have been satisfied with respect to the NPM Adjustments for fiscal years 2007 to 2021. The approximate maximum principal amounts of RJR Tobacco’s and Lorillard Tobacco’s shares of the disputed NPM Adjustments for the years 2004 through 2021 (in millions), as currently calculated by the Independent Auditor, and the remaining amounts after the settlements of certain NPM Adjustments claims (see below), under certain assumptions, are as follows ⁽¹⁾:

Volume Year	RJR Tobacco		Lorillard Tobacco	
	Disputed	Remaining after settlements	Disputed	Remaining after settlements
2004	\$ 562	\$ 110	\$ 111	\$ 22
2005	445	89	76	15
2006	419	82	73	14
2007	435	87	83	17
2008	468	93	104	21
2009	472	94	107	22
2010	470	94	119	24
2011	422	84	88	18
2012	430	86	97	20
2013	457	91	92	19
2014	438	87	96	19
2015	494	99	44	9
2016	503	101	—	—
2017	501	98	—	—
2018	532	104	—	—
2019	601	118	—	—
2020	686	135	—	—
2021	765	150	—	—

⁽¹⁾ The amounts do not include the interest or earnings thereon to which RJR Tobacco and Lorillard Tobacco believe they would be entitled under the MSA.

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In addition to the above, SFNTC's portion of the disputed NPM Adjustments for the years 2004 through 2021 is approximately \$297 million and the remaining amount after the settlements is approximately \$59 million.

The 2004 NPM Adjustment proceeding was arbitrated before five overlapping panels. A revised case management order governing the arbitration was entered on January 4, 2017. Under the timing established by that case management order, discovery in the arbitration proceedings was completed by the end of the second quarter of 2017. A hearing on common issues took place starting in June 2017. State specific evidentiary hearings began in November 2017 and all scheduled state-specific hearings are complete. Diligent enforcement rulings for the completed state-specific hearings were issued on September 1, 2021 and October 27, 2022; Missouri, Washington, and New Mexico were found to be non-diligent. On November 30, 2021, Washington and Missouri filed motions to vacate the Panel's interim award in their respective MSA state courts. On January 25, 2023, New Mexico filed a motion to vacate the Panel's award in its respective MSA state court.

Argument on Washington's motion to vacate occurred on for February 11, 2022. On February 16, 2022, the Washington MSA state court denied Washington's motion to vacate the Panel's order finding Washington to be non-diligent but granted Washington's motion for declaratory judgment that tribal sales are not units sold. On April 11, 2022, Washington requested a direct review of the appeal by the Supreme Court of Washington, which was denied on July 13, 2022. On March 14, 2022, the PMs filed notices of appeal from the portion of the February 16, 2022 order granting Washington's motion for declaratory judgment. The PMs' appellate brief was filed on September 1, 2022, and Washington filed its responsive brief and cross-appeal on the MSA state court's denial of its motion to vacate the Panel's order on November 2, 2022. On December 16, 2022, the PMs filed a joint cross-response and reply brief. On January 10, 2023, Washington filed a motion to extend the deadline to file its reply brief on its cross-appeal from January 17, 2023 to February 7, 2023; a decision is pending. On December 16, 2022, various tribal entities filed a motion for leave to file an *amicus curiae* brief on the issue of whether cigarettes sold by tribes and bearing tribal tax stamps are a "units sold" under the MSA, which was granted and the *amicus curiae* brief was filed. The PMs' deadline to respond was January 30, 2023. On September 9, 2022, the PMs filed a motion for clarification regarding the Superior Court's order denying the State's motion to vacate the arbitration and granting the State's motion for declaratory judgment, requesting the court clarify that its February 16, 2022 order excluding "tribal compact cigarettes" from the MSA's and Washington's Qualifying Statute's definitions of "units sold" does not cover cigarette sales from which Washington receives tax revenue. The court denied the PMs' motion on September 28, 2022. RJR Tobacco filed a notice of appeal on October 14, 2022. The PMs' brief is due on January 30, 2023.

A status conference on Missouri's motion to vacate was held on February 16, 2022. On October 17, 2022, Missouri filed a second motion to vacate which took into account the Panel's subsequent post-awards ruling regarding reallocation. Briefing and argument have not been scheduled on Missouri's motion to vacate. The PMs' response to New Mexico's motion to vacate is due on February 13, 2023.

In addition, a hearing on several post-interim awards motions before the 2004 NPM Adjustment Arbitration Panels took place on March 9-10, 2022, and related orders were issued on July 19, 2022. Significantly, the Panels found that all issued state-specific awards are final; that RJR Tobacco has the right of first recovery from the Disputed Payments Account (referred to as DPA) and ordered the Independent Auditor not to make distributions from the DPA until New Mexico's diligence has been resolved with finality; denied Missouri's motions that alleged the Panel structure violated the MSA and that the PMs breached the covenant of good faith and fair dealing; and granted the State's motion vacating the Panel's earlier order concerning the process for determining reallocation and deemed all non-arbitrating states non-diligent for purposes of determining allocation of the NPM adjustment. The PMs moved to vacate the Panel's order regarding reallocation in Washington and Missouri on October 17, 2022. Briefing on the Washington motion is complete; oral argument is scheduled for February 23, 2023. A briefing schedule has not been set for the Missouri reallocation motion. RJR Tobacco's and Lorillard Tobacco's remaining claim with respect to 2004 is approximately \$132 million collectively, under certain assumptions.

In the context of the 2003 NPM Adjustment proceedings, Montana obtained a ruling from the Montana Supreme Court that the issue of diligent enforcement under the MSA must be heard before that state's MSA court. In June 2018, the PMs and the State of Montana filed an Agreement in Principle in which the PMs agreed not to contest Montana's diligent enforcement of its Qualifying Statute during 2004, and Montana shall not be subject to the 2004 NPM Adjustment. In addition, the State of New Mexico appealed the District Court of New Mexico's order requiring New Mexico to join the 2004 NPM Adjustment Arbitration, which appeal was denied by the Court of Appeals for the State of New Mexico on September 25, 2019. On November 27, 2019, the Supreme Court for the State of New Mexico denied the State's appeal of the September 25, 2019 ruling, and on December 26, 2019, denied New Mexico's motion for rehearing. A New Mexico-specific case management order was entered in August 2020 and the New Mexico state-specific hearing took place on February 28 – March 4, 2022. As described above, New Mexico was found to be non-diligent. Finally, the four U.S. territories have been asked to join the 2004 NPM Adjustment Arbitration but have not yet done so. American Samoa has, however, been ordered by its courts to participate in the nationwide arbitration. American Samoa filed its appellate brief on June 25, 2018, The PMs' response was filed on August 8, 2018, and American Samoa's reply was filed on August 29, 2018. On September 27, 2018, the PMs filed a motion to strike American Samoa's reply brief as raising new issues on appeal. Oral argument on the motions took place on December 8, 2022; a decision is pending.

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The 2005-2007 NPM Adjustment proceeding is underway. On September 18, 2020, a panel of three-arbitrators was formed pursuant to a May 2020 Agreement Regarding Procedures for Panel Formation signed by all parties. A case management order was entered on May 17, 2021; discovery is ongoing. A hearing on common issues took place on July 5-12, 2022. State-specific hearings are scheduled for Maryland (March 20–31, 2023), Washington (April 24–May 5, 2023), Wisconsin (June 12–23, 2023), Iowa (August 21–September 1, 2023), and Ohio (November 6–17, 2023). The remaining state hearings will be scheduled in 2024. On August 31, 2022, the States filed various post-Common Case Hearing motions. A hearing on these motions took place on December 5, 2022, and orders were issued on January 24, 2023 denying the States' motions. Significantly, the Panel found that the States have an obligation under their Qualifying Statutes to enforce against PMs that do not generally perform their financial obligations under the MSA; the State's enforcement against tobacco products which are considered contraband may affect the diligent enforcement determination and be considered; and a diligent enforcement analysis is not limited to the explicit terms of the Qualifying Statute, but should include an analysis of the tools that were available to the state to ensure compliance, including Complementary Legislation.

Due to the uncertainty over the final resolution of the 2004-2019 NPM Adjustment claims asserted by RJR Tobacco (including Lorillard Tobacco claims) and SFNTC, no assurances can be made related to the amounts, if any, that will be realized or any amounts (including interest) that will be owed, except as described below related to the partial settlement of certain NPM Adjustment claims. RAI has not recognized any credits related to the 2004-2020 NPM Adjustment in its consolidated financial statements.

Settlement/Partial Settlement of Certain NPM Adjustment Claims. In 2012, RJR Tobacco, Lorillard Tobacco, SFNTC and certain other participating manufacturers, referred to as the PMs, entered into a term sheet, referred to as the Term Sheet, with 17 states, the District of Columbia and Puerto Rico to settle certain claims related to the NPM Adjustment. The Term Sheet resolved claims related to volume years from 2003 through 2012 and puts in place a revised method to determine future adjustments from 2013 forward. In 2013 and 2014, five additional states joined the Term Sheet, including two states that were found to not have diligently enforced their qualifying statutes in 2003. In the fourth quarter of 2017, the NPM Agreement, a formal agreement incorporating the terms and provisions of the Term Sheet, was executed by the PMs and the states that previously joined the Term Sheet. With execution of the agreement, the PMs and the states settled the 2015 volume year. Since the NPM Adjustment Settlement Agreement was executed, an additional 11 states joined the Agreement. Thirty-seven jurisdictions have now joined the Term Sheet settlement representing approximately 67.18% allocable share. The PMs and the states that previously joined the Term Sheet executed a settlement agreement in August 2018 settling NPM Adjustment disputes for volume years 2016 through 2017, and in August 2020 settling for volume years 2018 through 2022.

On October 20, 2015, RJR Tobacco and certain other PMs (including SFNTC) entered into the NY Settlement Agreement with the State of New York to settle certain claims related to the NPM Adjustment. The NY Settlement Agreement resolves NPM Adjustment claims related to payment years from 2004 through 2014 and puts in place a new method whereby the parties jointly select an Investigator to determine future adjustments from 2015 forward as to New York. For years 2015 and 2016, the Investigator determined 175 million Tribal NPM Packs were sold to New York consumers on which the PMs should receive credits, and the parties agreed to use this number for 2017 and 2018. In a separate proceeding for 2019, an Investigator determined 165.9 million Tribal NPM Packs were sold to New York consumers; that finding applied to 2020 as well. On January 6, 2022, the parties entered into a stipulation for the years 2021 and 2022 in which they agreed that 165.9 million Tribal NPM Packs were sold to New York consumers. With the addition of New York's allocable share of 12.76%, RJR Tobacco has resolved the 2004 through 2022 NPM Adjustments with 38 jurisdictions, representing approximately 79.95% allocable share.

In April 2020, Montana filed a Motion to Enforce the MSA in the First Judicial District Court of Montana against RJR Tobacco, Philip Morris USA, and certain Subsequent Participating Manufacturers (the PMs), alleging the PMs conspired to improperly withhold and deposit the NPM Adjustment amounts from 2006 to present in a Disputed Payments Account (DPA), and seeking damages of approximately \$43 million, as well as treble and punitive damages. Historically, the PMs have taken the position they are entitled to deposit a portion of their annual MSA payments to Montana into the DPA and that the claims are arbitrable. In response to Montana's motion to enforce, the PMs filed a Motion to Compel Arbitration and to Dismiss or Stay Proceedings Pending Arbitration, which was denied in June 2020. The PMs appealed and filed a motion for stay pending appeal, which was granted in July 2020. The parties participated in court-ordered mediation on October 20-21, 2020. A Consent Decree was entered by the court on November 25, 2020, which included RJR Tobacco's release of the DPA funds (approx. \$32M) and payment of \$11 million in exchange for dismissal of Montana's claims and the lawsuit and resolves NPM years through 2030. The Independent Auditor released the DPA funds on December 16, 2020, and RJR Tobacco paid the remaining \$11 million on December 24, 2020.

On November 29, 2017, the parties filed in the Circuit Court of Kentucky an agreed order withdrawing the Commonwealth of Kentucky's motion to vacate and/or modify partial and final arbitration awards and for declaration of MSA violations. A status conference was held on February 12, 2018, at which time the agreed order was taken under advisement by the court. On May 18, 2018, the Court issued an Order reserving ruling on the agreed order and raising various issues. Following a status conference on May 29, 2018, the Court issued an Order on June 4, 2018 directing the parties to file a memorandum setting forth background information and a narrative explanation of the NPM Adjustment Settlement Agreement. On July 5, 2018, the parties filed a joint memorandum reiterating their request that the Court enter the agreed order. On July 5, 2018, the Kentucky Department of Revenue filed a Response to the Court's June 4 Order stating that it had no additional, helpful information to provide to the Court, and the Office of State Budget Director and

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Governor’s Office of Policy and Management filed a Response stating that they have no objection to the agreed order. The Court never acted on the agreed order.

Other Litigation and Developments

JTI Claims for Indemnification. By a purchase agreement dated March 9, 1999, amended and restated as of May 11, 1999, referred to as the 1999 Purchase Agreement, RJR and RJR Tobacco sold its international tobacco business to JTI. Under the 1999 Purchase Agreement, RJR and RJR Tobacco retained certain liabilities relating to the international tobacco business sold to JTI. Under its reading of the indemnification provisions of the 1999 Purchase Agreement, JTI has requested indemnification for damages allegedly arising out of these retained liabilities. As previously reported, a number of the indemnification claims between the parties relating to the activities of Northern Brands in Canada have been resolved. The other matters for which JTI has requested indemnification for damages under the indemnification provisions of the 1999 Purchase Agreement are described below:

- In a letter dated March 31, 2006, counsel for JTI stated that JTI would be seeking indemnification under the 1999 Purchase Agreement for any damages it may incur or may have incurred arising out of a Southern District of New York grand jury investigation, a now-terminated Eastern District of North Carolina grand jury investigation, and various actions filed by the European Community and others in the U.S. District Court for the Eastern District of New York, referred to as the EDNY, against RJR Tobacco and certain of its affiliates on November 3, 2000, August 6, 2001, and (as discussed in greater detail below) October 30, 2002, and against JTI on January 11, 2002.
- JTI also has sought indemnification relating to a Statement of Claim filed on April 23, 2010, in the Ontario Superior Court of Justice, London, against JTI Macdonald Corp., referred to as JTI-MC, by the Ontario Flue-Cured Tobacco Growers’ Marketing Board, referred to as the Board, Andy J. Jacko, Brian Baswick, Ron Kichler, and Aprad Dobrenty, proceeding on their own behalf and on behalf of a putative class of Ontario tobacco producers that sold tobacco to JTI-MC during the period between January 1, 1986 and December 31, 1996, referred to as the Class Period, through the Board pursuant to certain agreements. The Statement of Claim seeks recovery for damages allegedly incurred by the class representatives and the putative class for tobacco sales during the Class Period made at the contract price for duty free or export cigarettes with respect to cigarettes that, rather than being sold duty free or for export, purportedly were sold in Canada, which allegedly breached one or more of a series of contracts dated between June 4, 1986, and July 3, 1996. Appeals taken from an unsuccessful motion to dismiss the action as barred by the statute of limitations were ultimately denied on November 4, 2016. Certification proceedings are pending.
- Finally, JTI has advised RJR and RJR Tobacco of its view that, under the terms of the 1999 Purchase Agreement, RJR and RJR Tobacco are liable for approximately \$1.85 million related to a judgment entered in 1998, plus interest and costs, in an action filed in Brazil by Lutz Hanneman, a former employee of a former RJR Tobacco subsidiary. RJR and RJR Tobacco deny that they are liable for this judgment under the terms of the 1999 Purchase Agreement.

Although RJR and RJR Tobacco recognize that, under certain circumstances, they may have these and other unresolved indemnification obligations to JTI under the 1999 Purchase Agreement, RJR and RJR Tobacco disagree with JTI as to (1) what circumstances relating to any such matters may give rise to indemnification obligations by RJR and RJR Tobacco, and (2) the nature and extent of any such obligation. RJR and RJR Tobacco have conveyed their position to JTI, and the parties have agreed to resolve their differences at a later time.

Patent and Trademark Litigation. RAI Strategic Holdings, Inc., RJRV, and RJR Tobacco (collectively referred to as “Reynolds”) filed a complaint with the International Trade Commission (“ITC”) on April 9, 2020 against Altria Client Services LLC, Philip Morris USA, Inc., Altria Group, Inc., Philip Morris International, Inc., and Philip Morris Products S.A. (collectively referred to as “PM”) for infringement of three patents owned by RAI Strategic Holdings, Inc. based on the importation to the United States of IQOS. On May 11, 2020, the ITC instituted an investigation with a 16-month target date for completion. PM responded to the complaint on June 1, 2020, asserting affirmative defenses of non-infringement, invalidity, and that relief was not in the public interest. Trial was held on January 25-29 and February 1, 2021. On May 14, 2021, ALJ Cheney issued an initial determination (“ID”) that found a violation of Section 337 with respect to two of the three asserted patents. On September 30, 2021, the Commission affirmed the ALJ decision and that Reynolds was entitled to a limited exclusion and cease and desist order enjoining IQOS from importation and sale. The presidential review period expired in late November with no action. PM sought appeal to the Federal Circuit and moved to stay enforcement of the exclusion order in both the ITC and Federal Circuit. PM’s motion to stay enforcement of the exclusion order was denied by both the ITC and the Federal Circuit. The Federal Circuit heard oral argument on PM’s appeal on October 3, 2022, and an appellate decision is outstanding.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

Reynolds filed a complaint in April 2020 in the U.S. District Court, Eastern District of Virginia, accusing PM of infringement of six patents (later dropped to five patents after Reynolds amended its complaint) owned by RAI Strategic Holdings Inc. based on the importation and commercialization within the United States of IQOS. In June 2020, PM filed an Answer and Counterclaims that asserted five patents against Reynolds. On June 12, 2020, PM filed a motion under 28 USC § 1659 seeking to stay the case as to the three patents that are also in the ITC investigation, which was granted. On November 24, 2020, the Court issued a claim construction order that determined each disputed term would have its plain and ordinary meaning. The Magistrate Judge issued an order on December 4, 2020 that stayed both Reynolds's patent claims not stayed pursuant to the June 12, 2020 motion and PM's patent claims pending a decision on *Inter Partes* review petitions filed by PM on the Reynolds patents not stayed by the ITC proceeding. On February 16, 2021, the Court lifted the stay order with respect to the Counterclaims only. On March 12, 2021, the Court granted PM's motion to amend its counterclaims to include claims for injunctive relief as to two of the five patents asserted against Reynolds. Fact and expert discovery deadlines for the counterclaims have closed. On June 2, 2021, Reynolds moved for partial summary judgment of invalidity of the '374 patent, non-infringement of the '911 patent and no willful infringement. PM moved for summary judgment of no invalidity of the '374 patent, as well as certain affirmative defenses raised by Reynolds. The Court issued an Order denying all summary judgment motions on August 5, 2021. A final pretrial conference was held on May 21, 2021. Shortly before trial, Philip Morris dropped its claims to one patent and the Altria entities dismissed their claims relating to two patents, which left two Philip Morris patents at issue in the trial. Trial on the two Philip Morris patents began on June 8, 2022. On June 15, 2022, the jury found that RJRV's Alto product infringed two claims in one patent and that its Solo product infringed three claims of the other patent. The jury awarded damages of \$10,759,755, which was supplemented by the Court to a total of \$14,062,742 to account for additional sales of Solo and Alto through the date of judgment and interest. Philip Morris has requested entry of a permanent injunction barring sale of the Alto and Solo products and a hearing was held on November 4, 2022. A decision on Philip Morris's request for permanent injunction is expected imminently. RJRV intends to appeal the jury verdict after the Court has issued its decision on Philip Morris's request for an injunction. RJRV has notified the supplier of its intent to seek indemnification for any losses incurred with regard to this matter. The RJRV offensive patent case remains stayed pending (i) an appeal by Philip Morris to the Federal Circuit in relation an exclusion order granted against Philip Morris by the International Trade Commission based on the relevant patents, and (ii) the decisions in IPRs commenced by Philip Morris against the relevant patents at the U.S. Patent Office.

Altria Client Services LLC and U.S. Smokeless Tobacco Company LLC (collectively referred to as "Altria") filed a complaint in the U.S. District Court, Middle District of North Carolina in May 2020 accusing RJRV of infringement of nine patents owned by Altria based on the commercialization of RJRV's VUSE Alto, VUSE Vibe and certain Velo products. In July 2020, RJRV filed an Answer to the Complaint and Counterclaims for non-infringement and invalidity of each asserted patent. On January 5, 2021, Altria filed an Amended Complaint that adds MBI as a defendant with respect to the Velo product claims. On March 11, 2021, Altria moved the Court to amend the complaint to include a claim under 35 USC 271(g), which was denied in September 2021. Fact discovery and expert discovery has concluded. The Court issued its claim construction Order on May 12, 2021. On November 8, 2021, the Court granted dismissal of willfulness claims on the patents asserted against Alto/Vibe. Prior to trial, the Court granted RJRV's motion to enforce a partial settlement agreement on dismissal of the patents asserted against Vibe and Altria dismissed all claims against Velo products and MBI along with one of the four patents asserted against Alto, leaving only three patents asserted against Alto for trial. Trial was held on August 29, 2022 to September 7, 2022. The jury found infringement by the accused product and awarded approximately \$95 million in damages. Post-trial briefing is complete. RJRV's motions for a new trial and judgment as a matter of law were denied. The court issued an order on Altria's motion for ongoing royalties on 27 January 2023, denying Altria's request to double the jury's awarded royalty rate for post-trial sales and setting the royalty rate applicable to post-trial sales to the jury's awarded rate of 5.25%. Altria did not request entry of an injunction and has stipulated it will not enforce the monetary judgment until appeals are exhausted. RJRV has notified the supplier of its intent to seek indemnification for any losses incurred with regard to this matter.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

On December 14, 2020, MBI filed an action for declaratory judgment in the U.S. District Court for the District of Delaware against Swedish Match North America and related entities seeking judgments that Swedish Match's U.S. Pat. No. 9,161,908 is invalid and has not been infringed and that MBI has not misappropriated any Swedish Match trade secrets, as a result of MBI's recent acquisition of the nicotine pouch business assets from Dryft Sciences, LLC and commercialization of the acquired formulations under the Velo brand. On February 4, Swedish Match and Pinkerton filed (1) a motion to Dismiss Count 1 of the Declaratory Judgment Action related to trade secret misappropriation and to transfer the Action to Central District of California or, in the alternative, stay the action. The Court held a hearing on the motion on June 3, 2021 and entered an Order transferring the case to the Central District of California on the same day. Swedish Match filed an Answer to the Complaint on July 13, 2021, asserting counterclaims that MBI answered on August 3, 2021. The court held a Markman hearing on December 10, 2021, and on December 16, 2021, issued its Markman Order effectively foreclosing Swedish Match's infringement claims. On January 4, 2022, the parties submitted a status report in which Swedish Match acknowledged that its patent claims could not continue, and it intends to appeal the ruling. On January 18, 2022, Swedish Match filed a stipulation of non-infringement of the patent, and on January 19, 2022, the court entered partial judgment in favor of MBI. The court entered an order on March 1, 2022 that the trade secret portion of the case would move forward. Discovery in the case concluded on October 5, 2022. On September 16, 2022, MBI filed a motion for summary judgment on the trade secret claims. On October 27, 2022, the court granted summary judgment as to one trade secret but denied it as to the remaining six trade secrets and MBI's other grounds. The court issued an order on December 5, 2022 consolidating the MBI action with Swedish Match's trade secret misappropriation case against Dryft Sciences and Kretek with trial on the consolidated cases set to begin February 13, 2023. The parties settled the dispute on February 7, 2023.

E-Cigarette Litigation

In July 2020, Nicholas Bernston filed a personal injury action in the U.S. District Court, Northern District of Oklahoma against JUUL Labs Inc., referred to as JUUL, Altria Client Services, LLC, RJRV, RAI, and others. The complaint seeks damages for personal injuries (including pneumonia and acute respiratory failure) allegedly resulting from vaping and asserts several theories of liability, including strict liability, negligence, and breach of implied warranty of merchantability. In August 2020, the Judicial Panel on Multidistrict Litigation transferred the case to the Northern District of California for consolidated pretrial proceedings as part of the JUUL multidistrict litigation ("MDL"). On October 13, 2020, RJRV and RAI moved to dismiss the complaint or, in the alternative, for a stay or a suggestion of remand to the Northern District of Oklahoma. On October 16, 2020, the JUUL MDL judge ordered that RAI and RJRV's motions will be stayed. Though the case remains pending, RAI and RJRV will not be subject to discovery or other pretrial obligations (at least until further order of the court) while the MDL proceeds against JUUL.

On January 11, 2023, Camellia Chastain filed a putative class action complaint in the Middle District of Florida against RJRV. The complaint seeks damages arising from alleged discoloration and/or a burnt taste in VUSE Alto Golden Tobacco pods on several theories, including state consumer protection statutes, false and misleading advertising, breach of warranty, negligent misrepresentation, fraud, and unjust enrichment. The complaint seeks to certify two classes, including a Florida class and a multi-state class from the states of North Carolina, South Carolina, Georgia, Alabama, and Mississippi. RJRV has not yet responded to the complaint. RJRV has notified the suppliers of its intent to seek indemnification for any losses incurred with regard to this matter.

Environmental Matters

RAI and its subsidiaries are subject to federal, state and local environmental laws and regulations concerning the discharge, storage, handling and disposal of hazardous or toxic substances. Such laws and regulations provide for significant fines, penalties and liabilities, sometimes without regard to whether the owner or operator of the property or facility knew of, or was responsible for, the release or presence of hazardous or toxic substances. In addition, third parties may make claims against owners or operators of properties for personal injuries and property damage associated with releases of hazardous or toxic substances. In the past, RJR Tobacco has been named a potentially responsible party with third parties under the Comprehensive Environmental Response, Compensation and Liability Act with respect to several superfund sites. RAI and its subsidiaries are not aware of any current environmental matters that are expected to have a material adverse effect on the business, results of operations or financial position of RAI or its subsidiaries.

RAI and its operating subsidiaries believe that climate change is an environmental issue primarily driven by carbon dioxide emissions from the use of energy. RAI's operating subsidiaries are working to reduce carbon dioxide emissions by minimizing the use of energy where cost effective, minimizing waste to landfills and increasing recycling. Climate change is not viewed by RAI's operating subsidiaries as a significant direct economic risk to their businesses, but rather an indirect risk involving the potential for a longer-term general increase in the cost of doing business. Regulatory changes are difficult to predict, but the current regulatory risks to the business of RAI's operating subsidiaries with respect to climate change are relatively low. Financial impacts will be driven more by the cost of natural gas and electricity. Efforts are made to anticipate the effect of increases in fuel costs directly impacting RAI's operating subsidiaries by evaluating natural gas usage and market conditions. Occasionally forward contracts are purchased, limited to a two-year period, for natural gas. In addition, RAI's operating subsidiaries are continually evaluating energy conservation measures and energy efficient equipment to mitigate impacts of increases in energy costs and adopting or utilizing such measures and equipment where appropriate.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

Regulations promulgated by the Environmental Protection Agency and other governmental agencies under various statutes have resulted in, and likely will continue to result in, substantial expenditures for pollution control, waste treatment or handling, facility modification and similar activities. RAI and its subsidiaries are engaged in a continuing program to comply with federal, state and local environmental laws and regulations, and dependent upon the probability of occurrence and reasonable estimation of cost, accrue or disclose any material liability. Although it is difficult to reasonably estimate the portion of capital expenditures or other costs attributable to compliance with environmental laws and regulations, RAI does not expect such expenditures or other costs to have a material adverse effect on the business, results of operations, cash flows or financial position of RAI or its subsidiaries.

On November 21, 2022, the Mayor and City Council of Baltimore, Maryland, filed a lawsuit in the Circuit Court for Baltimore City naming the Company and RJR Tobacco, as well as Philip Morris USA, Altria Group, Liggett Group LLC and a Maryland-based distributor, as defendants. RJR Tobacco was served with the complaint on December 13, 2022. Plaintiff, a municipality, alleges that the defendants manufactured, distributed and sold nonbiodegradable cigarette filters with knowledge that consumers would discard used filters on public property owned by the plaintiff, and further alleges that the defendants failed to warn consumers of the alleged environmental impacts of littered filters. Plaintiff asserts causes of action for alleged violation of state and municipal civil and criminal anti-littering and dumping laws, trespass, strict liability and negligent design defect, public nuisance, and strict liability and negligent failure to warn. Plaintiff seeks among other relief unspecified damages (including punitive damages) for costs allegedly incurred removing discarded cigarette filters from public property, and for alleged damage to land and natural resources and property value diminution, along with fines under state and municipal laws. Defendants have yet to respond to the complaint.

Other Commitments and Contingencies

JTI Indemnities. In connection with the sale of the international tobacco business to JTI, pursuant to the 1999 Purchase Agreement, RJR and RJR Tobacco agreed to indemnify JTI against:

- any liabilities, costs and expenses arising out of the imposition or assessment of any tax with respect to the international tobacco business arising prior to the sale, other than as reflected on the closing balance sheet;
- any liabilities, costs and expenses that JTI or any of its affiliates, including the acquired entities, may incur after the sale with respect to any of RJR's or RJR Tobacco's employee benefit and welfare plans; and
- any liabilities, costs and expenses incurred by JTI or any of its affiliates arising out of certain activities of Northern Brands.

As described above in “— Litigation Affecting the Cigarette Industry — Other Litigation and Developments — JTI Claims for Indemnification,” RJR Tobacco has received claims for indemnification from JTI, and several of these have been resolved. Although RJR and RJR Tobacco recognize that, under certain circumstances, they may have other unresolved indemnification obligations to JTI under the 1999 Purchase Agreement, RJR and RJR Tobacco disagree what circumstances described in such claims give rise to any indemnification obligations by RJR and RJR Tobacco and the nature and extent of any such obligation. RJR and RJR Tobacco have conveyed their position to JTI, and the parties have agreed to resolve their differences at a later date.

In connection with the sale of the international rights to the NATURAL AMERICAN SPIRIT brand name and associated trademarks to JTI Holding, along with the international companies that distribute and market the brand outside the United States, pursuant to the 2015 Purchase Agreement, SFNTC, R. J. Reynolds Global Products, Inc., and R. J. Reynolds Tobacco B.V. agreed to indemnify JTI Holding against, among other things, any liabilities, costs, and expenses relating to actions:

- commenced on or before (1) January 13, 2019, to the extent relating to alleged personal injuries, and (2) in all other cases, January 13, 2021;
- brought by (1) a governmental authority to enforce legislation implementing European Union Directive 2001/37/EC or European Directive 2014/40/EU or (2) consumers or a consumer association; and
- arising out of any statement or claim (1) made on or before January 13, 2016, (2) by any company sold to JTI Holding in the transaction, (3) concerning NATURAL AMERICAN SPIRIT brand products consumed or intended to be consumed outside of the United States and (4) that the NATURAL AMERICAN SPIRIT brand product is natural, organic, or additive free.

In connection with the indemnity included with the sale of the international rights to the NATURAL AMERICAN SPIRIT brand name and associated trademarks, JTI requested indemnification an audit of Santa Fe Natural Tobacco Company Germany GmbH, referred to as SFNTCG, relating to transfer pricing for the tax years 2007 to 2010 and 2012 to 2015. For the tax years 2007 to 2010, SFNTCG appealed the audit assessment, which was rejected. On December 5, 2022, Santa Fe Natural Tobacco Company, Inc., R.J. Reynolds Global Products, Inc. and JT International Holding BV entered into a Mutual Settlement, Release and Indemnification Agreement in connection with the audit. The parties agreed to accept a proposed transfer pricing settlement of all tax claims, including interest, by the German tax authorities resulting in a total assessment of approximately 5 million Euros. As of December 31, 2022, an accrual of \$5 million was recorded for the proposed settlement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

ITG Indemnity. In the purchase agreement relating to the Divestiture, RAI agreed to defend and indemnify, subject to certain conditions and limitations, ITG in connection with claims relating to the purchase or use of one or more of the WINSTON, KOOL, SALEM, or MAVERICK cigarette brands on or before June 12, 2015, as well as in actions filed before June 13, 2023. Further, ITG agreed to indemnify RAI and its affiliates in connection with claims relating to the blu e-cigarette brand that was manufactured by a Lorillard affiliate on and before June 12, 2015. ITG has tendered the defense of several actions asserting claims relating to the purchase or use of WINSTON, KOOL, SALEM, and/or MAVERICK brand cigarettes to RJR Tobacco, and RJR Tobacco has assumed the defense of those actions subject to a reservation of rights. RAI also has tendered the defense of an action relating to the purchase and use of blu e-cigarettes to ITG, and ITG has assumed the defense of that action subject to a reservation of rights. The claims asserted against ITG are substantially similar in nature and extent to claims asserted against RJR Tobacco in those actions.

Loews Indemnity. In 2008, Loews Corporation, referred to as Loews, entered into an agreement with Lorillard, Lorillard Tobacco, and certain of their affiliates, which agreement is referred to as the Separation Agreement. In the Separation Agreement, Lorillard agreed to indemnify Loews and its officers, directors, employees and agents against all costs and expenses arising out of third party claims (including, without limitation, attorneys' fees, interest, penalties and costs of investigation or preparation of defense), judgments, fines, losses, claims, damages, liabilities, taxes, demands, assessments, and amounts paid in settlement based on, arising out of or resulting from, among other things, Loews's ownership of or the operation of Lorillard and its assets and properties, and its operation or conduct of its businesses at any time prior to or following the separation of Lorillard and Loews (including with respect to any product liability claims). Loews is a defendant in three pending product liability actions, each of which is a putative class action. Pursuant to the Separation Agreement, Lorillard is required to indemnify Loews for the amount of any losses and any legal or other fees with respect to such cases. Following the closing of the Lorillard Merger, RJR Tobacco assumed Lorillard's obligations under the Separation Agreement as was required under the Separation Agreement.

Indemnification of Distributors and Retailers. RJR Tobacco, Lorillard Tobacco, SFNTC, American Snuff Co. and RJRV have entered into agreements to indemnify certain distributors and retailers from liability and related defense costs arising out of the sale or distribution of their products. Additionally, SFNTC has entered into an agreement to indemnify a supplier from liability and related defense costs arising out of the sale or use of SFNTC's products. The cost has been, and is expected to be, insignificant. RJR Tobacco, SFNTC, American Snuff Co. and RJRV believe that the indemnified claims are substantially similar in nature and extent to the claims that they are already exposed to by virtue of their having manufactured those products. Except as otherwise noted above, RAI is not able to estimate the maximum potential amount of future payments, if any, related to these indemnification obligations.

Other Guarantees. EMTN Guarantee. RAI guarantees all debt securities outstanding, or which may be issued in the future, under BAT's £25 billion Euro Medium Term Note program, referred to as EMTN. As of December 31, 2022, there were multiple series of EMTN securities denominated in Euros, British pounds and Swiss francs, with maturities ranging from 2023 to 2055 for a U.S. dollar equivalent of approximately \$13.3 billion. EMTN securities may be issued by several subsidiaries of BAT and are guaranteed by BAT and certain BAT subsidiaries. RAI's guarantee of the EMTN securities is unconditional and irrevocable, joint and several with the other guarantors and is triggered when the issuer of the EMTN securities defaults in payment. If RAI is required by law to withhold any U.S. taxes (or taxes of any of its political subdivisions) from payments it makes under its guarantee, RAI is required to pay additional amounts so that security holders receive the same payment they would receive absent such withholding, subject to exceptions. RAI will be automatically and unconditionally released from its EMTN guarantee if at any time the aggregate amount of indebtedness for borrowed money for which RAI is an obligor does not exceed 10% of the outstanding long-term debt of BAT. For these purposes, the amount of RAI's indebtedness for borrowed money does not include (1) RAI's guarantee of the EMTN securities; (2) any other debt guaranteed by RAI, the terms of which permit the termination of such guarantee under similar circumstances, as long as RAI's obligations in respect of such other debt are terminated at substantially the same time as its guarantee of the EMTN securities; (3) any debt issued or guaranteed by RAI that is being refinanced at substantially the same time as the release of the guarantee, provided that any obligations of RAI in respect of debt that is incurred in any such refinancing shall be included in the calculation of RAI's indebtedness for borrowed money; and (4) intercompany debt.

Rule 144A/Regulation S Guarantee. As of December 31, 2021, RAI guaranteed \$12.5 billion in aggregate principal amount of debt securities in multiple series issued by two BAT subsidiaries prior to 2019 pursuant to Rule 144A and Regulation S, with maturities ranging from 2023 to 2047. The Rule 144A/Regulation S securities are guaranteed by BAT and certain BAT subsidiaries. RAI's guarantee of the Rule 144A/Regulation S securities is full and unconditional, joint and several with the other guarantors and is triggered when the issuer of the Rule 144A/Regulation S securities defaults in payment. The guarantee is an unsubordinated obligation of RAI and ranks pari passu in right of payment with all other direct, unsecured and unsubordinated obligations of RAI (except those obligations preferred by law). RAI's obligations under the guarantee are limited to the maximum amount resulting in its obligations not constituting a fraudulent conveyance or fraudulent transfer under any applicable law. If RAI is required by law to withhold any U.S. taxes (or taxes of any of its political subdivisions) from payments it makes under its guarantee, RAI is required to pay additional amounts so that security holders receive the same payment they would receive absent such withholding, subject to exceptions.

U.S. Shelf Registration Guarantee. During 2019, BAT filed a registration statement with the U.S. Securities and Exchange Commission to allow two of its subsidiaries to offer and sell from time to time debt securities over the next three years. RAI has fully and unconditionally guaranteed on a joint and several and senior and unsecured basis any obligations issued under this registration

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

statement. In September 2019, one of the BAT subsidiaries issued \$3.5 billion in aggregate principal amount of debt securities under this facility with maturities ranging from 2024 to 2049. In 2020, these BAT subsidiaries issued \$8.65 billion in aggregate principal amount of debt securities under this facility with maturities ranging from 2026 to 2050. In March 2022 and October 2022, these BAT subsidiaries issued \$2.5 billion and \$0.6 billion, respectively, in aggregate principal amount of debt securities under this facility with maturities ranging from 2028-2052. As of December 31, 2022, the aggregate amount guaranteed by RAI was approximately \$15.3 billion related to the shelf registration.

Note 8 — Shareholders' Equity

RAI's authorized capital stock at December 31, 2022 and 2021, consisted of 100 million shares of preferred stock, par value \$.01 per share, and 3.2 billion shares of common stock, par value \$.0001 per share. Four million shares of the preferred stock are designated as Series A Junior Participating Preferred Stock, none of which is issued or outstanding. The Series A Junior Participating Preferred Stock will rank junior as to dividends and upon liquidation to all other series of RAI preferred stock, unless specified otherwise. Also, of the preferred stock, one million shares are designated as Series B Preferred Stock, all of which are issued and outstanding. The Series B Preferred Stock ranks senior upon liquidation, but not with respect to dividends, to all other series of RAI capital stock, unless specified otherwise. As a part of the B&W business combination, RJR is the holder of the outstanding Series B Preferred Stock.

RAI paid dividends to certain BAT subsidiaries that hold RAI's common stock totaling \$5,717 million and \$5,281 million in 2022 and 2021, respectively.

Accumulated Other Comprehensive (Loss) Income

The components of accumulated other comprehensive (loss) income, net of tax, were as follows:

	<u>Retirement Benefits</u>
Balance at December 31, 2020	\$ (36)
Other comprehensive income before reclassifications	162
Amounts reclassified from accumulated other comprehensive (loss) income	<u>(28)</u>
Net current-period other comprehensive income	<u>134</u>
Balance at December 31, 2021	<u>98</u>
Other comprehensive income before reclassifications	97
Amounts reclassified from accumulated other comprehensive (loss) income	<u>(143)</u>
Net current-period other comprehensive loss	<u>(46)</u>
Balance at December 31, 2022	<u><u>\$ 52</u></u>

Details about the reclassifications out of accumulated other comprehensive (loss) income and the affected line items in the consolidated statements of income for the years ended December 31, 2022 and 2021, were as follows:

Components	Amounts Reclassified		Affected Line Item
	2022	2021	
Retirement benefits:			
Amortization of prior service cost	\$ 2	\$ 1	Other expenses, net
Settlements	(48)	8	Other expenses, net
MTM adjustment	<u>(143)</u>	<u>(46)</u>	Other expenses, net
	(189)	(37)	Other expenses, net
Deferred taxes	<u>46</u>	<u>9</u>	Provision for income taxes
Total reclassifications	<u><u>\$ (143)</u></u>	<u><u>\$ (28)</u></u>	Net income

Note 9 — Retirement Benefits

Pension and Postretirement Benefit Plans

RAI sponsors a number of non-contributory defined benefit pension plans covering certain employees of RAI and its subsidiaries. RAI and a subsidiary provide health and life insurance benefits for certain retired employees of RAI and its subsidiaries and their dependents. These benefits are generally no longer provided to employees hired on or after January 1, 2004.

RAI has both funded and unfunded pension and postretirement plans. The measurement date used for all plans is December 31.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

The changes in benefit obligations and plan assets, as well as the funded status of these plans at December 31 were as follows:

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Change in benefit obligations:				
Obligations at beginning of year	\$ 4,629	\$ 6,913	\$ 841	\$ 954
Service cost	13	17	1	1
Interest cost	110	163	24	22
Actuarial gain	(1,011)	(125)	(147)	(68)
Benefits paid	(230)	(422)	(65)	(68)
Settlements	(1,591)	(1,917)	—	—
Obligations at end of year	<u>\$ 1,920</u>	<u>\$ 4,629</u>	<u>\$ 654</u>	<u>\$ 841</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	\$ 5,010	\$ 6,965	\$ 215	\$ 219
Actual return on plan assets	(789)	366	(32)	13
Employer contributions	16	18	49	51
Benefits paid	(230)	(422)	(65)	(68)
Settlements	(1,591)	(1,917)	—	—
Fair value of plan assets at end of year	<u>\$ 2,416</u>	<u>\$ 5,010</u>	<u>\$ 167</u>	<u>\$ 215</u>
Funded status	<u>\$ 496</u>	<u>\$ 381</u>	<u>\$ (487)</u>	<u>\$ (626)</u>

Amounts recognized in the consolidated balance sheets consist of:

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Pension assets	\$ 682	\$ 627	\$ —	\$ —
Other current liabilities	(16)	(15)	(52)	(55)
Long-term retirement benefits	(170)	(231)	(435)	(571)
Funded status	<u>\$ 496</u>	<u>\$ 381</u>	<u>\$ (487)</u>	<u>\$ (626)</u>

The sum of other current liabilities and long-term retirement benefits consists of the amount of underfunded and unfunded pension benefits or postretirement benefits.

The accumulated benefit obligation for pension plans was \$1,903 million and \$4,596 million at December 31, 2022 and 2021, respectively.

Pension plans with accumulated benefit obligations, which represent benefits earned to date, in excess of plan assets are summarized below:

	<u>December 31,</u>	
	<u>2022</u>	<u>2021</u>
Accumulated benefit obligation	\$ 204	\$ 269
Plan assets	18	26

Pension plans with projected benefit obligations in excess of plan assets are summarized below:

	<u>December 31,</u>	
	<u>2022</u>	<u>2021</u>
Projected benefit obligation	\$ 204	\$ 272
Plan assets	18	26

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

The net amount of projected benefit obligations and plan assets for underfunded and unfunded pension plans was \$186 million and \$246 million at December 31, 2022 and 2021, respectively.

Information for postretirement plans with an accumulated postretirement benefit obligation in excess of plan assets have been disclosed in the changes in obligations and plan assets table because all postretirement plans are underfunded or unfunded.

Amounts included in accumulated other comprehensive loss (income) were as follows as of December 31:

	2022			2021		
	Pension Benefits	Postretirement Benefits	Total	Pension Benefits	Postretirement Benefits	Total
Prior service (credit) cost	\$ (2)	\$ 7	\$ 5	\$ (1)	\$ 8	\$ 7
Net actuarial loss (gain)	52	(67)	(15)	8	(85)	(77)
Accumulated other comprehensive loss (income)	\$ 50	\$ (60)	\$ (10)	\$ 7	\$ (77)	\$ (70)

The components of net periodic benefit income are set forth below:

	Pension Benefits		Postretirement Benefits	
	2022	2021	2022	2021
Service cost	\$ 13	\$ 17	\$ 1	\$ 1
Interest cost	110	163	24	22
Expected return on plan assets	(199)	(352)	(9)	(7)
Amortization of prior service cost	1	1	1	—
Settlements	(48)	8	—	—
MTM adjustment	(18)	—	(125)	(46)
Net periodic benefit income	\$ (141)	\$ (163)	\$ (108)	\$ (30)

Other changes in plan assets and benefit obligations recognized in other comprehensive loss (income) are set forth below:

	Pension Benefits		Postretirement Benefits	
	2022	2021	2022	2021
Net actuarial gain	\$ (22)	\$ (139)	\$ (107)	\$ (74)
Amortization of prior service cost	(1)	(1)	(1)	—
Settlements	48	(8)	—	—
MTM adjustment	18	—	125	46
Total recognized in other comprehensive loss (income)	\$ 43	\$ (148)	\$ 17	\$ (28)
Total recognized in net periodic benefit income and other comprehensive loss (income)	\$ (98)	\$ (311)	\$ (91)	\$ (58)

As of December 31, 2022, the improvement in pension benefits funded status is primarily due to the increase in discount rate and other assumptions offset by plan assets losses. As of December 31, 2022, the improvement in postretirement benefits funded status is primarily due to the increase in discount rate offset by plan assets losses.

In June 2022, RAI purchased an irrevocable group annuity contract from an insurance company, referred to as a buy-out contract, that transferred \$1.6 billion of RAI's defined benefit pension obligations and \$1.6 billion defined benefit pension plan assets to the insurance company. No RAI contributions were required to complete the transaction. RAI recognized a one-time \$48 million settlement gain in connection with this transaction.

As of December 31, 2021, the improvement in pension benefits funded status is primarily due to the increase in discount rate offset by updated mortality assumptions. As of December 31, 2021, the improvement in postretirement benefits funded status is primarily due to the increase in discount rate and other assumptions.

In October 2021, RAI purchased an irrevocable group annuity contract from an insurance company, referred to as a buy-out contract, that transferred \$1.9 billion of RAI's defined benefit pension obligations and \$1.9 billion defined benefit pension assets to the

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

insurance company. No RAI contributions were required to complete the transaction. RAI recognized a one-time \$8 million settlement charge in connection with this transaction.

In March 2010, the Patient Protection Affordable Care Act, referred to as the PPACA, as amended by the Health Care and Reconciliation Act of 2010, was signed into law. The PPACA mandates health-care reforms with staggered effective dates from 2010 to 2018. The additional postretirement liability resulting from the material impacts of the PPACA have been included in the accumulated postretirement benefit obligation at December 31, 2022 and 2021.

The changes in net actuarial gain impacted the funded status and MTM adjustment as follows:

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Net actuarial gain:				
Change in discount rate	\$ (903)	\$ (299)	\$ (160)	\$ (32)
Change in mortality table	9	187	—	2
Actual return on plan assets	789	(366)	32	(13)
Expected return on plan assets	199	352	9	7
Other	(116)	(13)	12	(38)
Net actuarial gain	<u>\$ (22)</u>	<u>\$ (139)</u>	<u>\$ (107)</u>	<u>\$ (74)</u>

Assumptions

Weighted-average assumptions used to determine benefit obligations as of December 31:

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Discount rate	5.57%	3.00%	5.59%	2.91%
Rate of compensation increase	3.50%	3.50%	—	—
Interest crediting rate applicable to certain plans	4.75%	4.75%	—	—

Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:

	<u>Pension Benefits</u>		<u>Postretirement Benefits</u>	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Discount rate	3.00%	2.59%	2.91%	2.51%
Expected long-term return on plan assets	5.58%	5.58%	4.20%	3.50%
Rate of compensation increase	3.50%	3.50%	—	—
Interest crediting rate applicable to certain plans	4.75%	4.75%	—	—

Additional information relating to RAI's significant postretirement plans is as follows:

	<u>2022</u>	<u>2021</u>
Weighted-average health-care cost trend rate assumed for the following year	7.50%	7.00%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00%	5.00%
Year that the rate reaches the ultimate trend rate	2030	2030

During 2023, RAI expects to contribute \$15 million to its pension plans and \$52 million to its postretirement plans.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

Estimated future benefit payments:

Year	Pension Benefits	Postretirement Benefits		
		Gross Projected Benefit Payments Before Medicare Part D Subsidies	Expected Medicare Part D Subsidies	Net Projected Benefit Payments After Medicare Part D Subsidies
2023	\$ 132	\$ 68	\$ (1)	\$ 67
2024	135	64	(1)	63
2025	137	63	(1)	62
2026	138	62	(2)	60
2027	139	60	(1)	59
2028-2032	698	274	(7)	267

Pension and Postretirement Assets

RAI generally uses a hypothetical bond matching analysis to determine the discount rate. The discount rate modeling process involves selecting a portfolio of high-quality corporate bonds whose cash flows, via coupons and maturities, match the projected cash flows of the obligations.

The overall expected long-term rate of return on asset assumptions for pension and postretirement assets are based on: (1) the target asset allocation for plan assets, (2) long-term capital markets forecasts for asset classes employed, and (3) excess return expectations of active management.

Plan assets are invested using active investment strategies and multiple investment management firms. Managers within each asset class cover a range of investment styles and approaches and are combined in a way that controls for capitalization, style bias, and interest rate exposures, while focusing primarily on security selection as a means to add value. Risk is controlled through diversification among asset classes, managers, investment styles and securities. Risk is further controlled both at the manager and asset class level by assigning excess return and tracking error targets against related benchmark indices. Investment manager performance is evaluated against these targets.

RAI employs a risk mitigation strategy, which seeks to balance pension plan returns with a reasonable level of funded status volatility. Based on this framework, the asset allocation has two primary components. The first component is the “hedging portfolio,” which uses extended duration fixed income holdings and derivatives to match substantially all of the interest rate risk associated with the benefit obligations, thereby reducing expected funded status volatility. The second component is the “return seeking portfolio,” which is designed to enhance portfolio returns. The return seeking portfolio is broadly diversified across asset classes.

Allowable investment types include equity, fixed income, real assets and absolute return. The range of allowable investment types utilized for pension assets provides enhanced returns and more widely diversifies the plan. Equity is comprised of the common stocks of large, medium and small companies domiciled inside and outside the U.S., including those in less developed, fast growing emerging countries as well as the unregistered securities of private and public companies. Fixed income includes corporate debt obligations, fixed income securities issued or guaranteed by the U.S. government, and to a lesser extent by non-U.S. governments, mortgage backed securities, high yield securities, asset backed securities, municipal bonds and dollar-denominated obligations issued in the U.S. by non-U.S. banks and corporations. Real assets consist of private real estate investments and private energy investments. Absolute return investments are diversified portfolios utilizing multiple strategies that invest in both public and private securities, including equities and fixed income.

For pension assets, futures and forward contracts can be used for portfolio rebalancing and to approach fully invested portfolio positions. Otherwise, a small number of investment managers employ limited use of derivatives, including futures contracts, options on futures, forward contracts and interest rate swaps in place of direct investment in securities to gain efficient exposure to markets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

RAI’s pension and postretirement plans asset allocations at December 31, 2022 and 2021, by asset category were as follows:

Asset Category:	Pension Plans			
	2022 Target ⁽¹⁾	2022	2021 Target ⁽²⁾	2021
Equities	11%	19%	11%	10%
Fixed income	70%	44%	70%	67%
Absolute return	16%	27%	16%	18%
Real assets	3%	10%	3%	5%
Total	100%	100%	100%	100%

Asset Category:	Postretirement Plans			
	2022 Target ⁽²⁾	2022	2021 Target ⁽²⁾	2021
Equities	43%	39%	43%	44%
Fixed income	52%	56%	52%	47%
Cash and other	5%	5%	5%	9%
Total	100%	100%	100%	100%

- (1) Allows for a rebalancing range of up to 35 percentage points for fixed income and up to 15 percentage points for all other categories around target asset allocations.
- (2) Allows for a rebalancing range of up to 5 percentage points around target asset allocations.

RAI’s pension and postretirement plan assets, excluding uninvested cash and unsettled trades, carried at fair value on a recurring basis as of December 31, 2022 and 2021, were as follows ⁽¹⁾:

Pension Plans	2022				2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Asset Category:								
Asset backed securities	\$ —	\$ 2	\$ —	\$ 2	\$ —	\$ 37	\$ —	\$ 37
Corporate bonds	—	595	—	595	—	1,670	—	1,670
Government bonds	—	16	—	16	—	72	—	72
Mortgage backed securities	—	4	—	4	—	22	—	22
Municipal bonds	—	23	—	23	—	100	—	100
Treasuries	—	255	—	255	—	1,015	—	1,015
Cash equivalents and other	17	122	1	140	26	167	1	194
Total investments in the fair value hierarchy	<u>\$ 17</u>	<u>\$ 1,017</u>	<u>\$ 1</u>	1,035	<u>\$ 26</u>	<u>\$ 3,083</u>	<u>\$ 1</u>	3,110
Investments measured at net asset value				1,306				1,885
Total				<u>\$ 2,341</u>				<u>\$ 4,995</u>

Postretirement Plans	2022				2021			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Asset Category:								
Cash equivalents and other	\$ —	\$ 7	\$ —	\$ 7	\$ —	\$ 9	\$ —	\$ 9
Total investments in the fair value hierarchy	<u>\$ —</u>	<u>\$ 7</u>	<u>\$ —</u>	7	<u>\$ —</u>	<u>\$ 9</u>	<u>\$ —</u>	9
Investments measured at net asset value				152				187
Total				<u>\$ 159</u>				<u>\$ 196</u>

⁽¹⁾ See Note 1 for additional information on the fair value hierarchy.

For the years ended December 31, 2022 and 2021, there were no transfers among the fair value hierarchy levels, including transfers and purchases of level 3 assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

At December 31, 2022, the fair value of pension and postretirement assets classified as Level 1 and Level 2 was determined using multiple third-party pricing services for asset backed securities, corporate bonds, government bonds, mortgage backed securities, municipal bonds, treasuries and cash equivalents and other. At December 31, 2021, the fair value of pension and postretirement assets classified as Level 1 and Level 2 was determined using multiple third-party pricing services for asset backed securities, corporate bonds, government bonds, mortgage backed securities, municipal bonds, treasuries and cash equivalents and other.

The fair value of assets categorized as cash equivalents and other, classified as Level 3, was determined primarily using an income approach that utilized cash flow models and benchmarking strategies. This approach utilized observable inputs, including market-based interest rate curves, corporate credit spreads and corporate ratings. Additionally, unobservable factors incorporated into these models included default probability assumptions, potential recovery, discount rates and other entity specific factors.

In instances where the plans have invested in commingled pools, the net asset value was used as the practical expedient and no adjustments were made to the provided fair value.

Defined Contribution Plans

RAI sponsors qualified defined contribution plans. The expense related to these plans was \$38 million and \$40 million in 2022 and 2021, respectively. Included in the plans is a non-leveraged employee stock ownership plan, which holds shares of the BAT Stock Fund. Participants can elect to contribute to the fund.

Note 10 — Revenue Recognition

RAI has adopted ASC 606, *Contracts with Customers*, for which this accounting standard establishes principles for reporting information about the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers entered into by RAI's operating subsidiaries.

Substantially all of RAI's net sales come from sales of tobacco and e-cigarette products by its operating subsidiaries under the terms of contracts with their customers. Although each RAI operating subsidiary enters into separate contracts with its customers, the contracts used by RAI's operating subsidiaries are similarly constructed. Per the terms of these contracts, upon acceptance of a customer order, RAI's operating subsidiary has a performance obligation to ship the products ordered in the quantities accepted at the list price in the contract. RAI has determined that a customer obtains control of the product when it is shipped and ownership of such product and risk of loss transfers to the customer at that time. Accordingly, the performance obligation of RAI's operating subsidiary is satisfied upon shipment and revenue is recognized at that point in time. All performance obligations are satisfied within one year and, therefore, costs to obtain contracts are expensed as incurred and unsatisfied performance obligations are not disclosed.

Net sales reported on the accompanying consolidated statements of income primarily consist of sales to customers less cash discounts for payments made within terms, payments to customers under certain sales incentive agreements and other promotional allowance programs, coupons and customer product returns. RAI's reported sales are also net of federal excise taxes that are passed through to the appropriate governmental authority. Freight costs incurred to ship the product to the customer are accounted for as fulfillment costs and expensed in cost of products sold at the time of shipment.

RAI disaggregates net revenues of its most significant operating subsidiaries as follows:

	<u>2022</u>	<u>2021</u>
Net sales:		
RJR Tobacco	\$ 11,512	\$ 12,409
SFNTC	1,630	1,583
American Snuff Co.	1,303	1,339
RJRV	1,131	774
All Other	<u>44</u>	<u>1</u>
Consolidated net sales	<u>\$ 15,620</u>	<u>\$ 16,106</u>

RAI's operating subsidiaries promote their products with customer sales incentives and trade promotional allowance programs that require variable payments to their customers. These incentives and programs include discounts, coupons and volume-based incentives, among others, and are recorded as a reduction of revenues. Payments under these incentive and promotion programs are made primarily to wholesalers and retailers and are variable consideration under ASC 606. The accrual of these incentive payments requires estimates and judgment by the operating subsidiaries including estimated wholesale to retail sales and historical acceptance rates. Estimates are accrued at the time of shipment and are included in other accrued liabilities on RAI's consolidated balance sheets. The actual payments made under these programs may differ from RAI's estimates and such differences are recorded in the period when the actual payments are made. These differences, if any, have not had a material impact on RAI's reported income, financial condition or cash flows.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

RAI records an estimate for sales returns, which are based principally on historical volume and return rates, as a reduction to revenues. Actual sales returns will differ from estimated sales returns. These differences between actual and estimated sales returns are recorded in the period in which the actual amounts become known. These differences, if any, have not had a material impact on RAI's reported income, financial condition or cash flows. All returned goods are destroyed upon return and not returned to inventory. Consequently, no asset for the right to recover product from customers upon return is recognized.

RAI's operating subsidiaries generally receive payment either in advance of the shipment of product to the customer or on the date of expected delivery of product to the customer. When payment from the customer is received prior to the shipment of the product, recognition of revenue is deferred until the product is shipped and the RAI operating subsidiary's performance obligation is satisfied, generally within two days of receiving the payment. Deferred revenue for advance payments included in other current liabilities on the accompanying consolidated balance sheets at December 31, 2022 and 2021, was \$24 million and \$33 million, respectively. For product shipments where payment is not received in advance, amounts due from the customer are included in accounts receivable on the consolidated balance sheets. Accounts receivable from product sales are not material resulting in an insignificant amount of bad debt expense annually, therefore RAI has not provided an estimate for an allowance for bad debts.

Note 11 — Related Party Transactions

The following is a summary of balances and transactions with such BAT affiliates as of and for the years ended December 31:

	2022	2021
Current Balances:		
Accounts receivable, related party	\$ 32	\$ 32
Amounts due from related party – cash management agreements:		
In-house cash agreements	4,506	3,468
Notes and interest payable to related party	5,088	4,463
Due to related party	130	118
	2022	2021
Significant Transactions:		
Net sales	\$ 37	\$ 63
Leaf purchases	181	99
Allocation of technical, advisory, information technology research and development and other fees, net	247	144
Interest income	40	—
Interest expense	187	167
Financing reimbursements	50	37

Net sales to BAT affiliates primarily relate to RJR Tobacco's sales of tobacco leaf and processed tobacco under various agreements. Net sales to BAT affiliates represented less than 1% of RAI's total net sales in 2022 and 2021.

RJR Tobacco purchases cigarettes at prices not to exceed manufacturing costs plus 10% from BAT affiliates. After the BAT Merger in July 2017, RJR Tobacco and BAT GLP Ltd., a BAT affiliate, signed a Leaf Management and Supply Agreement, in which RJR Tobacco purchases offshore leaf from BAT GLP Ltd. at cost plus approximately 11%. The 11% markup applies to the leaf base price only and excludes freight, storage, insurance, admin, etc. included in the transfer price. The Leaf Management and Supply Agreement governs leaf planning, purchases, logistics, transfer pricing and payment terms. A separate Service Level Agreement between RJR Tobacco and BAT GLP Ltd. covers planning and execution details.

RAI participates in an income tax arrangement with its parent, BHI. There were no income tax amounts owed to BHI at December 31, 2022 and 2021.

RAI and certain of its subsidiaries have in-house cash, referred to as IHC, agreements with B.A.T. Capital Corporation, referred to as BATCAP. Under the terms of these IHC agreements, positive daily cash balances for RAI and its subsidiaries are automatically swept to BATCAP. IHC cash balances earn interest and IHC account overdrafts incur interest expense based on an index rate and a margin, referred to as the all-in rate. Beginning December 1, 2021, the index rate used was SOFR. Prior to December 1, 2021, the index rate was overnight LIBOR.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

Cash swept to BATCAP was payable to each respective entity on demand and bore interest at a rate of 0.275% under the applicable index rate. Certain IHC agreements contain a separate overdraft facility that provides for advances from BATCAP that may not exceed the overdraft limits set forth in each respective agreement. Among others, RAI has an overdraft facility of \$900 million and RJR Tobacco has an overdraft facility of \$700 million at December 31, 2022. Overdraft advances bore interest at a rate of 0.75% over the applicable index rate. The IHC agreements will remain in effect until cancelled and have no maturity date specified. The net amount owed to RAI and its subsidiaries was \$4,506 million and \$3,468 million at December 31, 2022 and 2021, respectively.

On December 20, 2019, RAI entered into a \$1.25 billion long-term installment term loan with BATCAP, effective January 2, 2020 with a maturity date of September 2049, referred to as the RAI Installment Note. The installment term loan bears an interest rate of 3.582% and is payable semi-annually. This interest rate may be adjusted to reflect changes to BATCAP's changes to its weighted average cost of borrowing as agreed. In May 2020, BATCAP advanced an additional \$1.4 billion to RAI under the RAI Installment Note.

In September 2020, RJR Tobacco entered into an installment term loan with BATCAP, referred to as the RJR Tobacco Installment Note, under which BATCAP advanced \$242.8 million to RJR Tobacco. At the same time, BATCAP advanced an additional \$1.72 billion to RAI under the RAI Installment Note. As of September 2020, the RAI Installment Note and the RJR Tobacco Installment Note each bore interest at a fixed rate of 3.6% payable semi-annually and had a maturity date of September 2050. In October 2022, the installment term loans were amended to revise the interest rates to match the expected rate increases as each installment was paid. The rates were revised to a range of 3.78% to 4.65%.

The amounts outstanding for the installment loans was \$4.217 billion and \$4.463 billion at December 31, 2022 and 2021, respectively. As of December 31, 2022, the maturities for the RAI Installment Note and the RJR Tobacco Installment Note were as follows:

<u>Year</u>	<u>RAI Installment Note</u>	<u>RJR Tobacco Installment Note</u>	<u>Total</u>
2023	\$ 152	\$ 9	\$ 161
2024	604	35	639
2025	101	6	107
2026	172	10	182
2027	759	44	803
Thereafter	2,199	126	2,325
	<u>\$ 3,987</u>	<u>\$ 230</u>	<u>\$ 4,217</u>

In addition to the above, on December 20, 2019, RAI entered into a reimbursement agreement with BATCAP related to BATCAP's fees and expenses it incurs in connection with capital market debt issued by BATCAP for financing for the benefit of RAI. RJR Tobacco entered into a substantially similar reimbursement agreement with BATCAP in November 2020 for its proportionate share of fees and expenses on financing benefitting RJR Tobacco. In 2022 and 2021, the \$50 million and \$37 million in reimbursements, respectively, include guarantee fees, derivative transactions and other debt servicing fees.

In 2022, RAI and RJR Tobacco each entered into three new loan agreements with BATCAP with interest at fixed rates payable semi-annually.

<u>Date Entered</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>RAI</u>	<u>RJR Tobacco</u>	<u>Total</u>
March 16, 2022	March 16, 2032	4.842%	\$ 155	\$ 9	\$ 164
March 16, 2022	March 16, 2052	5.750%	103	6	109
October 19, 2022	October 19, 2032	7.850%	579	19	598
Total			<u>\$ 837</u>	<u>\$ 34</u>	<u>\$ 871</u>

Combined notes payable to BATCAP at December 31, 2022, were as follows:

	<u>RAI</u>	<u>RJR Tobacco</u>	<u>Total</u>
Current	\$ 152	\$ 9	\$ 161
Long Term	4,672	255	4,927
	<u>\$ 4,824</u>	<u>\$ 264</u>	<u>\$ 5,088</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

The allocation of technical, advisory, information technology, research and development and other fees, including certain reimbursements, represent an allocation of certain BAT subsidiaries' centralized services per intercompany agreements.

RAI Services Company provides certain accounting and tax services for certain BAT U.S. affiliates under the terms of a services agreement with Louisville Corporate Services, Inc.