

REYNOLDS AMERICAN INC.

Consolidated Financial Statements

December 31, 2024 and 2023

(With Independent Auditors' Report Thereon)

REYNOLDS AMERICAN INC.
Consolidated Financial Statements

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KPMG LLP
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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, 2024 and 2023, 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, 2024 and 2023, 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 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

Raleigh, North Carolina
February 19, 2025

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

	For the Years Ended December 31,	
	2024	2023
Net sales ⁽¹⁾	\$ 14,369	\$ 14,851
Net sales, related party	53	54
Net sales	14,422	14,905
Costs and expenses:		
Cost of products sold ⁽¹⁾	3,997	4,413
Selling, general and administrative expenses	1,842	1,647
Amortization expense	796	82
Asset impairment charges	—	54
Trademark impairment charges	—	6,877
Operating income	7,787	1,832
Interest and debt expense	380	404
Interest expense, related party	324	279
Interest income, related party	(177)	(181)
Net periodic benefit income, excluding service cost	(39)	(25)
Other expense, net	2	6
Other income, related party	(68)	—
Other expense, related party	57	37
Income before income taxes	7,308	1,312
Provision for income taxes	1,649	408
Net income	\$ 5,659	\$ 904

⁽¹⁾ Excludes excise taxes of \$2,333 million and \$2,621 million for the years ended December 31, 2024 and 2023, respectively.

See Notes to Consolidated Financial Statements

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

	For the Years Ended December 31,	
	2024	2023
Net income	\$ 5,659	\$ 904
Other comprehensive loss, net of tax benefit:		
Retirement benefits, net of tax benefit:		
(2024 — \$12; 2023 — \$15)	(38)	(50)
Comprehensive income	\$ 5,621	\$ 854

See Notes to Consolidated Financial Statements

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

	For the Years Ended December 31,	
	2024	2023
Cash flows from (used in) operating activities:		
Net income	\$ 5,659	\$ 904
Adjustments to reconcile to net cash flows from operating activities:		
Depreciation and amortization expense	907	209
Asset impairment charges	—	54
Trademark impairment charges	—	6,877
Deferred income tax expense (benefit)	(123)	(1,573)
Gain on sale of property, plant and equipment	(26)	—
Other changes that provided (used) cash:		
Accounts and other receivables	4	23
Inventories	86	207
Related party, net	37	(75)
Accounts payable	11	(35)
Accrued liabilities, including other working capital	32	135
Income taxes	778	4
Tobacco settlement accruals	(375)	(358)
Pension and postretirement	(89)	(78)
Other, net	(186)	(25)
Net cash flows from operating activities	<u>6,715</u>	<u>6,269</u>
Cash flows from (used in) investing activities:		
Capital expenditures	(126)	(62)
Amounts due from related party – cash management agreements	138	538
Proceeds from sale of property, plant and equipment	69	10
Acquisition of intangibles	(30)	(74)
Net cash flows from investing activities	<u>51</u>	<u>412</u>
Cash flows from (used in) financing activities:		
Dividends paid on common stock	(6,260)	(6,150)
Borrowings under notes payable to related party	305	1,099
Repayments of notes payable to related party	(781)	(535)
Repayments of long-term notes	—	(1,057)
Other, net	(30)	(38)
Net cash flows used in financing activities	<u>(6,766)</u>	<u>(6,681)</u>
Net change in cash	—	—
Cash at beginning of year	<u>1</u>	<u>1</u>
Cash at end of year	<u>\$ 1</u>	<u>\$ 1</u>
Income taxes paid, net of refunds	\$ 781	\$ 1,685
Income taxes paid to parent	\$ 297	\$ 233
Interest paid	\$ 377	\$ 415
Interest paid to related party	\$ 420	\$ 111

See Notes to Consolidated Financial Statements

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

	As of December 31,	
	2024	2023
Assets		
Current assets:		
Cash	\$ 1	\$ 1
Accounts receivable	41	44
Accounts receivable, related party	15	42
Other receivables	16	17
Inventories	821	907
Amounts due from related party – cash management agreements	4,118	4,118
Other current assets	146	98
Total current assets	5,158	5,227
Property, plant and equipment, net	1,231	1,245
Trademarks and other intangible assets, net of accumulated amortization	21,752	22,427
Goodwill	15,977	15,977
Long-term deferred income taxes	12	20
Pension assets	652	658
Other assets and deferred charges	106	82
Total assets	<u>\$ 44,888</u>	<u>\$ 45,636</u>
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	\$ 391	\$ 380
Tobacco settlement accruals	1,904	2,279
Due to related party	75	65
Current maturities of long-term debt	2,048	16
Notes and interest payable to related party	73	660
Other current liabilities	2,668	1,639
Total current liabilities	7,159	5,039
Long-term debt (less current maturities)	4,787	6,823
Long-term deferred income taxes	4,450	4,664
Long-term retirement benefits (less current portion)	530	572
Long-term notes payable to related party	5,105	5,129
Other noncurrent liabilities	487	403
Commitments and contingencies		
Shareholders' equity:		
Common stock (shares issued: 2024 and 2023 — 1,426,125,631)	—	—
Paid-in capital	18,312	18,309
Retained earnings	4,094	4,695
Accumulated other comprehensive income (loss)	(36)	2
Total shareholders' equity	22,370	23,006
Total liabilities and shareholders' equity	<u>\$ 44,888</u>	<u>\$ 45,636</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, 2022	\$ —	\$ 18,316	\$ 9,941	\$ 52	\$ 28,309
Net income	—	—	904	—	904
Retirement benefits, net of \$15 tax benefit	—	—	—	(50)	(50)
Dividends — \$4.31 per share	—	—	(6,150)	—	(6,150)
Stock-based compensation	—	(7)	—	—	(7)
Balance at December 31, 2023	—	18,309	4,695	2	23,006
Net income	—	—	5,659	—	5,659
Retirement benefits, net of \$12 tax benefit	—	—	—	(38)	(38)
Dividends — \$4.39 per share	—	—	(6,260)	—	(6,260)
Stock-based compensation	—	3	—	—	3
Balance at December 31, 2024	<u>\$ —</u>	<u>\$ 18,312</u>	<u>\$ 4,094</u>	<u>\$ (36)</u>	<u>\$ 22,370</u>

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 LUCKY STRIKE. These brands, together with its other brands, including PALL MALL, 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 traditional oral 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 vapor products 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.

Major U.S. Customers and Foreign Sales

Sales to Performance Food Group Company, Inc., a distributor, constituted approximately 23% of RAI's consolidated net sales in each of 2024 and 2023. Sales to McLane Company, Inc., a distributor, constituted approximately 22% of RAI's consolidated net sales in 2024 and 20% in 2023. No other customer accounted for 10% or more of RAI's consolidated net sales during those periods.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

Sales by RAI's operating subsidiaries to foreign countries, primarily to related parties, for the years ended December 31, 2024 and 2023 were \$53 million and \$54 million, respectively.

Revenue Recognition

RAI recognizes revenue in accordance with 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 prior years' 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

RAI accounts for leases in accordance with ASC 842, *Leases*. 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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

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 weighted-average cost 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 \$111 million and \$127 million for the years ended December 31, 2024 and 2023, respectively.

For the year ended December 31, 2024, RAI recorded a gain of \$26 million on sale of operating assets in the consolidated statements of income related to the sale of American Snuff Co. manufacturing facilities in Memphis, Tennessee.

For the year ended December 31, 2023, RAI determined that an impairment had been incurred to the carrying value of certain machinery and equipment used in the production of certain cigarette products. Forecasts indicated that estimated future cash flows generated from the impaired machinery and equipment were declining and management assessed that the impaired machinery and equipment had no fair value. Accordingly, RAI recognized asset impairment charges of \$54 million in the consolidated statements of income for 2023.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

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

	<u>2024</u>	<u>2023</u>
Property, plant and equipment, at cost:		
Land and land improvements	\$ 88	\$ 88
Buildings and leasehold improvements	707	731
Machinery and equipment	2,177	2,248
Construction-in-process	151	127
Total property, plant and equipment	3,123	3,194
Accumulated depreciation	(1,892)	(1,949)
Property, plant and equipment, net	<u>\$ 1,231</u>	<u>\$ 1,245</u>

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. During 2023, RAI recognized an impairment on its indefinite-lived trademarks totaling \$6,877 million, and in January 2024, its indefinite-lived trademarks associated with its cigarette brands were reclassified as finite-lived intangibles and amortized using the straight-line method over an estimated useful life of 20 to 30 years. Other trademarks and intangible assets with finite lives, which are amortized using the straight-line method over their remaining useful lives of 1 to 13 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 and on October 18, 2023, the FDA formally submitted the final product standard to the Office of Management and Budget, referred to as OMB. Following delays, in January 2025, the new Trump administration withdrew the rule from OMB, and it is currently held pending the new administration's reconsideration of regulations advanced by the previous administration.

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. On January 15, 2025, in the final days of the outgoing Biden administration, the FDA issued a proposed product standard whereby the agency would limit the nicotine level in cigarettes following a two-year effective date from publication of any final rule. The proposed rule is currently subject to public comment but may be de-prioritized by the new Trump administration as it considers all proposed regulations advanced by the previous administration.

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.

In 2023, RJRV received and is challenging FDA marketing denial orders for menthol VUSE Alto, Ciro, and Vibe products. RJRV has received court-ordered stays of enforcement of the FDA's denial orders, which means these VUSE menthol products can continue to be marketed and sold while the judicial review process continues. There can be no assurance that the VUSE menthol or other flavors appeals will succeed. In July 2024, the FDA authorized the marketing of the VUSE Alto Power Unit and six VUSE Alto tobacco-flavored pods.

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.

For further discussion on intangible assets, refer to Note 2.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

Supplier Finance Program

Under a supplier finance program, RAI agrees to pay a bank a stated amount of confirmed invoices from a leaf tobacco supplier on the original maturity date of the invoices. The supplier invoices that have been confirmed as valid by RAI under the program require payment in full within 150 days of the invoice date. Outstanding balances under this supplier finance program are included in accounts payable in the accompanying consolidated balance sheets.

A reconciliation of the beginning and ending outstanding balances was as follows:

	For the years ended December 31,	
	2024	2023
Confirmed outstanding balances at beginning of year	\$ 140	\$ 201
Invoices confirmed during the year	114	140
Confirmed invoices paid during the year	(142)	(201)
Confirmed outstanding balances at end of year	<u>\$ 112</u>	<u>\$ 140</u>

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.

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:

	2024	2023
State Settlement Agreements	\$ 2,160	\$ 2,516
FDA user fees	176	174

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, one additional state joined in 2022, one additional state joined in 2023 and one additional state joined in 2024. The parties to the NPM Agreement represent an allocable share of 68.42%. 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. In 2024, the NPM Agreement signatory states and PMs agreed to settle 2023 and 2024 volume years.

As a result of meeting the performance requirements associated with the NPM Agreement, RJR Tobacco and SFNTC, collectively, recognized credits of \$152 million and \$148 million for the years ended December 31, 2024 and 2023, 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 2024, RJR Tobacco, SFNTC and certain other PMs entered into a settlement agreement, referred to as the Massachusetts Settlement Agreement, with the Commonwealth of Massachusetts to settle certain claims related to the NPM Adjustment. The

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

Massachusetts Settlement Agreement resolved NPM Adjustment claims related to volume years 2005 through 2011. As a result of this settlement, RJR Tobacco will receive \$69 million in credits, which will be applied over a five-year period beginning in 2025.

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 \$128 million and \$103 million for the years ended December 31, 2024 and 2023, respectively.

Research and Development

Research and development costs, which are expensed as incurred, were \$61 million and \$64 million for the years ended December 31, 2024 and 2023, 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 and local 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 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.

The Inflation Reduction Act created a new corporate alternative minimum tax, referred to as CAMT, for tax years beginning on or after December 31, 2022. CAMT is a 15 percent minimum tax generally levied on large corporations with three-year average adjusted financial statement income of \$1 billion or more. This amount is reduced to \$100 million for corporations that are members of a foreign-parented multinational group. Although RAI does not expect to owe CAMT for the foreseeable future, management has made a policy election to treat CAMT, if applicable, as a current period tax expense and continue to measure deferred taxes at regular rates.

Stock-Based Compensation

Stock-based compensation expense is recognized for all forms of share-based payment awards, including BAT American Depositary 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

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 19, 2025, the date the financial statements were issued. On January 2, 2025, RAI declared dividends of \$1.610 billion and paid these dividends on January 6, 2025.

In January 2025, the RAI and RJR Tobacco installment term loans were amended to revise the interest rate on certain installment term loans due in 2027 and 2031 from a fixed to floating interest rate. The installment of \$415 million (RAI \$392 million and RJR Tobacco \$23 million) due in 2027 will be based on Secured Overnight Financing Rate, referred to as SOFR, plus a margin of 2.675%. The installment of \$228 million (RAI \$216 million and RJR Tobacco \$12 million) due in 2031 will be based on SOFR minus a margin of 0.226%.

In addition to the amendment of the RAI and RJR Tobacco installment term loans, three of the outstanding term loans were amended to revise the interest rate from a fixed to floating rate. The summary of the amended term loans is as follows:

<u>Date Entered</u>	<u>Maturity Date</u>	<u>Floating Interest Rate</u>	<u>RAI</u>	<u>RJR Tobacco</u>	<u>Total</u>
March 16, 2022	March 16, 2032	SOFR + 1.580%	\$ 155	\$ 9	\$ 164
August 2, 2023	August 2, 2033	SOFR + 2.988%	337	11	348
February 20, 2024	February 20, 2034	SOFR + 2.105%	147	8	155
Total			<u>\$ 639</u>	<u>\$ 28</u>	<u>\$ 667</u>

On January 21, 2025, the new Trump administration formally withdrew the proposed product standard banning menthol as a characterizing flavor in cigarettes from consideration by the Office of Information and Regulatory Affairs, referred to as OIRA, at the OMB. The rule had been pending review by OIRA since October 2023. Following this removal from consideration by OIRA, any proposed product standard banning menthol as a characterizing flavor in cigarettes would need to go back to OIRA before it can be finalized. The proposed product standard banning menthol as a characterizing flavor in cigarettes remains on the FDA's Unified Agenda.

Aside from the matters disclosed in Note 7 and the items noted above, RAI has determined that there are no other items to disclose.

Recently Adopted Accounting Pronouncements

Effective January 1, 2023, RAI Adopted the following new accounting standards:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

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 did not 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 amended guidance did not have a material impact on RAI's results of operations, cash flows and financial position.

Recently Issued Accounting Pronouncements

In December 2023, the FASB issued ASU No. 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*. This guidance enhances the transparency around income tax disclosures by requiring additional information in the rate reconciliation and requiring information on income tax payments to international, federal, state and local jurisdictions. This ASU is effective for annual periods beginning after December 15, 2024, for public business entities. The guidance is not expected to have a material impact on RAI's results of operations, cash flows and financial position.

In November 2024, the FASB issued ASU No. 2024-03, *Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses*. This guidance will require additional disclosures about specific types of expenses included in the expense captions presented on the face of the consolidated statements of income as well as disclosures about selling expenses. This ASU is effective for public business entities for annual periods beginning after December 15, 2026. RAI is currently evaluating whether this ASU will have a material impact on the RAI's financial statements.

Note 2 — Intangible Assets

The carrying amounts of goodwill is as follows:

Balance as of December 31, 2024 and 2023	\$ 15,977
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The carrying amounts of indefinite-lived intangibles were as follows:

	Trademarks	Other
Balance as of December 31, 2022	\$ 28,848	\$ 36
Impairment	(6,877)	—
Balance as of December 31, 2023	21,971	36
Reclassified to finite-lived	(21,001)	—
Balance as of December 31, 2024	<u>\$ 970</u>	<u>\$ 36</u>

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

	Trademarks	Other
Balance as of December 31, 2022	\$ 178	\$ 250
Acquisitions	—	74
Amortization	(13)	(69)
Balance as of December 31, 2023	165	255
Acquisitions	—	121
Amortization	(716)	(80)
Reclassified from indefinite-lived	21,001	—
Balance as of December 31, 2024	<u>\$ 20,450</u>	<u>\$ 296</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

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

	2024			2023		
	<u>Gross</u>	<u>Accumulated Amortization</u>	<u>Net</u>	<u>Gross</u>	<u>Accumulated Amortization</u>	<u>Net</u>
Trademarks	\$ 21,381	\$ (931)	\$20,450	\$ 380	\$ (215)	\$ 165
Customer Lists	240	(115)	125	240	(103)	137
Other intangibles	492	(321)	171	371	(253)	118
	<u>\$ 22,113</u>	<u>\$ (1,367)</u>	<u>\$20,746</u>	<u>\$ 991</u>	<u>\$ (571)</u>	<u>\$ 420</u>

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

<u>Year</u>	<u>Amount</u>
2025	\$ 770
2026	769
2027	764
2028	763
2029	739
Thereafter	16,941
	<u>\$ 20,746</u>

During 2023, certain subsidiaries of RAI acquired intellectual property rights to certain patented technology related to the vapor category. The purchases were made for \$65 million in aggregate.

In July 2024, MBI entered into a membership purchase agreement to acquire Beni Oral Nicotine, LLC. Beni Oral Nicotine, LLC's primary assets included intellectual property rights related to the modern oral category. The purchase consideration included approximately \$30 million in cash, which was payable upon closing, in addition to contingent liabilities of approximately \$64 million and a deferred tax liability of approximately \$27 million. The contingent liabilities are associated with potential future payments based on future sales of Beni Products and subject to a reduction should events occur in the marketplace which negatively impact the sales of Beni Products.

Trademarks

The impairment testing of trademarks in the fourth quarters of 2024 and 2023 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 6.80% and 7.15% during 2024 and 6.95% and 7.25% for all brands during 2023. 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 (Level 3 of the fair value hierarchy).

The U.S. cigarette market has experienced substantial volatility since 2020. In the period immediately prior to the COVID-19 pandemic, U.S. cigarette industry volumes declined by c.5.0-5.5% per annum (2017-2019). During COVID-19, due to changes in consumer behavior, industry volume was largely flat in 2020 (0.1% decline) with 2021 also declining by only 3.0%. However, in 2022, as the U.S. exited the pandemic combined with adverse impact from the macro-economic headwinds, industry volume declined by 10.6%. At the time, it was management's assessment that the performance was a rebalancing and would return to a more consistent decline rate in future periods, supporting the judgement that it was not possible to reliably determine a finite useful life for the brands. Accordingly, an indefinite life continued to be applied and the brands were not amortized through December 31, 2023.

During 2023, however, evolving insights indicated that the decline in industry volume would be higher than forecasts due to the continued macroeconomic headwinds in the U.S. combined with an acceleration of the vapor category growth. This growth is driven by cigarette consumers turning to vapor devices (specifically through the use of illicit single use disposable products as consumers increase poly-usage) with this market segment growing substantially in the period.

Due to the continued challenging trading conditions in the U.S., a detailed external study was commissioned to assist management with an independent view of the potential forecast performance for the market. The study assessed the future industry size, based upon, among other things: macro-economic factors, pricing and elasticity and long-term trend assumptions which themselves include category-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

specific consumption patterns in comparison to other categories. This review assisted management in preparing RAI's five-year forecast of the U.S. market, with further extrapolation based upon the estimated performance of the brands.

Following the review and as a result of the higher forecast cigarette market decline as described above, an impairment charge of \$6,877 million for trademarks was recognized in 2023.

Concurrent to the impairment assessment, and reflecting management's revised volume projections, management concluded that it was appropriate to reclassify NEWPORT, CAMEL, NATURAL AMERICAN SPIRIT, and PALL MALL as finite-lived intangibles from January 1, 2024 (2023: indefinite-lived) with an estimated life of between 20 to 30 years. The carrying amounts of these intangibles totaled \$21.0 billion as of December 31, 2023. Management recognizes that the date at which the reclassification to finite-lived is made is judgmental and determined that amortization would commence January 1, 2024, and be charged on a straight-line basis.

No impairment charges were recognized in 2024 for trademarks.

Goodwill

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 2024 of 6.95% for all reporting units and during 2023 of 7.50% 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 2024 or 2023 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>2024</u>	<u>2023</u>
Leaf tobacco	\$ 662	\$ 786
Other raw materials	76	67
Work in process	73	60
Finished products	186	181
Other	<u>7</u>	<u>7</u>
Total	1,004	1,101
LIFO allowance	(183)	(194)
	<u>\$ 821</u>	<u>\$ 907</u>

Inventories valued under the LIFO method were \$256 million and \$313 million at December 31, 2024 and 2023, respectively, net of the LIFO allowance. The LIFO allowance reflects the excess of the current cost of LIFO inventories at December 31, 2024 and 2023, compared with the amount at which these inventories were carried on the consolidated balance sheets. RAI recognized income of \$11 million and expense of \$11 million from LIFO inventory changes during 2024 and 2023, respectively.

Note 4 — Other Current Liabilities

Other current liabilities at December 31 included the following:

	<u>2024</u>	<u>2023</u>
Payroll and employee benefits	\$ 169	\$ 111
Pension and postretirement benefits	61	64
Marketing and advertising	783	656
Excise, franchise and property taxes	114	128
Interest payable	93	93
Income taxes	1,162	384
Other	<u>286</u>	<u>203</u>
	<u>\$ 2,668</u>	<u>\$ 1,639</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

Note 5 — Income Taxes

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

	<u>2024</u>	<u>2023</u>
Current:		
Federal	\$ 1,597	\$ 1,591
State and other	273	390
	<u>1,870</u>	<u>1,981</u>
Deferred:		
Federal	(81)	(1,355)
State and other	(140)	(218)
	<u>(221)</u>	<u>(1,573)</u>
Provision for income taxes	<u>\$ 1,649</u>	<u>\$ 408</u>

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

	<u>2024</u>	<u>2023</u>
Deferred tax assets:		
Tobacco settlement accruals	\$ 446	\$ 558
Other accrued liabilities	105	76
Other noncurrent liabilities	198	195
Subtotal	749	829
Less: valuation allowance	(1)	(8)
	<u>748</u>	<u>821</u>
Deferred tax liabilities:		
Inventories	(64)	(70)
Property and equipment	(159)	(164)
Trademarks and other intangibles	(4,934)	(5,213)
Other	(29)	(18)
	<u>(5,186)</u>	<u>(5,465)</u>
Net deferred tax liability	<u>\$ (4,438)</u>	<u>\$ (4,644)</u>

RAI had no federal capital loss carryforwards at December 31, 2024 and 2023, respectively.

As of December 31, 2024, a valuation allowance of \$1 million was recorded on a deferred tax asset related to a partnership interest. As of December 31, 2023, a valuation allowance of \$8 million was recorded on deferred tax asset related to a partnership interest. RAI believes it is more likely than not that these deferred tax assets will not be realized.

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

	<u>2024</u>	<u>2023</u>
Domestic (includes U.S. exports)	\$ 7,308	\$ 1,312

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>2024</u>	<u>2023</u>
Income taxes computed at the statutory U.S. federal income tax rate	\$ 1,535	\$ 275
State and local income taxes, net of federal tax benefits	73	53
Provision for uncertain tax positions	9	73
Other items, net	32	7
Provision for income taxes	<u>\$ 1,649</u>	<u>\$ 408</u>
Effective tax rate	<u>22.6%</u>	<u>31.1%</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

The effective tax rate for 2024 and 2023 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>2024</u>	<u>2023</u>
Retirement benefits	\$ 69	\$ 57

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>2024</u>	<u>2023</u>
Unrecognized tax benefits	\$ 295	\$ 295
Accrued interest	71	59
Accrued penalties	6	6
	<u>\$ 372</u>	<u>\$ 360</u>

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

	<u>2024</u>	<u>2023</u>
Balance at beginning of year	\$ 295	\$ 219
Gross increases related to current period tax positions	35	44
Gross increases related to tax positions in prior periods	3	51
Gross decreases related to tax positions in prior periods	(9)	(4)
Gross decreases related to audit settlements	—	(1)
Gross decreases related to lapse of applicable statute of Limitations	(29)	(14)
Balance at end of year	<u>\$ 295</u>	<u>\$ 295</u>

At December 31, 2024, \$292 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 2021 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.

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 and local 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

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,	
	2024	2023
RAI		
4.450% notes due 06/12/2025	\$ 2,032	\$ 2,032
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	6,682	6,682
Fair value adjustments	97	101
Unamortized discounts	(14)	(15)
Unamortized debt issuance costs	(25)	(29)
Total RAI long-term notes at carrying value	\$ 6,740	\$ 6,739
RJR Tobacco		
8.125% notes due 05/01/2040	\$ 13	\$ 13
7.000% notes due 08/04/2041	9	9
Total principal	22	22
Fair value adjustments	5	5
Total RJR Tobacco long-term notes at carrying value	\$ 27	\$ 27
Total long-term notes at carrying value	\$ 6,767	\$ 6,766

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

	For the years ended December 31,	
	2024	2023
Total long-term notes at carrying value	\$ 6,767	\$ 6,766
Total finance leases at carrying value	68	73
Total long-term debt at carrying value	6,835	6,839
Less current maturities of long-term notes at carrying value	2,031	—
Less current maturities of finance leases at carrying value	17	16
Total current maturities of long-term debt	2,048	16
Total long-term debt (less current maturities) at carrying value	\$ 4,787	\$ 6,823

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

As of December 31, 2024, 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>
2025	\$ 2,032	\$ —	\$ 2,032
2026	—	—	—
2027	—	—	—
2028	—	—	—
2029	—	—	—
Thereafter	4,650	22	4,672
	<u>\$ 6,682</u>	<u>\$ 22</u>	<u>\$ 6,704</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 \$6.6 billion as of December 31, 2024 and 2023, with an effective annual interest rate of approximately 5.6% as of December 31, 2024 and 2023. 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 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, 2024, contains an accrual for approximately \$42.8 million for four *Engle* Progeny cases and three *Engle* Progeny resolution bundles, six individual smoking and health cases, three individual smoking and health resolution bundles, one *Broin* Progeny resolution bundle, 14 Lorillard Filter cases, two premises liability cases and remaining compliance costs associated with the *U.S. Department of Justice* case as set forth below under “— Litigation Affecting the Cigarette Industry.” In 2024, RJR Tobacco paid approximately \$145.9 million in satisfaction of judgments, including attorneys' fees and interest, in six *Engle* Progeny cases and two individual smoking and health 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

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 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 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 2024, 87 tobacco-related cases were served against Reynolds Defendants. On December 31, 2024, there were, subject to the exclusions described immediately below, 277 cases pending against Reynolds Defendants: 260 in the United States and 17 in Canada, as compared with 289 total cases on December 31, 2023. Of the U.S. cases pending on December 31, 2024, 24 are pending in federal court, 235 in state court and one in tribal court, primarily in the following states: Massachusetts (76 cases); Illinois (47 cases); Florida (31 cases); New Mexico (31 cases); Oregon (14 cases) and New York (11 cases). The U.S. case number excludes the 91 *Engle* Progeny cases, involving approximately 125 individual plaintiffs, and 69 *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, 2024, and the change in the number of cases pending against Reynolds Defendants since December 31, 2023, 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, 2024	Change in Number of Cases Since December 31, 2023 Increase/(Decrease)
Individual Smoking and Health Cases	197	(5)
<i>Engle</i> Progeny Cases (Number of Plaintiffs)**	91 (approx. 125)	(214) (255)
<i>Broin II</i> Cases	69	(1,102)
Class-Action Suits	19	No change
Filter Cases	29	(6)
Health-Care Cost Recovery Cases	2	No change
State Settlement Agreements—Enforcement and Validity; Adjustments	5	1
Other Litigation and Developments	11	(3)

** 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, 91 *Engle* Progeny cases were pending as of December 31, 2024, that included claims asserted on behalf of 125 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 42 cases, exclusive of *Engle* Progeny cases, scheduled for trial as of December 31, 2024 through December 31, 2025, for RJR Tobacco, B&W, Lorillard Tobacco or their affiliates and indemnitees: 31 individual smoking and health cases, eight Filter cases, and three other non-smoking and health cases. There are also approximately 26 *Engle* Progeny cases against RJR Tobacco, B&W and/or Lorillard Tobacco set for trial through December 31, 2025. It is not known how many of these cases will actually be tried.

Trial Results. From January 1, 2022 through December 31, 2024, 60 individual smoking and health, *Engle* Progeny, and patent cases in which RJR Tobacco, B&W and/or Lorillard Tobacco were defendants were tried, including 14 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 17 cases, tried in Florida (9), Oregon (1), and Massachusetts (5), Illinois (1) and New Mexico (1). Verdicts in favor of the plaintiffs were returned in 25 cases tried in Florida (17), Massachusetts (4), New Mexico (1), Oregon (2), and North

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Carolina (1). Two of the cases (in Florida) were dismissed during trial. Two of the cases (in Florida) were punitive damages re-trials that were retried twice (the first retrials resulted in plaintiff verdicts; the second retrials resulted in defense verdicts).

In 2024, five *Engle* Progeny cases in which RJR Tobacco and/or Lorillard Tobacco was a defendant were tried:

Total number of trials	5
Number of trials resulting in plaintiffs' verdicts	2
Total damages awarded in final judgments against RJR Tobacco	\$44,096,000
Amount of overall damages comprising 'compensatory damages' (approximately)	\$18,348,000 (of overall \$44,096,000)
Amount of overall damages comprising 'punitive damages' (approximately)	\$25,748,000 (of overall \$44,096,000)
Number of adverse judgments appealed by RJR Tobacco	2
Number of adverse judgments (not yet appealed), in which RJR Tobacco still has time to file an appeal	0
Number of adverse judgments in which no appeal was sought	0

In 2024, 10 non-*Engle* Progeny individual smoking and health cases, in which RJR Tobacco, B&W and/or Lorillard Tobacco was a defendant, were tried:

- In *Harcourt v. R. J. Reynolds Tobacco Co.*, on February 9, 2024, the jury returned a verdict in favor of RJR Tobacco.
- In *Joleen K. Youngers (as the Personal Representative of Edward Archuleta) v. R. J. Reynolds Tobacco Co.*, on February 22, 2024, the jury returned a verdict in favor of the defendants, including RJR Tobacco.
- In *Farchione v. R. J. Reynolds Tobacco Co.*, on March 26, 2024, the jury returned a verdict in favor of RJR Tobacco.
- In *Agnitti v. R. J. Reynolds Tobacco Co.*, on April 2, 2024, the jury returned a verdict in favor of the defendants, including RJR Tobacco.
- In *Taylor v. Santa Fe Natural Tobacco Co.*, on April 23, 2024, the jury returned a full defense verdict in favor of SFNTC. The jury, however, awarded \$750,000 in compensatory damages and no entitlement to punitive damages against PM USA.
- In *Geist v. R. J. Reynolds Tobacco Co.*, on September 10, 2024, the court declared a mistrial due to the inability to complete the trial within the allotted timeframe.
- In *Sacs v. R. J. Reynolds Tobacco Co.*, on October 31, 2024, the court declared a mistrial due to a tainted jury panel.
- In *Penza v. R. J. Reynolds Tobacco Co.*, on December 6, 2024, the jury returned a verdict in favor of the plaintiff and awarded \$8.1 million in compensatory damages and \$2.5 million in punitive damages. On January 24, 2025, the trial judge entered an order granting plaintiff's request for additional amounts and awarded an additional \$20 million in compensatory damages that he then trebled, which resulting in a total judgment of \$105 million.
- In *Manious v. R. J. Reynolds Tobacco Co.*, on December 12, 2024, the jury returned a verdict in favor of the plaintiff, found the decedent 25% at fault and RJR Tobacco 75% at fault, and awarded \$6 million in compensatory damages and \$85 million in punitive damages.
- In *Jordan v. R. J. Reynolds Tobacco Co.*, on December 14, 2024, the court declared a mistrial due to the illness of a juror.

In 2024, no Filter cases, in which RJR Tobacco and/or Lorillard Tobacco was a defendant, were tried.

In addition, since the end of 2024, no other *Engle* Progeny cases and one non-*Engle* individual smoking and health cases, in which RJR Tobacco, B&W, and/or Lorillard was a defendant, were tried.

- In *Jordan v. R. J. Reynolds Tobacco Co.*, on February 7, 2025, the court declared a mistrial due to the inability to reach a unanimous verdict.

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For information on the verdicts in the *Engle* Progeny cases that have been tried and remain pending as of December 31, 2024, 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, 2024 or that were resolved in 2024, where verdicts were returned against RJR Tobacco, B&W, Lorillard Tobacco, or SFNTC, or all four.

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 posted at retail point of sale. Installation of the statements began in July 2023, and the statements will remain in stores through June 2025.
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 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. On December 4, 2023, the court

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Date of Verdict	Case Name/Type	Jurisdiction	Verdict	Status
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	granted the defendant’s motion for remittitur and ordered that the jury award of punitive damages be remitted to \$1 million. On December 15, 2023, RJR Tobacco filed a notice of rejection of remittitur of punitive damages award and demand for new trial. The parties agreed to resolve the case, and RJR Tobacco paid \$2.75 million on March 15, 2024. Final judgment was entered against RJR Tobacco in the amount of \$18.1 million on November 8, 2022. On February 8, 2023, RJR Tobacco filed a notice of appeal to the Oregon Court of Appeals. Oral argument occurred on December 6, 2024. A decision is pending.
October 3, 2023	<i>Treniece Jones v. R. J. Reynolds Tobacco Co.</i> [Individual]	Superior Court, Suffolk County, Massachusetts (Boston, MA)	\$50 million in compensatory damages; 3% of fault assigned to plaintiff, 97% of fault assigned to RJR Tobacco; \$150 million in punitive damages	Final judgment was entered against RJR Tobacco in the amount of approximately \$241.7 million (judgment and interest) on October 10, 2023. On October 16, 2023, RJR Tobacco filed a notice of motion for judgment notwithstanding the verdict or a new trial or a remittitur. On February 27, 2024, the trial court issued its decision on post-trial motions and remitted the punitive damages award to \$50 million from \$150 million, finding that the “substantiality” of the \$50 million compensatory justified a 1:1 ratio that satisfied the purpose of punitive damages. The trial court did not reverse on any issues concerning liability or compensatory damages. On March 20, 2024, the plaintiff filed a statement of remittitur accepting the decrease of the jury’s \$150 million punitive damages award to \$50 million. RJR Tobacco filed a protective notice of appeal on March 28, 2024. After reviewing appellate options (taking into account the accruing 12% prejudgment interest (since 10/2016) on the compensatory award and the 12% post-judgment interest), on June 25, 2024, RJR Tobacco accepted plaintiff’s counsel’s offer to resolve the matter for \$127 million. RJR

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

Date of Verdict	Case Name/Type	Jurisdiction	Verdict	Status
November 29, 2023	<i>Reppucci v. R. J. Reynolds Tobacco Co.</i> [Individual]	Superior Court, Middlesex County, Massachusetts (Woburn, MA)	\$20.8 million in compensatory damages	Tobacco paid the \$127 million on August 14, 2024. Plaintiff's Chapter 93A claim remains pending and will be resolved by the trial judge. An evidentiary hearing occurred on June 7, 2024. On December 4, 2024, the trial court issued its ruling on plaintiff's Chapter 93A claim, finding RJR Tobacco liable and trebled the compensatory damages awarded to the smoker (approximately \$15 million) to approximately \$45 million. The total judgment (adding in wife's damages) is now \$50,957,073, plus prejudgment interest since 2020 (date the complaint was filed). The Court also awarded Plaintiff attorney's fees and costs, to be determined at a later date. RJR Tobacco is preparing post-trial motions and an appeal if necessary.
December 6, 2024	<i>Penza v. R. J. Reynolds Tobacco Co.</i> [Individual]	Superior Court, Hampden County, Massachusetts (Springfield, MA)	\$8.1 million in compensatory damages; \$2.5 million in punitive damages	On January 24, 2025, the trial court judge trebled the jury's compensatory award and awarded an additional \$20 million in compensatory damages that he then trebled; total judgment \$105 million. RJR Tobacco filed post-trial motions, including a motion to disqualify the trial court judge, and those were denied on February 7, 2025, and the court entered a corrected judgment awarding the plaintiff approximately \$86.6 million. RJR Tobacco will file an appeal on all issues by the deadline of March 7, 2025.
December 12, 2024	<i>Manious v. R. J. Reynolds Tobacco Co.</i> [Individual]	Circuit Court, Hawaii County, Hawaii (Hilo, HI)	\$6 million in compensatory damages; 25% of fault assigned to plaintiff, 75% of fault assigned to RJR Tobacco; \$85 million in punitive damages	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, 2024, 197 individual cases were pending in the United States against RJR Tobacco, B&W (as RJR Tobacco's indemnitee), Lorillard Tobacco, SFNTC, or all four. 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

compensatory damages, attorneys' fees and costs, and punitive damages. The category does not include the *Broin II*, *Engle* Progeny, or Filter cases discussed below. Three of the individual cases are 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, 2024, 91 *Engle* Progeny cases were pending in state courts against RJR Tobacco, B&W and/or Lorillard Tobacco. Those cases include claims by or on behalf of approximately 125 plaintiffs. As of December 31, 2024, RJR Tobacco also was aware of two additional *Engle* Progeny cases that have 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

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-two *Engle* Progeny cases have been tried in Florida state and federal courts since the beginning of 2022 through December 31, 2024, and additional state court trials are scheduled for 2025. Since the beginning of 2022 through December 31, 2024, RJR Tobacco or Lorillard Tobacco has paid judgments in 26 *Engle* Progeny cases. Those payments totaled \$98.1 million and included \$53 million for compensatory or punitive damages and \$45.1 million for attorneys' fees and statutory interest. The payments made in 2024 are detailed in the following chart:

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	\$ —	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. On September 13, 2023, the Fourth DCA reversed the \$2 million punitive damages award and remanded the case to the trial court for a new trial on the plaintiff's entitlement to punitive damages and, if necessary, the amount. The plaintiff filed a motion for rehearing and rehearing en banc on November 8, 2023, which was denied on January 12, 2024. On April 22, 2024, the court entered a partial final judgment in the amount of approximately \$163,000 in compensatory damages against RJR Tobacco. On April 26, 2024, RJR Tobacco paid approximately \$183,000 in satisfaction of the compensatory damages award. On November 4, 2024, in the punitive damages only retrial, the jury returned a verdict in favor of RJR Tobacco. The plaintiff filed a motion for a new trial on November 18, 2024. A decision is pending.

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>Ryan</i>	25%	—	125,000	—	The new trial began September 26, 2023. On October 13, 2023, the jury returned a verdict in favor of the plaintiff, found the plaintiff 75% at fault and RJR Tobacco 25% at fault, and awarded \$500,000 in compensatory damages. Final judgment was entered on October 30, 2023 against RJR Tobacco in the amount of \$125,000. Neither party sought further review. RJR Tobacco paid approximately \$315,000 on April 3, 2024.
<i>Giambalvo</i>	50%	—	7,000,000	—	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. Oral argument occurred on November 8, 2023. On April 26, 2024, the Second DCA found that RJR Tobacco was entitled to a directed verdict on the fraudulent conspiracy to conceal claim, directed that the \$7 million compensatory damages award should be reduced consistent with the jury's finding that both RJR Tobacco and the smoker were 50% at fault, and directed that there should be a new trial on punitive damages. RJR Tobacco paid \$7.2 million in satisfaction of the judgment on July 24, 2024.

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>Schertzer</i>	22%	—	910,000	—	Final judgment was entered on May 5, 2022. RJR Tobacco and PM filed a notice of appeal to the Third DCA on September 26, 2022. On January 31, 2024, the Third DCA affirmed the final judgment of the trial court, per curiam. On April 5, 2024, the Third DCA denied the defendants' motion for rehearing. The defendants filed a notice to invoke the discretionary jurisdiction of the Florida Supreme Court on May 6, 2024. On August 2, 2024, the Florida Supreme Court denied the defendants' petition for review. RJR Tobacco paid approximately \$2.28 million in satisfaction of the judgment on August 26, 2024.
Totals			<u>\$ 8,197,000</u>	<u>\$ —</u>	

The amount listed above does not include \$4 million paid for attorneys' fees and costs in the *Ledo v. R. J. Reynolds Tobacco Co.* case.

In addition, as of December 31, 2024, approximately \$10 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:

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. The defendants filed a motion for summary judgment on the plaintiff's claim for punitive damages. The motion for summary judgment was denied on April 3, 2024. After discussions between the parties, the case has been resolved for \$8.5 million. RJR Tobacco paid \$8.5 million in satisfaction of the judgment on January 2, 2025.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

<i>Konzelman</i>	85%	—	8,795,000	—	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> . On August 8, 2023, the court entered a corrected final judgment in the amount of \$8.795 million in compensatory damages (the entire amount of the jury’s compensatory damages verdict) and vacated the \$20 million punitive damages verdict. RJR Tobacco filed a notice of appeal to the Fourth DCA on August 14, 2023. Oral argument occurred on October 8, 2024. On October 17, 2024, the Fourth DCA issued a <i>per curiam</i> affirmance of the order/judgment entered on October 8, 2023. On November 24, 2024, the Fourth DCA denied the defendants’ motion for a written opinion explaining its previous <i>per curiam</i> affirmance, bringing the case to an end. RJR Tobacco paid approximately \$14 million in satisfaction of the judgment on January 13, 2025.
Totals			\$ 9,995,000	\$ —	

⁽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).

⁽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, 2024, 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, 2024. 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 been scheduled for May 5, 2025.
<i>Irimi</i>	—	—	9,370,000	—	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 began on May 13, 2024. On May 31, 2024, the jury awarded the plaintiff \$9.37 million in compensatory damages. Final judgment was entered on June 6, 2024. Post-trial motions were denied on July 7, 2024. RJR Tobacco filed a notice of appeal to the Fourth DCA on August 5, 2024. The plaintiff filed a notice of cross appeal on August 15, 2024. Briefing is underway.
<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 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

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
					reversed the final judgment against RJR Tobacco and PM and remanded the case for a new trial on all issues. 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. On May 9, 2024, the Florida Supreme Court decided <i>Ripple</i> , finding marriage-before-injury rule does not apply to Wrongful Death Act (e.g., don't need to be married to a spouse before injury to recover wrongful death damages). The Florida Supreme Court ordered the <i>Rintoul</i> parties to show cause why the Court should not exercise jurisdiction in light of <i>Ripple</i> . RJR Tobacco responded stating that the trial court should apply <i>Ripple</i> in the first instance. On August 9, 2024, the Florida Supreme Court granted the petition for review, quashed the Fourth DCA's decision to the extent that it is inconsistent with the decision in <i>Ripple</i> , and remanded the case to the district court for reconsideration in light of the decision in <i>Ripple</i> . On October 23, 2024, the Fourth DCA reversed and remanded the case for a new trial on all issues.
<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 is scheduled for May 5, 2025.

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>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; the new trial is scheduled for March 27, 2025.
<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. 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 is scheduled for April 7, 2025.
<i>Kaplan</i>	—	—	1,054,000	—	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 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

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
					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> . An amended final judgment was entered on November 8, 2023 in the amount of approximately \$2.1 million against RJR Tobacco and PM. The defendants filed a notice of appeal to the Fourth DCA on November 9, 2023. The court entered a second amended final judgment on January 16, 2024, and the defendants filed an amended notice of appeal on February 14, 2024. Oral argument occurred on January 14, 2025. A decision is pending.
<i>Bessent-Dixon</i>	58%	—	8,975,000	25,800,000	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 October 28, 2022, the Florida Supreme Court denied the plaintiff's petition for review. Retrial began on April 1, 2024. On April 11, 2024, the jury awarded the plaintiff \$8.975 million in compensatory damages, and on April 12, 2024 awarded \$25.8 million in punitive damages. Final judgment was entered on April 17, 2024, and RJR Tobacco filed post-trial motions on April 26, 2024. Post-trial motions were denied on June 25, 2024, and an amended final judgment was entered in the amount of approximately \$8.7 million in compensatory damages and approximately \$25.7 million in punitive damages. RJR Tobacco filed a notice of appeal to the First DCA on July 24, 2024. Briefing is underway.
<i>Mahfuz</i>	45%	—	—	—	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

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
					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 is scheduled for March 31, 2025.
<i>Dubins</i>	52%	—	6,000,000	—	Final judgement was entered on February 2, 2023 against RJR Tobacco in the amount of \$6 million in compensatory damages. RJR Tobacco filed a notice of appeal to the Third DCA on June 8, 2023. Briefing is complete. Oral argument occurred on February 5, 2025. A decision is pending.
<i>Rey</i>	60%	—	8,100,000	—	Final judgment was entered in the amount of \$8.1 million in compensatory damages against RJR Tobacco on April 11, 2023. RJR Tobacco filed a notice of appeal to the Third DCA on June 5, 2023. Oral argument occurred on November 12, 2024. A decision is pending.
<i>Neff</i>	25%	—	33,000	—	The plaintiff filed a motion for a new trial on July 11, 2023, which was denied on August 30, 2023. On September 26, 2023, the plaintiff filed a notice of appeal for the Fourth DCA. Briefing is complete. On January 7, 2025, the Fourth DCA entered an order dispensing with oral argument. A decision is pending.
Totals			<u>\$ 38,132,000</u>	<u>\$ 99,923,000</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, 2024, verdicts or judgments in favor of *Engle* Progeny plaintiffs have been entered and remain outstanding against RJR Tobacco or Lorillard Tobacco totaling \$38.1 million in compensatory damages (as adjusted) and \$100 million in punitive damages, which is a combined total of approximately \$138.1 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

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, 2024, 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 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, 2024, there were 69 *Broin II* lawsuits pending in Florida. There have been no *Broin II* trials since 2007. In 2024, RJR Tobacco resolved approximately half of the remaining *Broin II* cases, all of which were represented by the same attorney. RJR Tobacco sought and obtained dismissal of nearly all of the remaining cases due to inactivity on the files, leaving fewer than 70 cases pending as of December 31, 2024.

Class-Action Suits

Overview. As of December 31, 2024, 19 class-action cases were pending in the United States against Reynolds Defendants and/or its indemnitees. 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

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 and RJR Tobacco. 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 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. On September 1, 2023, the district court entered an order certifying a subset the plaintiffs’ proposed classes covering purchasers of NAS menthol cigarettes in six states and declining to certify the other proposed classes. The defendants and plaintiffs both appealed from that order to the U.S. Court of Appeals for the Tenth Circuit. Briefing is complete, and oral argument is expected in the first half of 2025.

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 April 2022, the court entered its most recent order staying the case, including all discovery, until notice is given of an intent to lift the stay following the completion of the smoking cessation program ordered by the court in *Scott v. The American Tobacco Co.*

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, 2024, Lorillard Tobacco and/or Lorillard was a defendant in 29 Filter cases. Since January 1, 2022, Lorillard Tobacco and RJR Tobacco have paid, or have reached agreement to pay, a total of approximately \$19.4 million in settlements to resolve 87 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.

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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, 2024, 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 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 2022, 2023, 2024 and the projected expenses and payments for 2025 and thereafter (in millions) are set forth below. Such payments are subject to adjustments for changes in sales volume, inflation, operating profit, net operating profit (NOP) and other factors. Payments are allocated among the companies on the basis of relative market share or other methods. For further information, see “— State Settlement Agreements—Enforcement and Validity; Adjustments” below.⁽¹⁾

	2022	2023	2024	2025	2026 and thereafter
Settlement expenses	\$2,951	\$2,516	\$2,160		
Settlement cash payments	\$3,129	\$2,874	\$2,535		
Projected settlement expenses (<i>unaudited</i>)				\$>2,000	\$>1,900
Projected settlement cash payments (<i>unaudited</i>)				\$>2,200	\$>1,900

⁽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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

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 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

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 onserts 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. Installation of the statements began in July 2023, and the statements will remain in stores through June 2025. In light of the POS implementation, \$7.1 million is accrued for the remaining estimated compliance costs in the consolidated balance sheet as of December 31, 2024.

Native American Tribe Case

As of December 31, 2024, 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 January 31, 2025. 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. Proposed plans to resolve the three Canadian cigarette manufacturers' bankruptcies were published in December 2024, and the proposed plans would release, among others, RJR Tobacco and its affiliates. The Canadian bankruptcy court has scheduled a hearing to consider approval of the plans on January 29-31, 2025.

- *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

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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. 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.

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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 the warranties 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 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 *Semple 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. Catharines, 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.

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State Settlement Agreements—Enforcement and Validity; Adjustments

As of December 31, 2024, there were five cases 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.

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 Judgement 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

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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 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 then engaged in a second round of summary judgment briefing on the amount of indemnifiable damages. On October 2, 2023, the court partially granted summary judgment for RAI and RJR Tobacco, holding that they are entitled to indemnification of the principal amounts that RJR Tobacco paid to Florida and the interest it paid to Florida on those payments. The court deferred to trial the question whether ITG's indemnification obligation should be reduced to account for how NOP Adjustment payments (NOP Adjustment) would have been allocated if ITG had joined the Florida Settlement. Trial occurred July 8-9, 2024, and the court held a post-trial hearing on November 6, 2024. A decision is expected in the first half of 2025. ITG has agreed, subsequent to the Chancery Court's decision on past payments, that it will indemnify every settlement payment that RJR Tobacco makes in the future based on ITG's sales of Acquired Brands cigarettes (subject to the issues reserved for trial and to its right to appeal).

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 NOP 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 NOP to be used in calculating the NOP Adjustment was not affected by the change in the federal corporate tax rate in 2018. RJR Tobacco appealed the motion to enforce. On July 29, 2022, the parties submitted supplemental briefing on damages, including interest and attorneys' fees. A hearing on damages took place on March 14, 2023. On February 13, 2024, the Chancery Court awarded the State attorneys' fees of approximately \$1.3 million. On May 7, 2024, the court entered a Final Judgment awarding the State compensatory damages of approximately \$23.5 million plus 8% prejudgment interest, and approximately \$1 million in additional attorneys' fees against RJR Tobacco. On May 17, 2024, the court entered an Amended Final Judgment correcting a scrivener's error. On June 5, 2024, RJR Tobacco filed a Notice of Appeal. On June 6, 2024, PM USA filed a Notice of Appeal. On June 19, 2024, the State filed a Notice of Appeal from the amount of attorneys' fees awarded and post-judgment interest on the prejudgment interest awarded. On October 3, 2024, following a settlement between PM USA and the State, the Mississippi Supreme Court dismissed PM USA's appeal and the State's appeal as it relates to PM USA.

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 sought 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. On February 9, 2023, the Iowa District Court granted the PM's motion to compel arbitration, stayed the State's motion to enforce pending the arbitration, and ordered a status conference for February 9, 2024. On March 7, 2023, Iowa filed a withdrawal of its motion to enforce, mooting the need for a status conference.

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

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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 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. On February 10, 2023, the PMs filed a motion to compel arbitration or, in the alternative, motion to dismiss New Mexico's complaint and alternative motion to enforce. The State's response to the PM's motion to compel was filed on March 27, 2023, and the PM's reply was filed on April 14, 2023; a hearing was held on October 30, 2023. On December 29, 2023, the New Mexico District Court granted the PMs' motion to compel arbitration. On January 29, 2024, New Mexico filed a notice of appeal. Briefing is complete. On March 29, 2024, RJR Tobacco filed a motion to dismiss New Mexico's appeal. On August 28, 2024, RJR Tobacco filed a motion to stay briefing on the appeal while its motion to dismiss the appeal is pending. On September 12, 2024, New Mexico opposed RJR Tobacco's motion to stay. The motion was denied on September 24, 2024, with RJR Tobacco's motion to dismiss held in abeyance pending submission of the appeal to a panel of judges.

On February 21, 2024, New Mexico provided the PMs with a 30-day notice of its intent to initiate proceedings to seek from the New Mexico District Court a declaratory judgment interpreting the term "diligently enforce" as that term is to be applied to New Mexico. On March 22, 2024, New Mexico filed a complaint in the New Mexico District Court seeking a declaratory judgment interpreting the term "diligently enforce." RJR Tobacco filed a motion to compel arbitration and to dismiss the complaint on April 19, 2024. New Mexico filed its response brief on May 21, 2024, and RJR Tobacco filed its reply brief on June 10, 2024. The New Mexico District Court set a hearing date of September 23, 2024. On June 20, 2024, New Mexico filed a motion for leave to file a sur-reply to RJR Tobacco's motion to compel arbitration and to dismiss the complaint. RJR Tobacco filed its opposition on July 8, 2024. New Mexico filed its reply on July 26, 2024. A hearing occurred on September 23, 2024, at which the New Mexico District Court granted RJR Tobacco's motion to compel arbitration and dismissed the complaint from the bench. The New Mexico District Court issued an order to that effect on November 13, 2024. New Mexico filed a notice of appeal on December 9, 2024. Briefing has not yet commenced. On February 23, 2024, PM USA sent New Mexico a 30-day notice of intent to initiate a proceeding against New Mexico, giving notice that it intends to bring an action in the New Mexico District Court seeking an enforcement order compelling New Mexico to participate in a proceeding before a firm to resolve a dispute over whether New Mexico's statutes requiring escrow deposits on certain Cigarettes sold in New Mexico constitute a Qualifying Statute as required by the MSA.

On March 2, 2023, the State of Texas issued a demand letter to RJR Tobacco, Philip Morris USA and ITG Brands, pursuant to the Texas Tobacco Settlement Agreement, for underpaid sums owed to Texas for years 2019 through 2022 and a change in the calculation going forward, asserting that RJR Tobacco, PM USA and ITG issued payments to Texas that were based on unauthorized changes to the base year 1997 NOP by incorporating into their calculations the lower federal corporate tax rate enacted in 2018. The State seeks damages in the amount of at least \$114 million cumulative for 2019 through 2022 (the last year for which there was a calculation at the time of demand). In addition, in a letter dated March 3, 2023 to the independent accounting firm retained by the parties to calculate settlement payments due under the Previously Settled States settlement agreements, PricewaterhouseCoopers LLC (PwC), Texas requested that PwC's calculation of the NOP Adjustment due Texas for 2022 be based on the value fixed in the Mississippi decision (discussed above) that found the base year 1997 NOP to be used in calculating the Net Operating Profit Adjustment was not affected by the change in the federal corporate tax rate in 2018. On March 13, 2023, the parties entered into an agreement tolling the statute of limitations for the State to file a motion to enforce on these issues until May 15, 2023. On March 24, 2023, PwC's calculation of the NOP Adjustment due Texas for 2022 did not use the value fixed in the Mississippi decision. On May 8, 2023, PM USA and RJR Tobacco filed a motion to enforce the settlement agreement. On May 22, 2023, Texas filed its opposition and cross-motion to enforce the settlement agreement. On May 30, 2023, PM USA and RJR Tobacco filed a combined opposition to the cross-motion and reply in further support of the motion. On June 6, 2023, Texas filed a reply in support of its cross motion to enforce the settlement agreement. On June 13, 2023, PM USA and RJR Tobacco filed a sur-reply in response to the State's reply in support of cross-motion to enforce the settlement agreement. On March 15, 2024, the court granted the state's cross-motion to enforce and denied the motion to enforce filed by PM USA and RJR Tobacco. The court ordered that each party shall have thirty (30) days to present a respective memorandum on damages and interest. The parties filed their briefs on damages and interest on April 15, 2024. The parties also filed supplemental briefs. The Court held a hearing on July 17, 2024.

On March 16, 2023, the State of Minnesota sent a letter to PwC, joining in the positions taken by the States of Texas and Florida that PwC's calculation of the NOP Adjustment due Minnesota for the years 2018 and after be based on the value fixed in the Mississippi decision that found the base year 1997 NOP to be used in calculating the NOP Adjustment was not affected by the change in the federal corporate tax rate in 2018. On March 24, 2023, PwC's calculation of the NOP Adjustment due Minnesota for 2022 did not use the value fixed in the Mississippi decision. On July 2, 2024, the State filed a motion to enforce the Settlement Agreement. A hearing was held September 26, 2024. On December 9, 2024, the Minnesota court granted the State of Minnesota's Motion to Enforce the Settlement Agreement and granted the parties 30 days (until January 8, 2025) to meet and confer on the issue of damages, interest, and civil penalties including attorneys' fees. The Minnesota court also directed that within 30 days, PwC shall calculate all future Minnesota NOP Adjustments using \$3,115.1 million as the Base Net Operating Profit. On January 8, 2025, the parties informed the Minnesota Court

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that they have not resolved all remaining issues and will need to brief them. On January 16, the Court directed the parties to mediation of the remaining issues.

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 2004-2023. 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 seven separate agreements, covering fiscal years 2007 to 2009, fiscal years 2010 to 2012, fiscal years 2013 to 2014, fiscal years 2015 to 2017, fiscal year 2018 to 2019, fiscal years 2020 to 2021 and fiscal years 2022 to 2023, 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 six 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 2023. The approximate maximum principal amounts of RJR Tobacco’s and Lorillard Tobacco’s shares of the disputed NPM Adjustments for the years 2004 through 2023 (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	\$ 20	\$ 111	\$ 4
2005	445	66	76	11
2006	419	60	73	11
2007	435	63	83	12
2008	468	68	104	15
2009	472	69	107	16
2010	470	68	119	18
2011	422	61	88	13
2012	430	80	97	18
2013	457	85	92	17
2014	438	82	96	18
2015	494	92	44	8
2016	503	94	—	—
2017	501	92	—	—
2018	533	98	—	—
2019	601	111	—	—
2020	686	126	—	—
2021	808	149	—	—
2022	700	129	—	—
2023	691	127	—	—

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⁽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.

In addition to the above, SFNTC's portion of the disputed NPM Adjustments for the years 2004 through 2023 is approximately \$410 million and the remaining amount after the settlements is approximately \$75 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. On January 30, 2023, the PMs filed a response to the *amicus curiae* brief. 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' opening brief was filed on January 30, 2023. Washington's opposition brief was filed on March 1, 2023, and the PMs' reply was filed on March 14, 2023. On January 25, 2023, Washington filed a motion to consolidate the initial cross-appeals from the February 16, 2022 order with the PMs' appeal from the Superior Court's denial of the PMs' motion for clarification. On January 26, 2023, the PMs opposed Washington's motion for consolidation, arguing that the consolidation would not conserve resources and would delay resolution of the first appeal. On January 31, 2023, the Court of Appeals denied Washington's motion for consolidation and, instead, ruled that the appeals should be linked for consideration by the same panel on the condition that all future briefing deadlines are met without delay. Oral argument on the Washington appeals took place on April 14, 2023. On October 16, 2023, the Court of Appeals affirmed the MSA state court's denial of the state's motion to vacate the Panel's order, and its granting of Washington's motion for declaratory judgment; the Court of Appeals also affirmed the Superior Court's ruling on the PMs' motion for clarification.

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. The PMs' response was filed on January 24, 2024, and the State's reply was filed February 9, 2024. A hearing was held on February 27, 2024. On September 30, 2024, the Missouri Circuit Court denied Missouri's motion to vacate the 2004 award. On January 14, 2025, the Missouri Circuit Court revised its September 30, 2024 order to denominate the order a judgment and to confirm the 2004 award. The State filed a notice of appeal on January 21, 2025. The PMs' response to New Mexico's motion to vacate was filed on February 13, 2023. The State filed its reply brief on March 10, 2023. A hearing occurred on July 7, 2023, and the court granted New Mexico's motion on August 30, 2023. A notice of appeal was filed September 27, 2023. Briefing is complete and oral argument occurred on January 28, 2025. A decision is pending.

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, and in New Mexico on January 25, 2023. Briefing is complete. Oral argument on the Washington motion took place on February 23, 2023. The court denied the motion to vacate on April 20, 2023, and the PMs appealed on May 5, 2023. The intermediate Washington appellate court affirmed the trial court's order on August

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19, 2024. Oral argument for the New Mexico motion was held on May 17, 2023. The New Mexico district court denied the PMs' motion to vacate on August 30, 2023, and the PMs appealed. Oral argument occurred on January 28, 2025. A decision is pending. The Missouri Circuit Court denied the PMs' motion to vacate on September 30, 2024. The PMs have not appealed. In April 2023, the Independent Auditor released \$48 million from the disputed payments account to RJR Tobacco representing RJR Tobacco's calculated share of the awarded 2004 NPM Adjustment principal and earnings for Missouri, New Mexico and Washington. During 2024, RJR Tobacco recognized a \$23 million reduction to cost of products sold in the consolidated statements of income related to Washington's portion of the 2004 NPM Adjustment. Until such time as the various remaining state motions challenging the rulings of the Arbitration Panel have been resolved for Missouri and New Mexico, including any necessary appeals, uncertainty exists as to the timing, process and amount of RJR Tobacco's ultimate recovery with respect to its remaining share of the 2004 NPM Adjustment claim. Due to the uncertainty over the final resolution of the 2004 NPM Adjustment claim for Missouri and New Mexico, no amounts resulting from the rulings of the Arbitration Panel have been recognized in the consolidated statements of income as of December 31, 2024. RJR Tobacco's and Lorillard Tobacco's remaining claim with respect to 2004 is approximately \$24 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. New Mexico's MSA court granted New Mexico's motion to vacate the award, and a notice of appeal was filed. Briefing is complete and oral argument occurred on January 28, 2025. A decision is pending. 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.

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 and was amended on August 23, 2021; discovery is ongoing. A hearing on common issues took place on July 5-12, 2022. The Maryland state-specific hearing took place on March 20-28, 2023. On November 17, 2023, Maryland was found to be diligent for 2005, 2006 and 2007. The Washington state-specific hearing took place on April 24, 2023 – May 4, 2023. On December 29, 2023, Washington was found to be non-diligent for 2005, 2006 and 2007. The Wisconsin state-specific hearing took place on June 12-15, 2023. On February 12, 2024, Wisconsin was found to be diligent for 2005, 2006 and 2007. The Ohio state-specific hearing took place on June 17-28, 2024; post-hearing briefing is underway. On August 14, 2023, Iowa and the PMs settled the NPM Adjustment dispute through the year 2028. On February 2, 2024, Idaho and the PMs settled the NPM Adjustment dispute through the year 2031. On August 1, 2024, Massachusetts and the PMs settled the NPM Adjustment dispute for 2005-2011. An additional state-specific hearing is scheduled for Missouri (June 16-27, 2025). Hearing dates for the New Mexico specific hearings are pending. 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. The States and PMs each filed proposed common legal standards and findings on June 7, 2023.

On March 28, 2024, Washington filed a motion to vacate the arbitration Panel's award determining it was non-diligent in 2005, 2006, and 2007. A hearing was held on July 26, 2024, and the court issued an order denying Washington's motion to vacate the same day. On August 23, 2024, Washington filed a notice of appeal from the order denying vacatur. On September 9, 2024, Washington requested direct review of its appeal by the Washington Supreme Court. On November 6, 2024, the Supreme Court rejected Washington's request for direct review and transferred the appeal to the Court of Appeals. Washington's appeal brief is due January 30, 2025. RJR Tobacco's answer brief is due March 3, 2025.

Due to the uncertainty over the final resolution of the 2004-2023 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 2004-2022 NPM Adjustment in its consolidated financial statements other than the aforementioned \$23 million related to Washington's 2004 NPM Adjustment.

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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 13 states joined the Agreement. Thirty-nine jurisdictions have now joined the Term Sheet settlement representing approximately 68.42% 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. Further, in March 2024, the NPM Adjustment states and the PMs executed another settlement agreement to settle volume years 2023 and 2024.

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. On December 11, 2023, the parties entered into a stipulation for the years 2023 and 2024 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 2023 NPM Adjustments with 40 jurisdictions, representing approximately 81.18% allocable share.

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 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

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. (Philip Morris International, Inc., and Philip Morris Products S.A. collectively referred to as “PMI”) for infringement of three patents owned by RAI Strategic Holdings, Inc. based on the importation to the United States of IQOS. BAT, Reynolds, and PMI resolved all of their pending U.S. and global patent litigations in a global settlement agreement announced February 2, 2024. This proceeding was dismissed as part of the settlement.

Reynolds filed a complaint in April 2020 in the U.S. District Court, Eastern District of Virginia, accusing PMI 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. BAT, Reynolds, and PMI resolved all of their pending U.S. and global patent litigations in a global settlement agreement announced February 2, 2024. This proceeding, including all counterclaims and the pending appeal of a judgment against Reynolds, was dismissed on February 2, 2024 as part of the settlement.

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 (MDNC) 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 Alto 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 January 27, 2023, denying Altria’s request to double the jury’s awarded royalty rate for post-trial sales and setting the ongoing 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. On February 10, 2023, RJRV noticed its appeal to the U.S. Court of Appeals for the Federal Circuit. On December 19, 2024, the Federal Circuit affirmed the lower court’s judgment. RJRV requested a rehearing by the Federal Circuit.

RJRV also filed a motion for relief from judgment with the MDNC court on July 3, 2024, based on a sublicense obtained by RJRV to the Altria patents at issue. The MDNC court issued an order (1) denying RJRV’s motion for relief from judgment of infringement, damages, interest and royalties accrued prior to RJRV’s acquisition of that sublicense; and (2) indicating RJRV’s request for relief from the ongoing royalty award presents a substantial issue. On December 23, 2024, RJRV filed a protective notice of appeal to the Federal Circuit from the portion of the MDNC court’s order that denied its motion for relief from the judgment. The MDNC court is unable to rule on RJRV’s request for relief from the ongoing royalty award while RJRV’s appeal is pending before the Federal Circuit, but the indicative ruling indicated the MDNC court may consider RJRV’s motion for relief from ongoing royalty upon remand from the Federal Circuit or termination of the appeal.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

Healthier Choices Management Corp. (HCMC) filed a complaint against RJRV in the U.S. District Court, Middle District of North Carolina on September 26, 2023, accusing VUSE Alto of infringing U.S. Patent No. 9,538,788. RJRV filed a motion to dismiss for failure to state a claim on November 17, 2023. Briefing on RJRV's motion to dismiss has been completed and the motion is presently pending before the Court. On September 18, 2024, RJRV filed an IPR challenging the patentability of the '788 patent before the U.S. Patent Trial and Appeal Board (PTAB). On November 27, 2024, the court granted RJRV's motion to stay the litigation pending the PTAB's institution decision in the IPR. The IPR institution decision is due in March 2025.

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.

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. On February 3, 2023, Philip Morris USA filed a notice of removal of the litigation to the federal district court in Baltimore, Maryland. The plaintiff moved to remand the case back to the Circuit Court for Baltimore City on March 20, 2023. On January 19, 2024, the case was remanded back to the Circuit Court for Baltimore City. Briefing on preliminary motions is ongoing. On March 19, 2024, defendants RJR Tobacco, PM USA, Liggett Group LLC, and a Maryland-based distributor moved to dismiss the complaint for failure to state a legal claim. Briefing on the defendants' pending motion to dismiss is completed, oral argument was held on July 17, 2024, and a decision is pending.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

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 for 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 settlement of \$4,653,009.

ITG Indemnity. In the purchase agreement relating to the Divestiture as amended, 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, 2025. 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

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, 2024, there were multiple series of EMTN securities denominated in Euros, British pounds and Swiss francs, with maturities ranging from 2025 to 2055 for a U.S. dollar equivalent of approximately \$9.5 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, 2024, RAI guaranteed \$7.9 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 2025 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 following three years. During 2022, BAT filed a new registration statement to allow the 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 these registration statements. 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 2026 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 to 2052. In August 2023, these BAT subsidiaries issued \$5.0 billion in aggregate principal amount of debt securities under this facility with maturities ranging from 2029 to 2053. In February 2024, one of the BAT subsidiaries issued \$1.7 billion, in aggregate principal amount of debt securities under this facility with maturities in 2031 and 2034. As of December 31, 2024, the aggregate amount guaranteed by RAI was approximately \$19.9 billion related to the shelf registration.

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Note 8 — Shareholders' Equity

RAI's authorized capital stock at December 31, 2024 and 2023, 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 \$6,260 million and \$6,150 million in 2024 and 2023, respectively.

Accumulated Other Comprehensive Income (Loss)

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

	Retirement Benefits
Balance at December 31, 2022	<u>\$ 52</u>
Other comprehensive loss before reclassifications	(33)
Amounts reclassified from accumulated other comprehensive income (loss)	(17)
Net current-period other comprehensive loss	(50)
Balance at December 31, 2023	<u>2</u>
Other comprehensive loss before reclassifications	(22)
Amounts reclassified from accumulated other comprehensive income (loss)	(16)
Net current-period other comprehensive loss	(38)
Balance at December 31, 2024	<u><u>\$ (36)</u></u>

Details about the reclassifications out of accumulated other comprehensive income (loss) and the affected line items in the consolidated statements of income for the years ended December 31, 2024 and 2023, were as follows:

Components	Amounts Reclassified		Affected Line Item
	2024	2023	
Retirement benefits:			
Amortization of prior service cost	\$ 2	\$ 2	Other expenses, net
One-time credit	(4)	—	Other expenses, net
MTM adjustment	(19)	(24)	Other expenses, net
	(21)	(22)	Other expenses, net
Deferred taxes	5	5	Provision for income taxes
Total reclassifications	<u><u>\$ (16)</u></u>	<u><u>\$ (17)</u></u>	Net income

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

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.

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

	Pension Benefits		Postretirement Benefits	
	2024	2023	2024	2023
Change in benefit obligations:				
Obligations at beginning of year	\$ 1,888	\$ 1,920	\$ 622	\$ 654
Service cost	8	7	1	1
Interest cost	94	103	30	34
Actuarial (gain) loss	(55)	62	(16)	(10)
Benefits paid	(127)	(204)	(61)	(57)
Curtailments	(23)	—	—	—
Obligations at end of year	<u>\$ 1,785</u>	<u>\$ 1,888</u>	<u>\$ 576</u>	<u>\$ 622</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	\$ 2,363	\$ 2,416	\$ 169	\$ 167
Actual return on plan assets	12	131	7	18
Employer contributions	16	20	43	41
Benefits paid	(127)	(204)	(61)	(57)
Fair value of plan assets at end of year	<u>\$ 2,264</u>	<u>\$ 2,363</u>	<u>\$ 158</u>	<u>\$ 169</u>
Funded status	<u>\$ 479</u>	<u>\$ 475</u>	<u>\$ (418)</u>	<u>\$ (453)</u>

Amounts recognized in the consolidated balance sheets consist of:

	Pension Benefits		Postretirement Benefits	
	2024	2023	2024	2023
Pension assets	\$ 652	\$ 658	\$ —	\$ —
Other current liabilities	(15)	(15)	(46)	(49)
Long-term retirement benefits	(158)	(168)	(372)	(404)
Funded status	<u>\$ 479</u>	<u>\$ 475</u>	<u>\$ (418)</u>	<u>\$ (453)</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 \$1,783 million and \$1,872 million at December 31, 2024 and 2023, respectively.

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

	December 31,	
	2024	2023
Accumulated benefit obligation	\$ 192	\$ 203
Plan assets	19	21

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

	December 31,	
	2024	2023
Projected benefit obligation	\$ 192	\$ 204
Plan assets	19	21

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

The net amount of projected benefit obligations and plan assets for underfunded and unfunded pension plans was \$173 million and \$183 million at December 31, 2024 and 2023, 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:

	2024			2023		
	Pension Benefits	Postretirement Benefits	Total	Pension Benefits	Postretirement Benefits	Total
Prior service (credit) cost	\$ (3)	\$ 4	\$ 1	\$ (3)	\$ 6	\$ 3
Net actuarial loss (gain)	162	(58)	104	116	(64)	52
Accumulated other comprehensive loss (income)	<u>\$ 159</u>	<u>\$ (54)</u>	<u>\$ 105</u>	<u>\$ 113</u>	<u>\$ (58)</u>	<u>\$ 55</u>

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

	Pension Benefits		Postretirement Benefits	
	2024	2023	2024	2023
Service cost	\$ 8	\$ 7	\$ 1	\$ 1
Interest cost	94	103	30	34
Expected return on plan assets	(133)	(133)	(9)	(7)
Amortization of prior service cost	—	1	2	1
One-time credit	(4)	—	—	—
MTM adjustment	—	—	(19)	(24)
Net periodic benefit (income) cost	<u>\$ (35)</u>	<u>\$ (22)</u>	<u>\$ 5</u>	<u>\$ 5</u>

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

	Pension Benefits		Postretirement Benefits	
	2024	2023	2024	2023
Net actuarial loss (gain)	\$ 65	\$ 64	\$ (13)	\$ (21)
Amortization of prior service cost	—	(1)	(2)	(1)
Curtailments	(19)	—	—	—
MTM adjustment	—	—	19	24
Total recognized in other comprehensive loss (income)	<u>\$ 46</u>	<u>63</u>	<u>\$ 4</u>	<u>\$ 2</u>
Total recognized in net periodic benefit (income) cost and other comprehensive loss (income)	<u>\$ 11</u>	<u>\$ 41</u>	<u>\$ 9</u>	<u>\$ 7</u>

As of December 31, 2024, the improvement in pension benefits funded status is primarily due to the increase in discount rate offset by lower asset gains. As of December 31, 2024, the improvement in postretirement benefits funded status is primarily due to the increase in discount rate.

As of December 31, 2023, the decline in pension benefits funded status was primarily due to the decrease in discount rate. As of December 31, 2023, the improvement in postretirement benefits funded status is primarily due to plan asset gains and other assumptions offset by the decrease in discount rate.

In October 2024, RAI announced that service and pay accruals for active salaried employees under certain pension plans would freeze as of December 31, 2024. RAI recognized a one-time credit of approximately \$4 million 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, 2024 and 2023.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

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

	Pension Benefits		Postretirement Benefits	
	2024	2023	2024	2023
Net actuarial loss (gain):				
Change in discount rate	\$ (66)	\$ 76	\$ (9)	\$ 15
Change in mortality table	—	1	—	—
Actual return on plan assets	(12)	(131)	(7)	(18)
Expected return on plan assets	133	133	9	7
Other	10	(15)	(6)	(25)
Net actuarial loss (gain)	<u>\$ 65</u>	<u>\$ 64</u>	<u>\$ (13)</u>	<u>\$ (21)</u>

Assumptions

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

	Pension Benefits		Postretirement Benefits	
	2024	2023	2024	2023
Discount rate	5.57%	5.18%	5.44%	5.22%
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:

	Pension Benefits		Postretirement Benefits	
	2024	2023	2024	2023
Discount rate	5.18%	5.57%	5.22%	5.59%
Expected long-term return on plan assets	5.78%	5.62%	5.40%	4.40%
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:

	2024	2023
Weighted-average health-care cost trend rate assumed for the following year	6.50%	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 2025, RAI expects to contribute \$15 million to its pension plans and \$46 million to its postretirement plans.

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
2025	\$ 134	\$ 63	\$ (2)	\$ 61
2026	135	59	(1)	58
2027	135	58	(2)	56
2028	136	56	(1)	55
2029	136	54	(1)	53
2030-2034	664	241	(6)	235

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

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.

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.

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.

RAI’s hedging portfolio assets are 110% of the liability value and targets hedging 100% of the interest rate exposure. The hedging portfolio is comprised mostly of fixed income and has a formal target asset allocation. Assets in excess of the 110% hedging target are included in the return seeking portfolio, which has no formal target asset allocation.

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, 2024 and 2023, by asset category were as follows:

		Pension Plans			
		2024 Target ⁽¹⁾	2024	2023 Target ⁽¹⁾	2023
Asset Category:					
Hedging Portfolio		60%	46%	60%	48%
Equities		11%	9%	11%	6%
Fixed income		70%	58%	70%	60%
Absolute return		16%	25%	16%	24%
Real assets		3%	8%	3%	10%
		100%	100%	100%	100%
Return Seeking Portfolio		40%	54%	40%	52%
Total		100%	100%	100%	100%

		Postretirement Plans			
		2024 Target ⁽²⁾	2024	2023 Target ⁽²⁾	2023
Asset Category:					
Equities		—	—	43%	40%
Fixed income		90%	94%	52%	53%
Cash and other		10%	6%	5%	7%
Total		100%	100%	100%	100%

- (1) Allows for a rebalancing range of up to 20 percentage points for fixed income, 15 percentage points for hedging and return seeking portfolios and 10 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, 2024 and 2023, were as follows ⁽¹⁾:

		2024				2023			
Pension Plans		Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Asset Category:									
Asset backed securities	\$	—	\$ 4	\$ —	\$ 4	\$ —	\$ 4	\$ —	\$ 4
Corporate bonds		—	670	—	670	—	673	—	673
Government bonds		—	20	—	20	—	18	—	18
Mortgage-backed securities		—	1	—	1	—	1	—	1
Municipal bonds		—	18	—	18	—	22	—	22
Treasuries		—	195	—	195	—	244	—	244
Cash equivalents and other		10	126	1	137	50	113	1	164
Total investments in the fair value hierarchy	\$	10	\$ 1,034	\$ 1	1,045	\$ 50	\$ 1,075	\$ 1	1,126
Investments measured at net asset value					1,170				1,195
Total					\$ 2,215				\$ 2,321

		2024				2023			
Postretirement Plans		Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Asset Category:									
Fixed Income	\$	26	\$ —	\$ —	\$ 26	\$ 15	\$ —	\$ —	\$ 15
Cash equivalents and other		—	8	—	8	—	8	—	8
Total investments in the fair value hierarchy	\$	26	\$ 8	\$ —	34	\$ 15	\$ 8	\$ —	23
Investments measured at net asset value					123				136
Total					\$ 157				\$ 159

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

For the years ended December 31, 2024 and 2023, there were no transfers among the fair value hierarchy levels, including transfers and purchases of level 3 assets.

At December 31, 2024, 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, fixed income and cash equivalents and other. At December 31, 2023, 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, fixed income 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 \$37 million and \$34 million in 2024 and 2023, 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

Substantially all of RAI's net sales come from sales of tobacco and vapor 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 and certain payments to customers 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 sales of its most significant operating subsidiaries as follows:

	<u>2024</u>	<u>2023</u>
Net sales:		
RJR Tobacco	\$ 10,173	\$ 10,640
SFNTC	1,666	1,706
American Snuff Co.	1,234	1,269
RJRV	1,260	1,260
All Other	<u>89</u>	<u>30</u>
Consolidated net sales	<u>\$ 14,422</u>	<u>\$ 14,905</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, 2024 and 2023, was \$12 million and \$23 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:

	<u>2024</u>	<u>2023</u>
Current Balances:		
Accounts receivable, related party	\$ 15	\$ 42
Amounts due from related party – cash management agreements:		
In-house cash agreements	4,118	4,118
Notes and interest payable to related party	5,178	5,789
Due to related party	75	65
	<u>2024</u>	<u>2023</u>
Significant Transactions:		
Net sales	\$ 53	\$ 54
Leaf purchases	108	123
Allocation of technical, advisory, information technology research and development and other fees, net	219	169
Interest income	177	181
Interest expense	324	279
Financing reimbursements	57	37
Other income	68	—

Net sales to BAT affiliates primarily relate to RJR Tobacco's sales of contract-manufactured cigarettes, tobacco leaf and processed tobacco under various agreements. Net sales to BAT affiliates represented less than 1% of RAI's total net sales in 2024 and 2023.

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. The income tax amounts owed to BHI at December 31, 2024 and 2023 were immaterial.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

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.

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, 2024. 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 \$4,118 million at each of December 31, 2024 and 2023.

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%. In September 2023, the installment term loans were amended to revise the interest rates to match the expected rate increases as each installment was paid. These rates were revised to a range of 3.85% to 4.65%. In June 2024, the installment term loans were amended to revise the interest rates to match the expected rate increases as each installment was paid. These rates were revised to a range of 3.85% to 4.88%.

The amounts outstanding for the installment loans was \$2.898 billion and \$3.681 billion at December 31, 2024 and 2023, respectively. As of December 31, 2024, 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>
2025	\$ 68	\$ 4	\$ 72
2026	172	10	182
2027	547	31	578
2028	302	17	319
2029	86	5	91
Thereafter	1,566	90	1,656
	<u>\$ 2,741</u>	<u>\$ 157</u>	<u>\$ 2,898</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 2024 and 2023, the \$57 million and \$37 million in reimbursements, respectively, include guarantee fees, derivative transactions and other debt servicing fees.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – continued

In 2022 RAI and RJR Tobacco each entered into three new loan agreements with BATCAP with interest at fixed rates payable semi-annually. In 2023 RAI and RJR Tobacco each entered into four new loan agreements with BATCAP with interest at fixed rates payable semi-annually. In 2024, RAI and RJR Tobacco each entered into two 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%	580	19	599
August 2, 2023	August 2, 2030	6.443%	269	9	278
August 2, 2023	August 2, 2033	6.521%	337	11	348
August 2, 2023	August 2, 2043	7.179%	202	7	209
August 2, 2023	August 2, 2053	7.181%	269	9	278
February 20, 2024	February 20, 2031	5.934%	147	8	155
February 20, 2024	February 20, 2034	6.100%	147	8	155
Total			<u>\$ 2,209</u>	<u>\$ 86</u>	<u>\$ 2,295</u>

As of December 31, 2024, RAI had \$1 million outstanding interest payable and \$17 million of unamortized debt issuance costs associated with the above discussed BATCAP notes. These amounts are included in the chart below.

Combined notes and interest payable to BATCAP at December 31, 2024, were as follows:

	<u>RAI</u>	<u>RJR Tobacco</u>	<u>Total</u>
Current	\$ 69	\$ 4	\$ 73
Long Term	4,866	239	5,105
	<u>\$ 4,935</u>	<u>\$ 243</u>	<u>\$ 5,178</u>

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.