



2015 SUSTAINABILITY REPORT



REPORT RESOURCES

RAI and its subsidiaries are committed to transparency in our governance and operations.

The 2015 Sustainability Report microsite, [Transforming Tobacco](#), highlights our economic, social and environmental performance, and emphasizes our commitment to operating with integrity and transparency. The site aligns with our three Transforming Tobacco pillars — [Youth Tobacco Prevention](#), [Tobacco Harm Reduction](#) and [Commercial Integrity](#).

This sustainability microsite contains disclosures from the [Global Reporting Initiative \(GRI\) G4 reporting guidelines](#) and other frameworks, including but not limited to the [Dow Jones Sustainability Index \(DJSI\)](#). Visit the [GRI Data Tables](#) to view or download our performance and our [Content Index](#) to reference where GRI G4 and DJSI topics are discussed.

Data presented in this microsite covers all of our business operations. For a description of our primary subsidiaries, visit the [About Us](#) section of our website.

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Questions and comments regarding the 2015 Sustainability Report microsite and its contents should be directed to TalkToRAI@RJRT.com.

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CEO LETTER

2015 was a transformational year for RAI and its operating companies. Building on the momentum of the past few years, we continued to execute on our vision: to achieve market leadership by transforming the tobacco industry. Our operating companies delivered excellent results, and RAI closed the year with a 174.4 percent increase in reported (GAAP) operating income over 2014.



Some business highlights of the year included:

- Completion of the acquisition of Lorillard, the third-largest tobacco company in the United States and its flagship Newport cigarette brand. Synergies and higher sales volumes generated by the acquisition will better position RAI's operating companies to fuel continued investment in innovation for the long-term future of the company.
- Consolidation of e-cigarette manufacturing operations at R.J. Reynolds' Tobaccoville, N.C., manufacturing facility. The consolidation reduces costs and increases manufacturing efficiencies while minimizing our companies' environmental footprint.
- The sale of the international rights to the Natural American Spirit brand name and associated trademarks to the Japan Tobacco Group, for \$5 billion. Santa Fe Natural Tobacco Company continues to market the super-premium cigarette brand in the U.S.

We believe our companies provide the most balanced

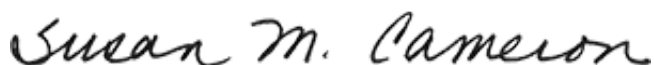
portfolio of tobacco and vapor products in the industry, redefining enjoyment for adult tobacco consumers.

We understand that with the continued growth in our businesses, there is an increased expectation that we will continue to lead the transformation of our industry, and an expectation that we will champion sustainable practices within our companies and our industry. Our [2015 Sustainability Report microsite](#) outlines many activities that RAI's subsidiaries made toward improving the sustainability of its businesses, including:

- Articulating goals and accountability for sustainability initiatives by our leadership team and our board of directors;
- Increasing employee participation in the Right Decisions Right Now: Be Tobacco Free youth tobacco prevention program by 65 percent;
- Creating a subsidiary focused on innovation and speed to market with new vapor and nicotine products that may have the potential to reduce the harm caused by smoking;
- Bolstering our leadership in vapor innovations through a technology-sharing and licensing agreement with Nicoventures Holdings Limited, a subsidiary of British American Tobacco plc;
- Quantifying the environmental impacts in our supply chain to better focus our efforts; and
- Strengthening our processes for hiring, developing and retaining employees, our Transforming Tobacco trailblazers, from day one and throughout their career at RAI.

Most importantly, we are driving innovation through our businesses to meet the changing preferences of adult tobacco consumers and the expectations of society.

As you read through our sustainability microsite, I hope you will agree that RAI and its subsidiaries have made enormous progress in 2015 toward our Transforming Tobacco vision. This vision drives our sustainability strategy, and will guide our companies' actions and growth in the years ahead.



Susan M. Cameron
President and Chief Executive Officer
Reynolds American Inc.

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SUSTAINABILITY GOVERNANCE

The Transforming Tobacco vision is integrated into the way RAI and its subsidiaries operate. Each pillar of the Transforming Tobacco vision is supported by a cross-functional team, which provides guidance, best practices and implementation assistance to RAI's subsidiaries. These teams meet monthly to prioritize initiatives, report progress and address issues impacting our industry.

The three pillar teams report progress to the Transforming Tobacco Steering Committee (TTSC). The TTSC reviews management practices, initiatives, goals and key performance indicators (KPIs) from throughout RAI and its subsidiaries, and makes recommendations to the RAI leadership team. In 2015, our executive leadership team formed a Sustainability and Governance Committee. This team meets monthly, and the TTSC regularly reports progress to this group, helping to ensure that activities are aligned and deliver on our vision.

SUSTAINABILITY GOVERNANCE ORGANIZATIONAL CHART



The RAI board of directors is responsible for preserving the long-term interests of the company's shareholders by overseeing the management, strategy and governance of RAI and its subsidiaries, including the Transforming Tobacco vision. The Corporate Governance, Nominating and Sustainability Committee has direct board-level oversight for our sustainability strategy. The **Corporate Governance, Nominating and Sustainability Committee** charter outlines their responsibility for sustainability to include:

- Monitoring and reviewing programs and practices of RAI and its subsidiaries on sustainability topics, including Youth Tobacco Prevention, Tobacco Harm Reduction and Commercial Integrity (including environmental and social impacts of RAI, its operating companies and supply chain);
- Monitoring and reviewing the policies, programs and practices of RAI and its subsidiaries on political contributions and lobbying, and support of charitable organizations; and
- Monitoring the reputation generally of RAI and its subsidiaries and their relationships with external stakeholders regarding significant social responsibility matters.

In addition, the executive vice president (EVP) of public affairs annually reports sustainability progress to the full board.

Each function within RAI and its subsidiaries has specific goals supporting the Transforming Tobacco vision, which are reflected in employees' individual goals. Annual performance for each employee is

evaluated against these goals, creating common goals and accountability within each company.

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STAKEHOLDER ENGAGEMENT & MATERIALITY

STAKEHOLDERS AND TRANSFORMING TOBACCO

RAI's sustainability initiatives and commitment to transformation have evolved over time. In 2004, RAI launched a dialogue process to regularly and systematically engage with our stakeholders. Led by a third-party engagement specialist, the dialogue process provides RAI and its subsidiaries insight into stakeholder perceptions, expectations and valuable feedback on our companies. The recurring topics discussed have become the catalyst for our ongoing sustainability strategy and led to the creation of the [RAI Guiding Principles and Beliefs](#) and our Transforming Tobacco vision.

Ongoing stakeholder engagement and analysis of our companies' impacts across our value chain have identified three material areas of focus: [Youth Tobacco Prevention](#), [Tobacco Harm Reduction](#) and [Commercial Integrity](#). Our work on these issues enhances our long-term economic, social and environmental sustainability and supports our strategy to transform tobacco. RAI and its subsidiaries incorporate our Transforming Tobacco vision into our decisions, integrating stakeholder expectations into our strategy.

MATERIAL TOPICS

 YOUTH TOBACCO PREVENTION	 TOBACCO HARM REDUCTION	 COMMERCIAL INTEGRITY
Youth Tobacco Prevention Programs Legislative Engagement Marketing Responsibility	Product Innovation Product Integrity Marketing Responsibility	Environmental Responsibility Responsible Agriculture Supplier Responsibility Employee Responsibility Community Engagement Illicit Trade Excise Taxes

ONGOING ENGAGEMENT

Our stakeholder engagement process continues and is an important tool in identifying, prioritizing and managing sustainability issues. As such, we regularly interact with a variety of stakeholders. Key components of our engagement processes include:

Legislative and Regulatory Engagement: RAI Services staff and representatives regularly meet with legislators and regulatory agencies with oversight of our industry to discuss issues related to our businesses and the tobacco industry. We believe it is important that we share with them significant commercial events that support our Transforming Tobacco vision, and we want to understand their positions on key issues. We annually report corporate political contributions in the **Governance** section of RAI's website.

Stakeholder Dialogues: To date, RAI companies have conducted 58 formal, third-party facilitated stakeholder engagements, including three in 2015. The conversations are focused on gaining insights and building strategic partnerships.

Association Engagement: Through our association memberships, we participate in discussions about industry and scientific issues, provide education and work together toward mutual goals. Currently, RAI and its subsidiaries play an active role in the following organizations, along with many other national, state and regional groups:

- National Conference of State Legislatures (NCSL);
- Carolina Farm Stewardship Association (CFSA) (life member);
- National Association of Tobacco Outlets (NATO);
- Farm Labor Practices Group (FLPG) (founding member);
- National Association of Convenience Stores (NACS);
- National Foundation for Women Legislators (NFWL); and
- Cooperation Centre for Scientific Research Relative to Tobacco (CORESTA).

RAI and its subsidiaries will continue to evolve our vision to lead the industry as we continually engage with diverse stakeholder groups. Together, we will Transform Tobacco.

OUR STAKEHOLDERS

- | | |
|----------------------------------|----------------------------|
| • Community groups; | • Adult tobacco consumers; |
| • Environmental advocacy groups; | • Trade customers; |
| • Health policy groups; | • Educational groups; |
| • Public health officials; | • Tobacco growers; |

- Legislators, regulators and other government offices;
- Investors;
- Suppliers; and
- Employees.

Supplier Engagement: RAI's operating companies engaged a third party to evaluate cradle-to-gate environmental impacts within the supply chain, from operations processes all the way through the distribution network to retail stores.

Completed in 2015, this analysis found that a majority of the companies' environmental impacts occur in the supply chain, in particular in the farming of tobacco leaf by our contracted growers and suppliers. These results caused us to refine our definition of material topics, breaking our leaf supply chain into its own topic—Responsible Agriculture. This enables us to better address the material environmental and social issues specific to tobacco farming, and the management of environmental, social and governance (ESG) topics across our entire supply chain. Breaking out leaf supply chain also aligns more closely with the way these areas of focus are managed for our operating companies.

The results of the environmental materiality assessment and stakeholder feedback received through the dialogue process have also helped to guide our new environmental goals, and allow our operating companies to identify and prioritize initiatives based on their impact and ROI. Read more about our [environmental goals and actions](#).

By committing time, energy and resources to the principles that drive the three pillars, we continue to transform the tobacco industry and achieve sustainable growth for RAI's shareholders, employees and other stakeholders.

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GRI DATA TABLES

SOURCE	2009	2010	2011	2012	2013	2014	2015
Energy Consumption Within the Organization (G4-EN3 & G4-EN5)							
Natural Gas (GJ)	1,921,929	1,752,024	1,818,811	1,697,981	1,717,218	1,618,977	1,643,932
Propane (GJ)	12,466	12,783	9,666	7,898	8,933	7,602	9,829
#2 Fuel Oil (GJ)	98,854	22,329	865	404	0	29,886	16,064
Diesel Fuel (GJ)	10,350	2,460	4,412	2,375	4,577	4,032	5,211
Gasoline (GJ)	387,591	373,086	347,567	354,484	365,510	358,486	392,643
Jet Fuel (GJ)	16,974	19,310	4,521	0	0	0	0
Total Direct Energy (GJ)	2,448,164	2,181,992	2,185,842	2,063,142	2,096,238	2,018,983	2,067,679
Total Indirect Energy (Electricity) (GJ)	1,402,244	1,349,356	1,272,615	1,180,423	1,179,896	1,164,270	1,185,000
Total Energy (GJ)	3,850,408	3,531,348	3,458,457	3,243,565	3,276,134	3,183,253	3,252,678
Total Energy (GJ/Million Dollars Revenue)	457.35	412.97	404.92	390.60	397.78	375.78	304.70
Renewable Energy and Carbon Credits Purchased							
Wind Energy (GJ)	18,918	20,977	20,977	21,114	23,238	28,080	31,450
Carbon Offsets (Tonnes CO2e)	0	3,108	3,330	3,524	3,877	4,188	4,523
Total Direct and Indirect Greenhouse Gas Emissions¹ (G4-EN16, G4-EN17 & G4-EN18)							
Scope 1 Emissions (Metric Tonnes CO2e)	132,248	117,798	113,517	107,093	109,535	105,689	107,501
Scope 2 Emissions (Metric Tonnes CO2e)	199,749	191,816	180,735	167,402	167,019	137,577	140,028
Total GHG Emissions (Metric Tonnes CO2e)	331,997	309,614	294,252	274,495	276,554	243,266	247,529
Scope 1 Emissions (Metric Tonnes CO2e) per Million Dollars Revenue	15.71	13.78	13.29	12.90	13.30	12.53	10.07
Scope 2 Emissions (Metric Tonnes CO2e) per Million Dollars Revenue	23.73	22.43	21.16	20.16	20.28	16.24	13.12
Total GHG Emissions (Metric Tonnes CO2e) per Million Dollars Revenue	39.43	36.21	34.45	33.06	33.58	28.77	23.19
Air Emissions by Type² (G4-EN20 & G4-EN21)							
Nox (Metric Tonnes)	88	78	69	73	75	73	63
SOx (Metric Tonnes)	25	5	2	4	4	8	5
CO (Metric Tonnes)	73	65	58	62	64	60	62
VOCs (Metric Tonnes)	224	167	172	177	181	184	179
Ammonia (Metric Tonnes)	21	16	15	18	18	24	24
PM (Metric Tonnes)	36	28	15	15	19	16	16
HCl (Metric Tonnes)	0	0	0	0	0	0	0
Refrigerant (Metric Tonnes)	1	2	3	1	3	1	3
Total Air Emissions (Metric Tonnes)	468	362	334	349	364	367	351
Total Air Emissions (Metric Tonnes CO2e) per Million Dollars Revenue	0.056	0.042	0.039	0.042	0.044	0.043	0.033
Water Withdrawal (G4-EN8)							
Water Consumed (Cubic Meters)	2,343,703	2,019,481	1,947,681	1,875,407	1,930,470	1,929,955	1,897,514
Total Water Consumed (Cubic Meters)	278.38	236.17	228.04	225.84	234.39	227.83	177.75

Meters) per Million Dollars Revenue							
Wastewater Generated (G4-EN22)							
Untreated to Municipal Sewer (Cubic Meters)	1,162,460	1,135,078	1,033,505	1,317,372	1,467,163	1,421,391	1,383,846
Pre-Treated to Municipal Sewer (Cubic Meters)	0	0	0	0	2,729	5,221	8,132
Treated, to Surface Water (Cubic Meters)	0	2,715	0	0	0	0	0
Treated, to Land Application (Cubic Meters)	661	850	662	1,841	1,339	1,000	1,162
Total Wastewater (Cubic Meters)	1,163,121	1,138,643	1,034,167	1,319,213	1,471,231	1,427,612	1,393,140
Total Wastewater (Cubic Meters) per Million Dollars Revenue	138.15	133.16	121.08	158.86	178.63	168.53	130.50
Total Waste by Type and Disposal Method (G4-EN23)							
Non-Hazardous Wastes: Sent to Landfill (Metric Tonnes)	18,137	19,343	16,672	20,257	15,684	10,506	10,164
Non-Hazardous Wastes: Incinerated (Metric Tonnes)	8	8	4	10	90	218	263
Non-Hazardous Wastes: Recycled ³ (Metric Tonnes)	27,192	9,906	13,992	8,342	11,584	12,211	9,580
Non-Hazardous Wastes: Composted ³ (Metric Tonnes)		33	74	156			5,501
Non-Hazardous Wastes: Other (Metric Tonnes)							17
Total Non-Hazardous	45,337	29,290	30,742	28,765	27,358	22,935	25,525
Hazardous Wastes: Sent to Approved Landfill (Metric Tonnes)	0	0	0	0	8	5	2
Hazardous Wastes: Incinerated (Metric Tonnes)	7	8	18	19	18	16	120
Hazardous Wastes: Recycled ³ (Metric Tonnes)	1		0	2	2	0	0
Hazardous Wastes: Energy Recovery ³ (Metric Tonnes)	8	9	1				
Hazardous Wastes: Other (Metric Tonnes)						6	5
Total Hazardous (Metric Tonnes)	16	17	19	22	28	27	128
Total Waste (Metric Tonnes)	45,354	29,307	30,761	28,787	27,386	22,963	25,653
% Recycled ³	60	34	46	30	42	53	59
% Disposed	40	66	54	70	58	47	41
Total Waste (Tonnes) per Million Dollars Revenue	5.39	3.43	3.60	3.47	3.33	2.71	2.40
Employee Breakdown by Operating Company (G4-9)							
ASC (FTEs)			514	512	550	562	557
RJRT (FTEs)			3,942	3,632	3,607	3,592	3,738
SFNTC (FTEs)			415	373	357	397	447
Other (FTEs)			514	455	474	717	776
Total FTEs			5,385	4,972	4,988	5,268	5,518
Part-time			0	0	0	55	38
Diversity (G4-LA12)							
% Female	29.3	29.7	29.5	28.7	28.4	28.8	29.1
% Minority	25.4	24.5	23.5	23.1	23.9	25.5	26.2
Employee Annual Performance Reviews (G4-LA11)							
% Receiving Annual Performance Reviews			100	100	100	100	100
Hires and Promotions							
% of open positions filled by internal candidates						62	76
Employee Training (G4-LA9)							
Average hours per full-time employee of training and development (hours)						73	42
Average amount spent per full-time employee on training and development (\$)						2,600	2,498
Employee Engagement/Satisfaction (goal = 78)							
% of Satisfied Employees			78		79		86

% of Employees Responding			89		90		93
Safety Data (G4-LA6)							
Lost Time Incident Rate			0.71	0.68	0.96	0.71	1.1
OSHA Incident Rate			1.7	1.4	2	1.5	1.9
Contractor OSHA Incident Rate ⁴				1.5	1	1.4	1.4
Results of Operations (G4-9 & G4-EC1)							
Net Sales (\$MM)	8,419	8,551	8,541	8,304	8,236	8,471	10,675
Net Income (\$MM)	955	1,337	1,406	1,272	1,718	1,445	3,253
Cash Dividends per Share (\$)	0.865	0.92	1.075	1.165	1.24	1.34	1.39
Research & Development							
R&D Expenses (\$MM)	68	71	69	62	72	88	107
Community (G4-EC1)							
Donations (\$MM)		10.2	10	7.7	11.6	10.4	
Cash Donations (\$MM)							10.8
Employee Matching-Grant Information							
Individual Grant Requests Paid					1,192	1,616	1,883
Employees Participating (FTEs)					532	592	689
Charitable Organizations					385	505	512
Dollars Match (\$)					448,000	577,000	714,000
Youth Tobacco Prevention							
YTP Grant Dollars (\$)						150,000	250,000
Employee Participation (FTEs)						295	486

¹ 2015 data reflect updated emission factors, including AR4 (2007) GHG Global Warming Potentials

² Total data only for plants subject to regulatory requirements to track and report air emissions

³ Recycled total includes wastes composted and sent for energy recovery (fuel blended)

⁴ Measured at RJRT Manufacturing facilities

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For ease of locating information, we have mapped the content of our 2015 Sustainability Report microsite to the Global Reporting Initiative (GRI) G4 guidelines and the 2016 Dow Jones Sustainability Index (DJSI).

Indicator	GRI	DJSI	Report Section
Statement from the most senior decision-maker of the organization about relevance of sustainability to the organization and the organization's strategy for addressing sustainability	G4-1		CEO Letter
Description of key impacts, risks, and opportunities	G4-2	1.2	About Us
Name of the organization	G4-3		About Us
Primary brands, products and services	G4-4		About Us
Location of organization's headquarters	G4-5		Winston-Salem, North Carolina
Number of countries where the organization operates, and names of countries with significant operations or that are specifically relevant to the sustainability topics covered in the report	G4-6		United States
Nature of ownership and legal form	G4-7		About Us
Markets served	G4-8		About Us
Scale of the reporting organization	G4-9		GRI Data Tables
Total workforce by employment type, employment contract and region, broken down by gender	G4-10		Employee Responsibility, GRI Data Tables
Report the percentage of total employees covered by collective bargaining agreements	G4-11	3.2	Employee Responsibility, GRI Data Tables
Supply Chain	G4-12	1.7	Supplier Responsibility, Responsible Agriculture
Memberships in associations and/or national/international advocacy organizations	G4-16		Stakeholder Engagement & Materiality
Entities included in the organization consolidated financial and nonfinancial reports	G4-17		About Us, Form 10-K
Process for defining report content	G4-18	2.1, 3.1	Stakeholder Engagement & Materiality
Material aspects identified in the process for	G4-19	1.4	Stakeholder Engagement & Materiality

defining report content			
List of stakeholder groups engaged by the organization	G4-24	1.4	Stakeholder Engagement & Materiality
The basis for identification and selection of stakeholders with whom to engage	G4-25	1.4	Stakeholder Engagement & Materiality
Approach to stakeholder engagement	G4-26	1.4	Stakeholder Engagement & Materiality
Key topics and concerns raised through stakeholder engagement	G4-27	1.4	Stakeholder Engagement & Materiality
Reporting period	G4-28		2015
Date of most recent previous report	G4-29		2014
Reporting cycle	G4-30		We report progress on our sustainability initiatives annually.
Contact point for questions regarding the report or its contents	G4-31		TalkToRAI@RJRT.com
GRI Content Index	G4-32		Content Index
Assurance	G4-33	2.3	Assurance Statement
Governance structure	G4-34	1.1	Sustainability Governance
Process for delegating authority on economic, environmental, and social topics from highest governance body to senior executives and other employees	G4-35	1.1	Sustainability Governance
Executive-level position(s) with responsibility for economic, environmental, and social topics, or if post-holders report directly to highest governance body	G4-36	1.1	Sustainability Governance, YTP, THR, CI
Board composition	G4-38	1.1	RAI Board of Directors
If the Chair of the highest governance body is also an executive officer	G4-39	1.1	RAI Board of Directors
Process for determining the composition of the highest governance body	G4-40	1.1	Committee Composition and Charters, Governance Documents
Processes in place for the highest governance body to ensure conflicts of interest are avoided	G4-41	1.1	Committee Composition and Charters, Governance Documents, Ethics and Compliance
Roles of highest governance body and senior executives in development, approval, and updating the organization's purpose, value or mission statements, strategies, policies, and goals related to economic, environmental and social impacts	G4-42	1.1	Committee Composition and Charters, Governance Documents
Process for communicating critical concerns to highest governance body	G4-49	1.1	Ethics and Compliance
Remuneration policies for highest governance body and senior executives	G4-51	1.1	Governance Documents, 2015 Proxy Statement (pp. 30-88)
Process for determining remuneration	G4-52	1.1	2015 Proxy Statement (pp. 30-88)
Values, principles, standard, and norms of behavior	G4-56		Guiding Principals and Beliefs, Code of Conduct
Direct economic value generated and distributed	G4-EC1		GRI Data Tables

Energy consumption within the organization	G4-EN3	2.3	Greenhouse Gas & Energy, GRI Data Tables
Energy intensity	G4-EN5	2.3	GRI Data Tables
Reduction of energy consumption	G4-EN6	2.3	Greenhouse Gas & Energy
Total water withdrawal by source	G4-EN8	2.3	Water, GRI Data Tables
Percentage and total volume of water recycled and reused	G4-EN10	2.3	Water, GRI Data Tables
Direct GHG emissions (Scope 1)	G4-EN15	2.3	Greenhouse Gas & Energy, GRI Data Tables
Energy indirect GHG emissions (Scope 2)	G4-EN16	2.3	Greenhouse Gas & Energy, GRI Data Tables
GHG emissions intensity	G4-EN18	2.3	GRI Data Tables
Reduction of GHG emissions	G4-EN19	2.3	Greenhouse Gas & Energy
Emissions of Ozone-Depleting Substances (ODS)	G4-EN20		GRI Data Tables
NOx, SOx, and other significant air emissions	G4-EN21		GRI Data Tables
Total water discharge by quality and destination	G4-EN22		Water, GRI Data Tables
Total weight of waste by type and disposal method	G4-EN23	2.3	Waste & Recycling, GRI Data Tables
Weight, and percentage transported internationally, of waste deemed hazardous	G4-EN25		Waste & Recycling, GRI Data Tables
Percentage of new suppliers screened using environmental criteria	G4-EN32	1.7	Supplier Risk Management
Employee benefits provided	G4-LA2	3.3	Employee Well-Being
Type and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities	G4-LA6	3.6	Workplace Safety, GRI Data Tables
Average training hours	G4-LA9	3.3	Talent Pipeline
Programs for skills management and lifelong learning	G4-LA10	3.3	Talent Pipeline
Percentage of employees receiving regular performance and development reviews	G4-LA11	3..4	Talent Pipeline
Composition of governance bodies and employees	G4-LA12		Talent Pipeline
Percentage of new suppliers screened using labor practices criteria	G4-LA14	1.7	Supplier Risk Management, Audits & Assessments
Operations and suppliers at risk for incidents of child labor, and measures taken	G4-HR5	1.7, 3.2	Promoting Good Agricultural Practices (GAP)
Operations and suppliers at risk for incidents of forced or compulsory labor, and measures taken	G4-HR6	1.7, 3.2	Promoting Good Agricultural Practices (GAP)
Percentage of new suppliers screened using human rights criteria	G4-HR10	1.7, 3.2	Supplier Risk Management, Audits & Assessments
Actual and potential negative human rights impacts in the supply chain and actions taken	G4-HR11	1.7, 3.2	Promoting Good Agricultural Practices (GAP)
Communication and training in organization's anti-corruption policies and procedures.	G4-SO4	1.3	Ethics and Compliance, Governance Documents
Political contributions by country and beneficiary	G4-SO6	1.3	Governance Documents
Information required by procedures for product and service labelling	G4-PR3		Marketing Responsibility

YOUTH TOBACCO PREVENTION

RAI and its subsidiaries share society's belief that minors should never use tobacco products, including vapor products (also called electronic cigarettes or e-cigarettes). Youth tobacco use is illegal, and it hurts our businesses. Some government responses to youth tobacco use, such as stricter penalties for complicit adults, are reasonable and effective. Others, such as excessive tobacco excise tax increases, unfairly burden adult tobacco consumers, create illicit markets that hurt our businesses and don't prevent youth access to tobacco.

Multiple independent studies show progress in reducing youth tobacco use and access.

- CDC research shows the U.S. high school smoking rate at 15.7 percent in 2013, down from its peak of 36.4 percent in 1997.
- A University of Michigan study similarly noted that the smoking rate among 8th, 10th and 12th graders has dropped by three-quarters since its peak in 1997, to 7 percent, the lowest rate since the survey began in 1975. Even so, more remains to be done to reduce youth tobacco use as the study also reported that teens were more likely to use e-cigarettes than traditional cigarettes. According to the survey, e-cigarette use among 10th and 12th graders was 14 percent and 16.2 percent, respectively.
- The U.S. Substance Abuse and Mental Health Services Administration (SAMHSA) reported in 2014 that the rate of tobacco sales to minors was 9.6 percent in 2013, compared to a violation rate of 40.1 percent in 1997, making it significantly more difficult for teens to buy tobacco.

While these findings demonstrate the effectiveness of youth tobacco prevention strategies, continued diligence is needed and we remain committed to furthering youth tobacco prevention (YTP). Preventing the use of tobacco products by minors is a core component of RAI's sustainability strategy.

GOALS AND LEADERSHIP

Our goal for Youth Tobacco Prevention is to lead corporate, educational and legislative initiatives that accelerate the decline in youth tobacco use. We measure our success through various mechanisms, including:

- Distribution of Right Decisions Right Now: Be Tobacco Free program (RDRN);
- Number of employee-led RDRN presentations; and
- Legislation passed to prevent minors from purchasing, using and possessing tobacco products, including e-cigarettes.

The cross-functional YTP Pillar Team includes representatives from public affairs, government relations, philanthropy and communications. The team meets monthly to advance our efforts, and reports to the Transforming Tobacco Steering Committee and to the RAI Leadership Team on the progress toward goals and efforts around our programs and priorities.

In 2015, the YTP Pillar Team introduced a comprehensive, multi-year pilot program called the North Carolina Plan, with the goal to reduce youth tobacco use throughout the state. The plan coordinates YTP efforts throughout RAI and its operating companies under a single guiding strategy, and seeks to increase employee participation, as well as generate greater understanding and involvement from external stakeholders, by developing reliable engagement mechanisms, messaging and metrics. Stakeholder groups engaged by the North Carolina Plan include employees, trade partners, educators, government officials, non-profit organizations and consumers. Goals and engagement mechanisms are included for each stakeholder group, and are owned by a member of the YTP Pillar Team. YTP Pillar Team members have personal goals linked to the success of the North Carolina Plan and their specific stakeholder groups. For example, the Pillar Team member responsible for employee engagement has a goal to increase the number of employee presenters by 10 percent in 2016. The YTP Pillar Team hopes to accomplish this goal through various mechanisms, such as creating an RDRN Employee Advisory Council, whose goal is to educate and engage employees. The Team anticipates expanding this comprehensive YTP strategy to other states in the future.

PROGRAMS AND PRIORITIES

RAI and its operating companies are proud of the programs they've developed, and the efforts they've made, to accelerate the decline in youth tobacco use. Our commitment is to keep Youth Tobacco Prevention at the forefront of our efforts as we pursue our vision of transforming the tobacco industry. It's the right thing to do for our society and it's the right thing for our businesses.

YOUTH TOBACCO PREVENTION PROGRAMS

Youth tobacco prevention programs supported by RAI companies, like Right Decisions Right Now and We Card, have played an important role in the decline in youth tobacco use during the past 25 years.

LEGISLATIVE ENGAGEMENT

RAI Services Company's public affairs department advocates for legislation that strengthens youth tobacco prevention laws across the United States. We believe all states should have laws addressing youth tobacco prevention.

MARKETING RESPONSIBILITY

RAI's operating companies are responsible marketers of age-restricted products for use by informed adult tobacco consumers. RAI's operating companies are responsible marketers of age-restricted products for use by informed adult tobacco consumers.

YOUTH TOBACCO PREVENTION

YOUTH TOBACCO PREVENTION PROGRAMS

Youth tobacco prevention programs supported by RAI companies, like Right Decisions Right Now and We Card, operating in conjunction with other programs with the same goal, have played an important role in the decline in youth tobacco use during the past 25 years.

RIGHT DECISIONS RIGHT NOW: BE TOBACCO FREE (RDRN)

Started in 1991, RDRN is a free and easily accessed youth tobacco prevention program for use by middle-school educators, parents and community groups. Funded by R.J. Reynolds Tobacco Company, the evidence-based program was independently developed and tested, and seeks to equip youth with the skills they need to handle peer pressure and to make healthy lifestyle decisions, including the decision not to use tobacco products.

RDRN materials are easily designed for use: in middle schools; at home through materials that parents and grandparents can find on the RDRN website; through scout programs, church, youth and sports organizations; and in other forums where trusted adults can provide them with the information and skills they need to learn.

In 2015, we made significant progress with this signature program:

- Redesigned [RDRN website](#) and Facebook, Twitter and Pinterest presence. The website provides improved accessibility and ease of use, as well as an updated look and feel. The website seamlessly connects to RDRN's social media footprint, providing an integrated platform for users to discover and download the youth tobacco prevention resources;
- Significantly increased the number of employees who took part in the RDRN employee participation program. In 2014, 295 employees presented RDRN to outside groups in the communities where they live and work. For 2015 we established a goal to increase participation to 330 employees, a goal we significantly exceeded as 486 employees participated in RDRN presentations. These groups received about \$250,000 in grants from R.J. Reynolds for participating in the program;
- Expanded RDRN relationships with groups across the country, including [Baseballcamps.com](#) and

the **American Association of Poison Control Centers**;

- Conducted national radio campaign to raise awareness, garnering more than 25 million impressions; and
- Engaged 1,750 educators at national conferences throughout the United States.

WE CARD

In 1995, R.J. Reynolds was a founding supporter of the **We Card** program, recognized by its yellow-and-red retail sign stating “Under 18, No Tobacco: We Card.” The program offers retailers materials and training to help them stop the sale of tobacco products to minors.

Today, 20 years later, the We Card program is widely accepted across the country as the premier tobacco sales training and education program for retailers, and R.J. Reynolds continues to be a strong supporter of that program. To date:

- We Card has held more than 2,100 classroom training sessions, in all 50 states in the U.S. and its territories;
- More than 400,000 owners, managers and frontline employees have been trained by We Card;
- 44 state coalitions have been assembled to support state-level training and education;
- 237 regional, state and local trade associations support the We Card program;
- More than 1.1 million We Card kits have been distributed to retailers nationwide; and
- State government agencies in 25 states have supported the We Card program and at various times over the years; governors and state attorneys general have either endorsed or expressed support for the We Card program.

As impressive as these numbers may be, the most important achievement of We Card and other programs and efforts like it is the fact that FDA audits show that the illegal sale of tobacco products to minors has been reduced dramatically. The FDA has completed more than 335,000 retail compliance checks involving minors since 2011. In 2015, 88 percent of retailers successfully confirmed the purchasers’ age during retail compliance checks.

We will continue building upon the success of these programs in 2016.

YOUTH TOBACCO PREVENTION

LEGISLATIVE ENGAGEMENT

RAI Services Company's public affairs department advocates for legislation that strengthens youth tobacco prevention laws across the United States. We believe all states should have comprehensive laws covering youth tobacco prevention. For more on our engagement strategy, visit [Stakeholder Engagement and Materiality](#).

Our current legislative priorities include:

- **No purchase, possession or use of tobacco by youth:** RAI supports efforts to keep tobacco products out of the hands of youth. All states have laws preventing the sale of tobacco to minors, and RAI is committed to work with elected officials, the trade and other stakeholders on programs to prevent access and use by youth;
- **No youth purchase, possession or use of vapor products:** At year-end 2015, 47 states have acted either legislatively or administratively to keep vapor products out of the hands of minors. We support legislation to enact age restrictions and strengthen prohibitions on purchase, possession and use of vapor products by youth. We believe all 50 states should have regulations prohibiting minors' purchase and use of all tobacco products, including vapor products;
- **Penalties for complicit adults:** According to the [CDC](#), minors get their tobacco products from social sources such as complicit adults, rather than retail outlets, 87.4 percent of the time. Many states have laws penalizing complicit adults, but they can and should go further. RAI advocates for legislation on par with, or more stringent than, states' Social Host laws for furnishing alcohol to minors;
- **No tobacco possession on school grounds:** RAI and its operating companies support the complete ban on the use and possession of tobacco products and vapor products on school grounds, including by adults. We support legislation to keep tobacco products out of our children's schools, such as the language adopted by Arizona in which "tobacco products are prohibited on school grounds, inside school buildings, in school parking lots or playing fields, in school buses or vehicles, or at off-campus school sponsored events."

[Read more](#) on our engagements in 2015.

TOBACCO HARM REDUCTION

MARKETING RESPONSIBILITY

RAI's operating companies are responsible marketers of age-restricted products for use by informed adult tobacco consumers. Complying with the marketing restrictions in the Family Smoking Prevention and Tobacco Control Act, enacted by Congress in June 2009, required minimal changes by RAI's operating companies as we had long been adhering to stringent policies and practices governing advertising and promotion of cigarette and smokeless tobacco products.

R.J. Reynolds has abided by voluntary advertising restrictions set forth in the Voluntary Cigarette and Promotion Code, including:

- No one depicted in cigarette advertising shall be or appear to be under 25 years of age;
- Cigarette advertising shall not suggest that smoking is essential to social prominence, distinction, success or sexual attraction, nor shall it picture a person smoking in an exaggerated manner;
- Cigarette advertising may picture attractive, healthy looking persons provided there is no suggestion that their attractiveness and good health are due to cigarette smoking;
- Cigarette advertising shall not depict as a smoker anyone who is or has been well known as an athlete, nor shall it show any smoker participating in, or obviously just having participated in, a physical activity requiring stamina or athletic conditioning beyond that of normal recreation; and
- No sports or celebrity testimonials shall be used or those of others who would have special appeal to persons under 21 years of age.

In 1998, R.J. Reynolds and other major cigarette manufacturers agreed to comply with the marketing restrictions set forth in the Master Settlement Agreement (MSA). Among those restrictions are bans on:

- The use of cartoon images in advertising, promotion, packaging or labeling of tobacco products;
- The use of billboards, stadium signs, transit signs and certain other outdoor advertising of tobacco products;
- The use of tobacco-branded merchandise (such as caps and T-shirts);
- The use of payments for the placement or use of tobacco products or brands in movies, TV programs, live recorded performances, videos or video games;
- The use of non-tobacco brand names on tobacco products; and
- Licensing of third parties to use or advertise any tobacco brand name in a manner that would

constitute a violation of the MSA if done by the participating manufacturer itself.

MARKETING SAFEGUARDS

RAI's operating companies maintain an internal database of adult tobacco consumers who have indicated that they wish to receive marketing materials from a tobacco company. To be added to the database, they must first certify that they are adult tobacco consumers at least 21 years of age. The age of consumers who sign up through a brand website or the consumer relations center is verified using independent third-party sources that contain a broad range of private, public and government data. For in-person consumer engagements, such as in retail outlets, bars and nightclubs, adult tobacco consumers are required to show a valid, government-issued photo identification showing proof of age in order to be added to the marketing database.

Every mailing sent out contains information identifying ways for consumers to opt out of future communications. In addition, consumers are removed from the active mailing list after a period of inactivity if they do not redeem promotional offers or otherwise interact with our companies and brands.

STRICT ADVERTISING STANDARDS

RAI's operating companies' policies for placing print advertising are designed to limit youth exposure while maintaining our constitutional right to communicate with adult tobacco consumers. The companies' policies exceed the U.S. Federal Trade Commission's guidance for advertising other age-restricted products, such as alcohol. As part of their policies, the operating companies:

- Review data regarding the age of a publication's readership and will only advertise if such publication's readership is predominantly adult;
- Analyze the editorial content of the publications over time to assess whether the topics covered by such publication have adult appeal and focus;
- Evaluate third-party advertisements that appear in those publications to assess whether such advertisements are for products that have adult appeal and focus; and
- Assess such factors as the publication's business stability, circulation dynamics and method of distribution.

Vapor products are not subject to the same federal requirements nor the restrictions set forth in the MSA as are combustible cigarettes. Nevertheless, RJR Vapor works to ensure VUSE advertising is consistent with RAI and its operating companies' commitment to reducing youth exposure to tobacco-related messages. VUSE brand television advertising is only placed during programming viewed primarily by adults, according to Nielsen data or other reliable third-party sources. All TV ads end with the message: "NOT FOR SALE TO MINORS." All consumer advertising for VUSE includes the following disclaimer: "VUSE contains nicotine extracted from the tobacco plant. Nicotine is addictive and no tobacco product has been shown to be safe."

TRAINING OUR EMPLOYEES

Every employee who interacts with adult tobacco consumers is trained to ensure that marketing safeguards and standards are in place for every interaction. Through comprehensive computer-based training, they learn how to follow policies, rules and procedures, as well as what constitutes an appropriate, successful engagement. Consumer-facing employees must successfully complete this training, as well as classroom training and role-playing exercises with a third-party assessor. Finally, these employees receive in-market observation and coaching from their managers in order to demonstrate mastery of the required skills and behavior.

TOBACCO HARM REDUCTION

Tobacco Harm Reduction (THR) is about reducing the risks faced by adult tobacco smokers by providing them with accurate information about, and instituting regulatory policies that reflect, the comparative risks between cigarettes and non-combustible tobacco products and nicotine replacement therapies — thereby encouraging smokers who do not quit tobacco entirely to switch to these tobacco products.

In response to the Surgeon General's report in 1963, governments, at all levels, deployed a range of strategies to encourage smokers to quit and to discourage smoking initiation. Smoking rates have reached historic lows. Specifically, adult smoking has declined significantly from 42.4 percent at its peak to 16.8 percent (1965–2014). However, despite near-universal awareness of the health risks associated with cigarettes, some 40 million American adults continue to smoke.

Recently, some members of the public health community have advocated that tobacco harm reduction be included as part of a more comprehensive strategy for reducing the health risks associated with cigarette smoking. Harm reduction encourages public health initiatives that have the potential to decrease the harm associated with a particular behavior without necessarily eliminating that behavior. That is not to say that the alternative behavior does not pose some risk, but that the alternative behavior poses less risk. Common harm-reduction efforts that minimize the impact risky behaviors have on society include laws concerning road safety (e.g. seatbelt, helmet and cell phone/texting laws), and needle exchanges for intravenous drug users.

Given the success of harm reduction strategies with other risky behaviors, a growing number of scientists and public health officials are embracing tobacco harm reduction as an additional tool to reduce the harm associated with cigarette use. Many believe that migrating smokers from cigarettes to non-combustible tobacco products and nicotine replacement therapies presents a public health opportunity.

Research indicates that the combustion of tobacco (i.e., cigarette smoking), rather than nicotine, is what exposes tobacco consumers to the most risk. Indeed, there is a scientific consensus that smokeless tobacco products present less risk than cigarettes. There is a growing body of scientific evidence that other non-combustible tobacco products such as vapor products may present less risk than cigarette smoking as well. Encouraging smokers to switch to products that reduce the risk or have the potential to reduce risk from smoking cigarettes can play a valuable role in public health.

GOALS AND LEADERSHIP

Our goal for Tobacco Harm Reduction is to drive product and thought innovation that embraces science-based evidence of the comparative health risks associated with tobacco use. A cross-functional team is charged with integrating the Tobacco Harm Reductions strategies across RAI and its operating companies helping ensure activities are aligned and deliver on our Transforming Tobacco vision.

“We are the right company at the right time to accomplish this goal. What a great feeling to be successful in your business goals and to do the right thing. The future is truly exciting.”

Brice O’Brien, executive vice president of public affairs and chief communications officer for Reynolds American Inc.

PROGRAMS AND PRIORITIES

Reynolds American and its operating companies continue to transform the tobacco industry by reducing the harm associated with tobacco use through a variety of mechanisms. They are as follows:

- Our operating companies have long been known as leaders in product innovation, providing adult tobacco consumers with a range of tobacco and nicotine-based products to adapt to changing societal expectations.
- Product Integrity — We begin with the principle that nothing is to be done or added to products that increases their inherent risks.
- Our companies remain committed to complying with all laws and regulations, and upholding our strict marketing safeguards.
- We engage with **legislators and regulators** with a goal of having the elements of tobacco harm reduction our reflected in future legislation and regulation.

PRODUCT INNOVATION

RAI’s operating companies are working to innovate and introduce new products that meet the changing expectations of adult tobacco consumers. We share the belief of many researchers that non-combustible tobacco products may present significantly less risk than cigarettes. The varying risks presented by these products can be viewed as a risk continuum.

PRODUCT INTEGRITY

A foundation for all of our product development is that first we do nothing to increase the inherent risks

associated with tobacco products. From there, we undertake research to determine how to develop products that may reduce the risks compared to products currently on the market.

MARKETING RESPONSIBILITY

Marketing responsibly to adult tobacco consumers is integral to our Tobacco Harm Reduction efforts. RAI's operating companies are responsible marketers of age-restricted products for use by informed adult tobacco consumers.

TOBACCO HARM REDUCTION

PRODUCT INNOVATION

RAI and its operating companies are committed to reducing the harm caused by smoking. To that end, we have focused on the development of products that present or may present less risk than cigarettes. A substantial body of scientific research has shown that smokeless tobacco products present significantly less harm than cigarettes. Additionally, there is a growing body of evidence on other non-combustible tobacco products, such as vapor products and other innovations, that leads us to believe that these products may reduce harm to smokers who switch to them. RAI's operating companies have long been recognized as the innovation leaders in the tobacco industry. Emerging product categories that offer the potential to reduce tobacco harm allow us to be growth leaders in expanding markets that also offer potential for higher margins.

RAI and its operating companies are transforming the tobacco industry from one dominated by traditional cigarettes to one offering a range of products that meet the changing expectations of adult tobacco consumers. We believe this approach is in the best interest of adult tobacco consumers, stakeholders and society as a whole, while providing our businesses the best opportunity for success.

RESEARCH AND DEVELOPMENT SPENDING

	2011	2012	2013	2014	2015*
Expenditures on R&D (\$ in millions)	\$69	\$62	\$72	\$88	\$107
R&D as a percent of net sales	0.81%	0.75%	0.87%	1.04%	1.00%

*In 2015, net sales increased substantially due to the acquisition of Lorillard, lowering R&D as a percent of net sales.

RAI's operating companies have long been regarded as the innovation leaders in the tobacco industry. However, our companies are not interested in innovation for its own sake. Rather, they are working to

address industry trends and emerging consumer preferences. For the past decade, we have been focusing research and development efforts, as well as acquisitions, to create a broad portfolio that includes tobacco products that may present less risk, aligned with changing consumer preferences.

Our companies employ 175 individuals with scientist in their title in research and development, and scientific and regulatory affairs functions.

In early 2016, RAI created a new subsidiary, RAI Innovations Company (RAIIC), in which RJR Vapor Company and Nicovum, USA will now reside. As a service company, RAIIC will focus on product development and innovation in the vapor and nicotine product areas with the operating companies commercializing these next generation products. We believe this restructuring will further streamline new-product development, diversification and speed to market in these high-growth product categories, allowing RAI to more efficiently meet the rapidly evolving preferences of adult tobacco consumers and continue its leadership position in transforming the tobacco industry.

TOBACCO HARM REDUCTION

PRODUCT INTEGRITY

Product stewardship at each of RAI's operating companies begins with the principle that nothing is to be done or added to products that increases their inherent risks. Whenever any of RAI's operating companies considers a change in the ingredients, materials or design of an existing product, the company evaluates the potential effect of that change by using an analytical framework based on the best scientific information available.

This evaluation uses a multi-tiered testing process that has guided our product-stewardship efforts for many years. The process includes scientific literature reviews, analytical chemistry, *in vitro* and *in vivo* toxicological tests, and human studies, as appropriate.

Our companies have devoted substantial resources to developing product technologies and designs with the potential to reduce tobacco risks, while continuing to meet the changing expectations of adult tobacco consumers. Consumer acceptability is crucial, as products with the potential to lower risk will not reduce harm if they are not acceptable to, and thus never adopted by, adult tobacco consumers.

REGULATORY COMPLIANCE

The Family Smoking Prevention and Tobacco Control Act ushered in a new era for the U.S. tobacco industry. Passed by Congress in 2009, the Act gives the FDA the authority to regulate "any [non-pharmaceutical] product made from or derived from tobacco that is intended for human consumption." However, FDA jurisdiction is currently limited to cigarettes, cigarette tobacco, roll-your-own tobacco and smokeless tobacco products.

Although the FDA is prohibited from banning or eliminating nicotine from tobacco products, the agency does have broad authority over virtually every aspect of U.S. tobacco companies' operations. Among these are:

- Manufacturing, marketing and sale of tobacco products;
- Changes in products;
- The development and introduction of, and communication concerning, modified-risk products; and

- Regulation and communication of tar, nicotine and “other harmful or potentially harmful constituents.”

Since passage of the law and subsequent regulation by the FDA, RAI's tobacco operating companies have diligently complied with the timelines set by the Act and the agency, including:

- Paying user fees in the amount of \$792,820,286.78;
- Registering domestic tobacco product establishments;
- Submitting thousands of pages of product lists and reporting any changes for domestic establishments;
- Submitting documents relating to health effects of tobacco products;
- Submitting a list of all ingredients by brand/sub-brand/quantity;
- Submitting substantial equivalence documentation;
- Complying with advertising and marketing restrictions in the Final Rule; and
- Placing required warning statements and additional mandated information on advertisements and labels of smokeless tobacco products.

Our companies continue to engage the FDA and its Center for Tobacco Products on matters of interest because we believe open communication is the best approach to establishing an effective, science-based regulatory framework for the tobacco industry.

TOBACCO HARM REDUCTION

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- The use of non-tobacco brand names on tobacco products; and
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- Review data regarding the age of a publication's readership and will only advertise if such publication's readership is predominantly adult;
- Analyze the editorial content of the publications over time to assess whether the topics covered by such publication have adult appeal and focus;
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TRAINING OUR EMPLOYEES

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COMMERCIAL INTEGRITY

We use the term Commercial Integrity to describe a range of issues that impact RAI's businesses and employees. Some affect our ability to compete fairly in the marketplace, such as our efforts to reduce illicit trade in tobacco products. Others affect how we choose to conduct our businesses, like supply chain partnerships. Still others affect the communities in which our employees live and work, such as our philanthropic and environmental initiatives.

Making continued progress towards Commercial Integrity goals helps ensure that RAI's companies are working to resolve controversial issues related to the use of tobacco products.

ENVIRONMENTAL SUSTAINABILITY

Reducing impact on the environment.

EMPLOYEE RESPONSIBILITY

Helping employees make responsible decisions in the workplace.

RESPONSIBLE AGRICULTURE

Promoting good agricultural practices within our tobacco supply chain.

SUPPLIER RESPONSIBILITY

Partnering with diverse suppliers to achieve corporate social responsibility objectives.

COMMUNITY ENGAGEMENT

Enhancing the communities where our employees live and work.

TOBACCO EXCISE TAXES

Gaining broader awareness of the potential unintended consequences caused by further raising tobacco taxes.

ILLICIT TRADE

Supporting law enforcement and communities to help combat illicit trade.

ENVIRONMENTAL SUSTAINABILITY

We are committed to effectively managing our companies' environmental footprint while delivering high quality products to adult tobacco consumers. Minimizing our environmental impact is the right thing to do for society and for our bottom line.

In 2015, we completed a third-party environmental footprint assessment to determine where our largest environmental impacts lie. Not surprisingly, we found the significant majority of our environmental impacts not in our internal operations, but rather in our supply chain.

Internally, our operating companies work continuously to maximize efficiencies and minimize our operations' footprint. This study has enabled further prioritization of our internal initiatives for environmental and financial return on investment, and has helped us identify a priority list of projects our operating companies have been pursuing. Read more about significant initiatives from 2015 in [energy and emissions](#), [water](#) and [waste](#).

Increasingly, we plan on working with our supply chain partners, including the tobacco growers with whom we contract, to identify and agree on mutually beneficial projects. Read more about our environmental supply chain strategy in the [Supplier Responsibility](#) and the [Responsible Agriculture](#) sections.

GOALS AND LEADERSHIP

Our goal is to minimize the environmental impact of our operations.

- **Stabilize Greenhouse Gas** (GHG) emission by 2025 to the 2014 level
- **Reduce GHG intensity** by 20% by 2020 against 2014 baseline
- **Reduce energy intensity** by 25% by 2020 against 2014 baseline
- **Reduce water intensity** by 30% by 2020 against 2014 baseline
- **Recycle** at least 60% of our facility waste by 2020

The executive vice president (EVP) of operations for R.J. Reynolds Company and EVP of public affairs for Reynolds American Inc. (RAI) are ultimately responsible for RAI's environmental goals. Executives in public affairs, supply chain, operations, finance and leaf collaborate with operations to develop,

coordinate and execute programs to achieve company-wide targets.

Each operating company identifies and selects its own strategies to drive return on investment and environmental impact for the targets they control. Using results from our materiality assessment, representatives from environmental, health and safety (EHS), engineering, facilities, energy and recycle teams prioritize and implement initiatives. Progress is continually reviewed, and results are consolidated and reported annually.

While initiatives are managed at the operating company level, the EHS managers meet regularly as a group to work toward common RAI goals, fostering innovation through sharing best practices and providing tools to the operating companies. Additionally, RAI's operating companies hold an annual EHS Symposium, which brings together stakeholders from within and outside the companies. The Symposium serves as a showcase of EHS best practices, and a mechanism for recognition of innovation efforts.

ENVIRONMENTAL MANAGEMENT SYSTEMS

Strong operating systems are critical to sound environmental management. RAI's operating companies are committed to continuously improving environmental management systems, which are guided by a variety of strict standards:

- Santa Fe Natural Tobacco Company (SFNTC) is ISO 14001 certified at both its North Carolina manufacturing facility and at its New Mexico headquarters. ISO 14001 is the framework for developing an effective environmental management system.
- SFNTC's North Carolina manufacturing facility is also ISO 50001 certified. This is ISO's Energy Management System framework, which improves energy efficiency and conservation, and drives reductions in greenhouse gas emissions.
- American Snuff Company's facilities in Winston-Salem, North Carolina, Clarksville and Memphis, Tennessee, facilities have in place environmental management systems based on the ISO 14001 format. These facilities are audited annually to an ISO standard.
- R.J. Reynolds and SFNTC are certified by independent third-party auditors to the ISO 9001 Quality Standard. ISO 9001 delineates standard operating procedures and work instructions. These procedures include recordkeeping, which provides the structure and database for many environmental management procedures.

Robust environmental management systems are essential to maintaining safe and sustainable operations. Our companies are committed to doing the right thing for our communities and society at large, and our environmental management systems enable our facilities to operate in a manner that surpasses compliance with environmental regulations. RAI's operating companies continue to excel in environmental compliance, and we are proud to report zero environmental violations again in 2015.

AUDIT AND ASSURANCE PROCEDURES

Audits play an important role in our continuous improvement process. RAI companies commission regular, independent EHS compliance audits of their facilities. They utilize a risk-based approach that uses specific risk factors to establish when facilities should be audited. Large facilities are audited, at minimum, every three years. All other facilities must be audited every four years and management has the discretion to accelerate audit frequency.

RAI's subsidiaries manage environmental performance by measuring, monitoring and reporting key environmental metrics such as GHG emissions, energy efficiency, water consumption and waste disposal. The data they report are **verified** by an independent third party.

EXTERNAL RECOGNITION

Our operating companies strive for sustainable operations and continuous improvement because it is the right thing to do. We are proud that our companies' efforts have been recognized by various external stakeholders, such as:

- The U.S. Environmental Protection Agency Green Power Leadership Award;
- The Tennessee Governor's Environmental Stewardship Awards;
- Dow Jones Sustainability Index;
- Forsyth county Environmental Assistance and Protection department; and
- North Carolina Department of Environmental Quality.

A full listing of our awards can be found [here](#).

PROGRAMS AND PRIORITIES

We recognize our companies' manufacturing operations rely on resources and produce waste streams that may impact the environment. Our operating companies are committed to minimizing their environmental footprint and driving their environmental, health and safety (EHS) programs in accordance with the guiding principles set out in RAI's **Environmental, Health and Safety Policy**.

GREENHOUSE GAS & ENERGY

RAI's operating companies are committed to reducing the environmental impact from their facilities' energy use and resulting emissions. By reducing our carbon footprint, we are not only acting as good corporate citizens, but also positively impacting our bottom line and long-term success.

WATER

Clean, plentiful water is an important resource for our companies and communities. RAI's operating companies strive to reduce and reuse water in their operations. By reducing our water footprint, we are sustaining a freshwater supply for future generations while lowering internal operations risk.

WASTE & RECYCLING

RAI's operating companies continuously look for additional ways to recycle and limit waste from their products and production processes.

ENVIRONMENTAL SUSTAINABILITY

GREENHOUSE GAS & ENERGY

In 2009, RAI and its operating companies established a five-year plan to stabilize and maintain greenhouse gas (GHG) emissions at their 2009 levels. We exceeded that goal, with 2014 emissions more than 88,000 metric tons lower than our 2009 actuals, a 26 percent reduction. In 2015, we introduced new GHG and energy goals. The new goals are based on the results of the third-party environmental materiality assessment we completed in 2015. The new goals are to:



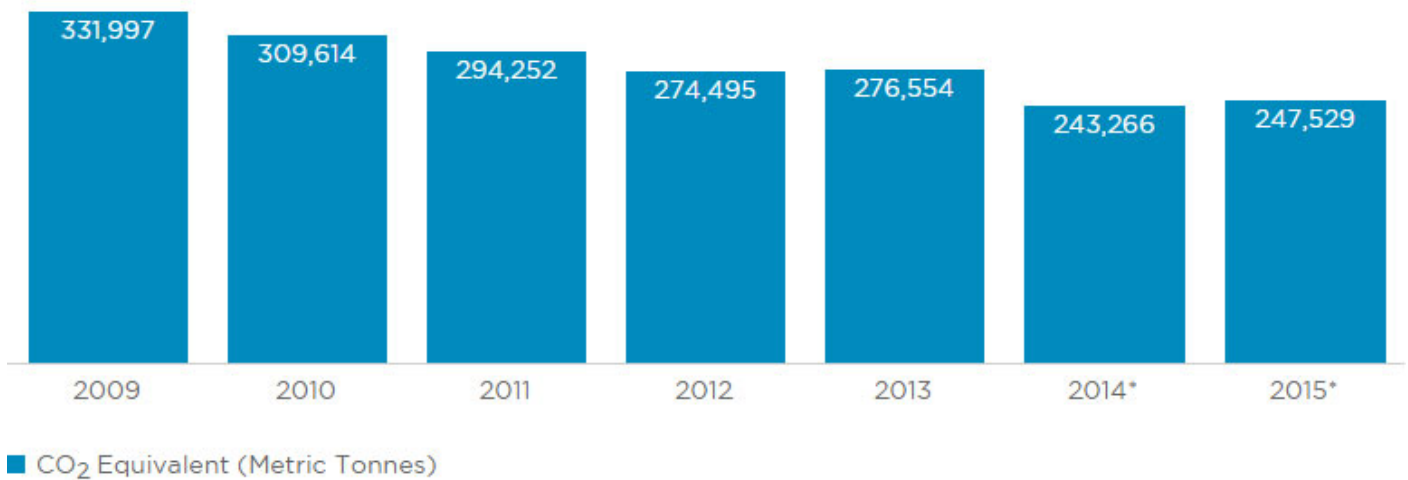
GOALS

- Stabilize GHG emissions by 2025 to the 2014 level;
- Reduce GHG intensity (tons/\$million revenue) by 20% by 2020 against 2014 baseline; and
- Reduce energy intensity (GJ/\$million revenue) by 25% by 2020 against 2014 baseline.

While these goals apply to Scope 1 and Scope 2 emissions, we also track and continue to work to reduce Scope 3 emissions, internally by making tools available to reduce the necessity for employee travel and increasing use of telecommunications, and externally by working with our [supply chain partners](#).

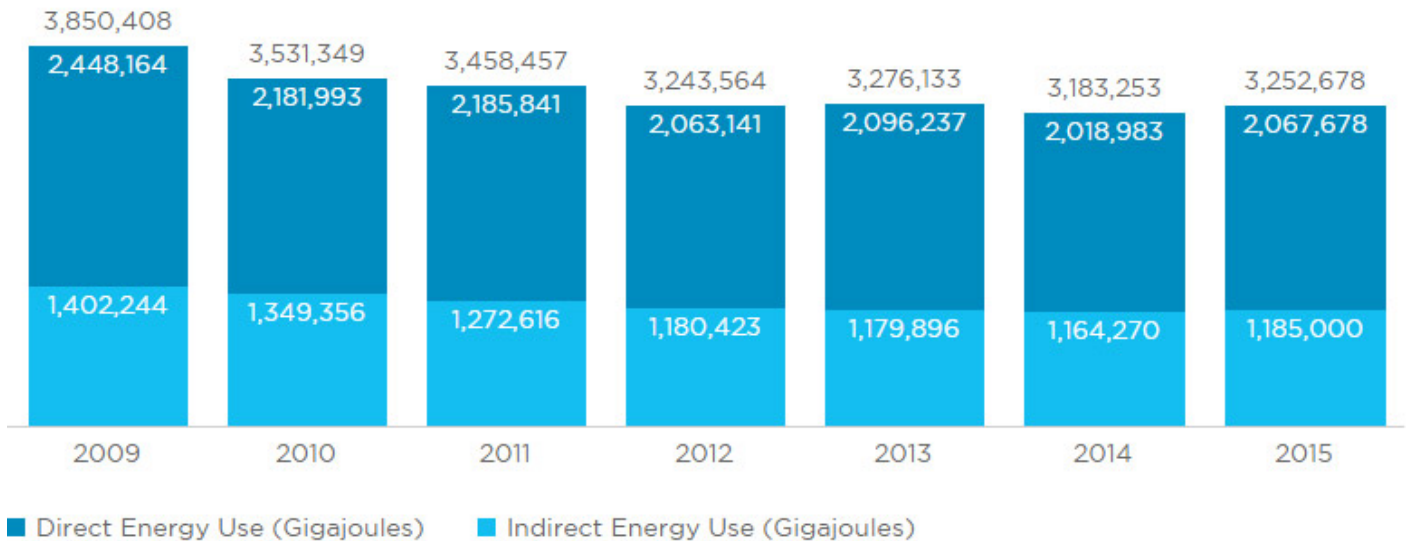
In 2015, we received a score of 98-B, compared to a program average 84-C, for our [CDP Climate Change](#) response (formerly known as the Carbon Disclosure Project Investor Response). We are proud to receive a score indicative of our subsidiaries' continued efforts to address climate change and climate change transparency. We have reported on our subsidiaries' progress toward reducing greenhouse gas and energy use to CDP since 2007 and expanded our submission to include Scope 3 emissions in 2015.

TOTAL DIRECT AND INDIRECT GREENHOUSE GAS EMISSIONS



*2014 and 2015 data reflect updated emission factors, including AR4 (2007) GHG Global Warming Potentials

TOTAL ENERGY USE



Each operating company is responsible for identifying and executing its own strategy to meet these goals. Through the materiality assessment results, operating companies are equipped with specific opportunities and able to prioritize effective reduction strategies.

R.J. Reynolds, for instance, continued reducing electricity use in a warehouse location. By conducting a comprehensive study of traffic patterns within the warehouse in 2014, the company discovered that less than 70 percent of the lights had to be on continuously. At year-end 2014, all metal halide lighting was converted to LED and occupancy sensors were added. This change led to a reduction in warehouse

electrical consumption of over 1.2 million kilowatt hours and yielded more than \$85,000 per year of electrical and maintenance savings in 2015. The company also performed lighting audits at their Whitaker Park steam plant. The audits revealed that nearly 50 metal halide lights could be removed from service, reducing electrical consumption by 92,000 kilowatt hours and saving more than \$5,000 per year. At their Tobaccoville, North Carolina, manufacturing plant, R.J. Reynolds began implementing new condenser water temperature controls to provide colder chilled water to each [centrifugal chiller](#). Upon completion, the modifications will improve the operating efficiency of the chiller plant, reduce 165,000 kilowatt hours of electrical consumption and provide nearly \$10,000 in annual savings.

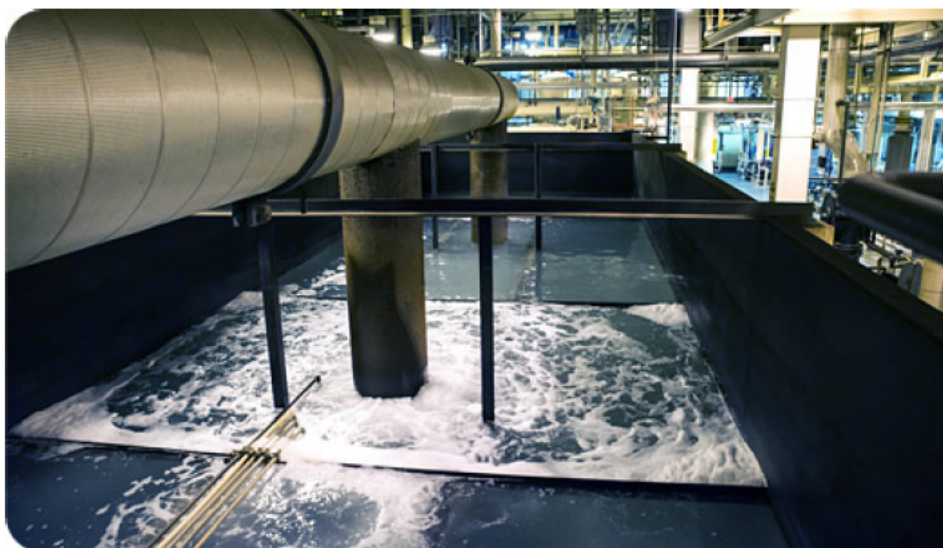
SFNTC continues to purchase 100 percent of its electricity use from renewable resources and its operations have been carbon neutral since 2011. Read more about SFNTC's sustainability initiatives, [here](#).

While 2015 emissions increased over 2014 due to an increase in production, this increase was modest due to our emissions reduction activities. Overall, our efforts have led to a reduction in emissions of 26 percent since 2009. Energy use increased over 2014 by 2 percent, on a 9 percent increase in production volume, but remained below the 2009 baseline by 16 percent. Read more about energy reduction projects [here](#). In support of our GHG and energy goals, each operating company is tasked with evaluating and implementing at least one energy reduction project in 2016.

ENVIRONMENTAL SUSTAINABILITY

WATER

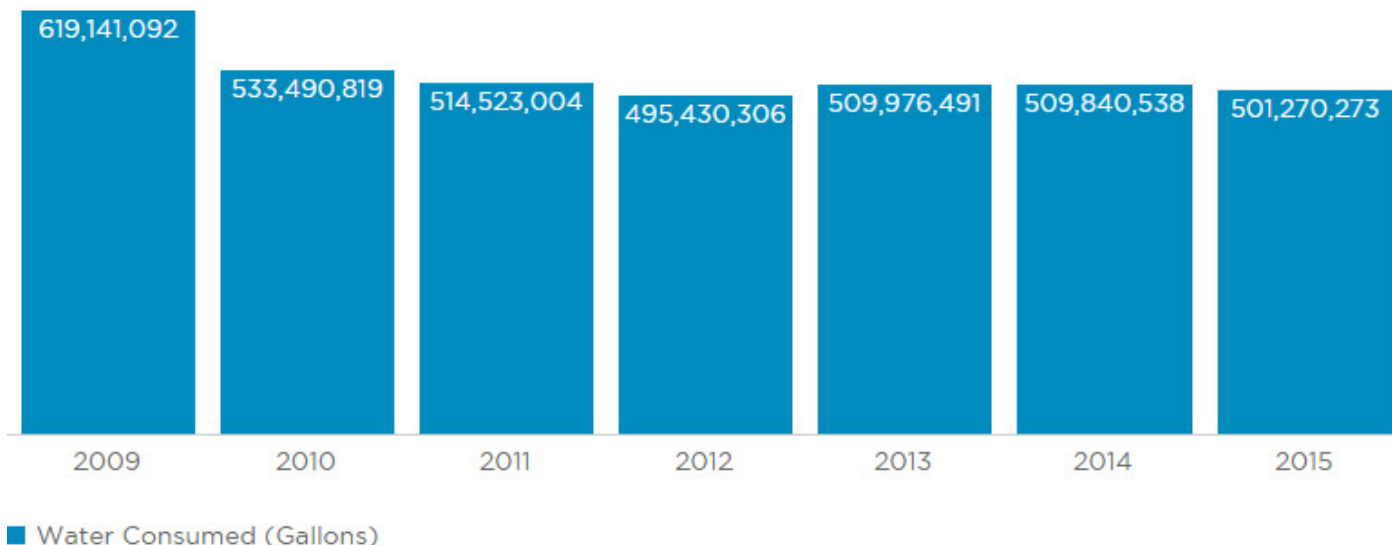
Clean, plentiful water is an important resource for our companies and communities. Since 2009, our operating companies have reduced water consumption by approximately 18 percent. To further our progress in water reductions, we introduced a water intensity goal in 2015:



GOAL

- Reduce water intensity (gallons/\$million revenue) by 30 percent by 2020 against a 2014 baseline.

TOTAL WATER WITHDRAWAL



Each operating company is responsible for identifying and executing its own strategy to meet this goal. In 2015 our efforts led to a 2 percent reduction in water use, a reduction of 19 percent since 2009. Several water reduction and reuse projects were identified and implemented late in 2015 which will generate significant savings in 2016. Read more about water reduction projects [here](#). In support of our water goal, each operating company is tasked with evaluating and implementing at least one water reduction project in 2016.

Our operating companies also recognize the importance of their suppliers adopting good water management practices, and suppliers of tobacco receive water-management training in their Good Agricultural Practices (GAP) training. Read about our environmental supply chain strategy in the [Responsible Agriculture](#) section.

ENVIRONMENTAL SUSTAINABILITY

WASTE & RECYCLING

Since 2009, RAI and its operating companies have reduced total waste generated by approximately 56 percent. Our operating companies actively work to limit material inputs and reuse process waste throughout the manufacturing process. In 2015, we introduced a new waste goal:



GOAL

- **Recycle at least 60 percent of facility waste by 2020.**

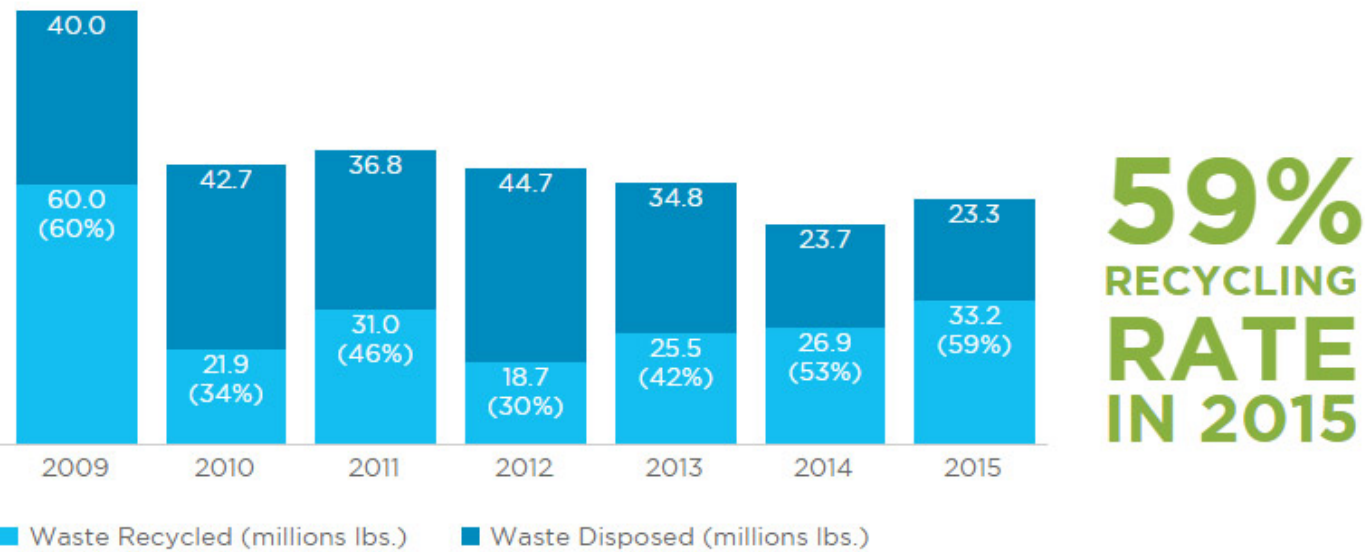
Each operating company is responsible for identifying and executing its own strategy to meet this goal. In 2015 our efforts led increase in our recycling rate to 59 percent.

Reynolds American and its operating companies continuously work with both internal and external stakeholders to reduce material inputs and prevent waste from entering landfills. Santa Fe's Oxford, North Carolina, facility has been zero-waste-to-landfill since 2014 and our teams at ASC in both Memphis and Clarksville, Tennessee, are quickly catching up. Through improved waste management, audits and new recycling initiatives, ASC reduced waste sent to landfill by 26 percent in 2015 and 76 percent since 2009. In Tobaccoville, North Carolina, R.J. Reynolds continues to aggressively identify waste reduction and recycling projects, including educating employees on proper recycling.

In support of our waste goal, each operating company is tasked with evaluating and implementing at least

one waste reduction project in 2016.

WASTE GENERATED



EMPLOYEE RESPONSIBILITY

RAI and its subsidiaries are leading the transformation of the tobacco industry. The marketplace is increasingly dynamic and adult tobacco consumer tastes are changing. Our employees are essential to achieving our Transforming Tobacco vision; they are the trailblazers who drive innovation and ignite the breakthroughs that are changing an entire industry. Transforming Tobacco creates tremendous opportunities for our companies and people to thrive, creating a successful and sustainable future for all.

GOALS AND LEADERSHIP

People are drawn to working within our companies because of the iconic brands and revolutionary products. They stay for the visionary, principled and passionate people they get to work with every day. RAI and its subsidiaries are focused on maintaining a caring and collaborative environment for our employees by delivering on the following goals:

- Cultivating our talent pipeline, ensuring we have the right talent, at the right time, in the right role;
- Maintaining a sustainable, high-performing and innovative talent base;
- Advancing employee well-being, ensuring that employees thrive so the company thrives;
- Continuing to drive high levels of employee engagement;
- Delivering excellent Human Resources' services with the employee in mind, from design to delivery across all programs, processes and policies;
- Providing labor and employment guidance that balances the needs of the employee while balancing business risk; and
- Maintaining a safe work environment.

The executive vice president and chief human resources officer of RAI and RAI Services Company (RAISC) is ultimately responsible for driving our vision of being an employer of choice by delivering on strategies to acquire, develop and retain top talent.

In 2015, RAISC reorganized human resources (HR) into five Centers of Expertise (COEs) to mirror a consumer-centric organization, with the employees as our "consumers." Through this reorganization, we

are better able to meet employee expectations. The HR leadership team is composed of individuals from its five COEs: Organizational Effectiveness; HR Service Solutions; Workplace Practices; Rewards; and Talent Management.

“To succeed in today’s business environment, having a talented workforce and a strong commitment to employee development is absolutely essential. RAI’s goal is to achieve market leadership by transforming the tobacco industry, based on leadership in innovation. To accomplish that, every RAI company has to have top-notch people who are continually given opportunities to thrive and grow.”

Lisa Caldwell, executive vice president and chief human resources officer of Reynolds American Inc. and RAI Services Company

RAI’s Board of Directors’ Compensation and Leadership Development Committee oversees and administers policies, programs, plans and arrangements for compensating the senior executive management of RAI and its subsidiaries, and oversees leadership talent development and succession planning for senior executive leadership positions of RAI and its subsidiaries.

PROGRAMS AND PRIORITIES

We know our companies succeed when our people thrive. Our policies and programs are designed to support employee growth and achievement. The personal and professional well-being of our employees is critical to their ongoing development and our commercial success.

TALENT PIPELINE

Acquiring, developing and retaining top, diverse talent is critical to the long-term sustainability of RAI and its subsidiaries. Our employees have the opportunity to excel in their careers and lead the transformation of the tobacco industry.

EMPLOYEE WELL-BEING

By advancing employee well-being through programs and policies that support overall employee well-being, we know both our employees and companies thrive. Our programs focus on career, physical and emotional, financial and social well-being.

WORKPLACE SAFETY

A safe working environment is critical to employee and contractor welfare and it enhances their ability to achieve personal and corporate goals. Our management's commitment to safety drives a culture of safety throughout our companies. Zero incidents is our goal.

EMPLOYEE RESPONSIBILITY

TALENT PIPELINE

Acquiring, developing and retaining top, diverse talent is critical to the long-term sustainability of RAI and its subsidiaries. Our employees have the opportunity to excel in their careers and lead the transformation of the tobacco industry.

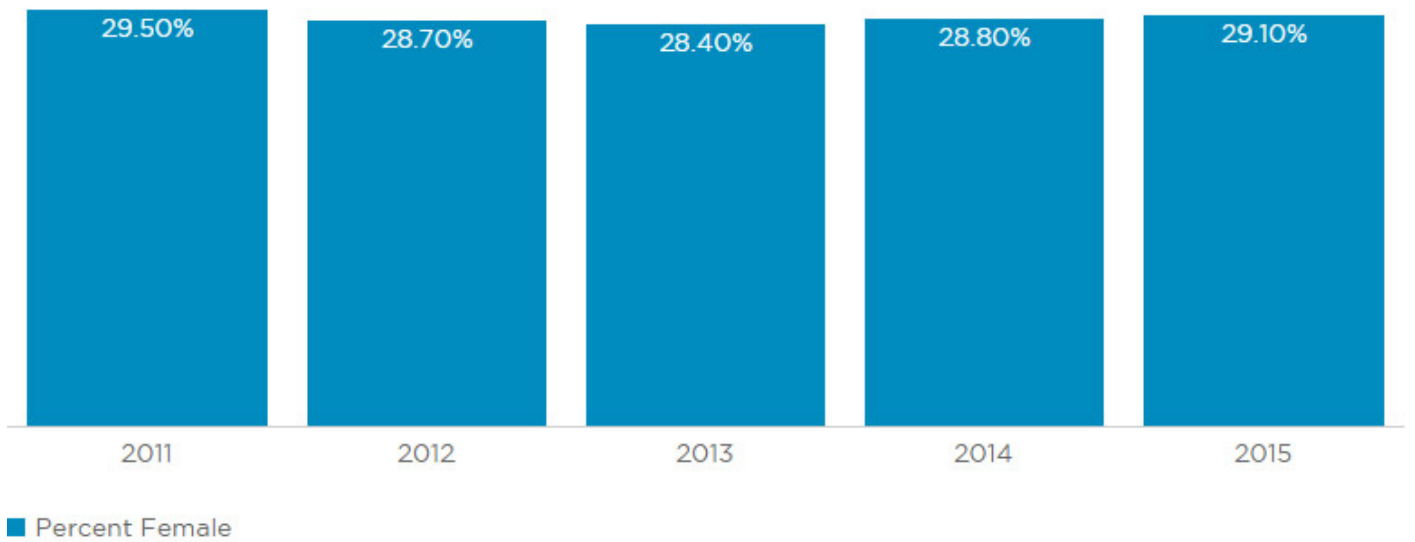
WORKFORCE DIVERSITY

Reynolds American and its subsidiaries have long recognized, valued and enjoyed the many benefits that diversity brings to both our employees and our businesses. The Transforming Tobacco vision is shaped by the diversity of backgrounds, thoughts and experiences of our employee population. Our commitment to diversity is a strong element of our core beliefs. At the RAI companies, diversity is:

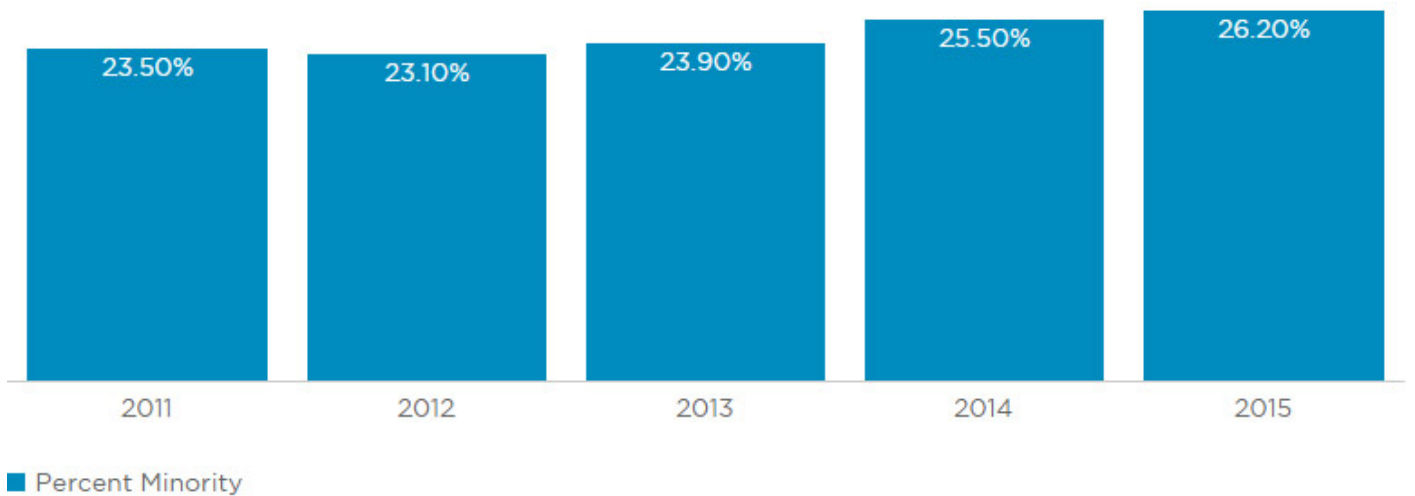
- Recognizing and respecting the differences in our workforce;
- Appreciating and valuing the differences in our customers, consumers and communities;
- Leveraging the strengths in all employees to drive business results;
- Empowering employees to challenge conventional thinking; and
- Creating competitive ideas and innovation.

Reynolds American and its subsidiaries have a diverse workforce of approximately 5,600 employees in the U.S. In aggregate, RAI's subsidiaries' workforce was 29 percent female and 26 percent minority in 2015. Within the ranks of management, 31 percent were female and 17 percent were minority. Our **executive leadership team** is 50 percent female.

GENDER DIVERSITY



ETHNIC DIVERSITY



RAI and its subsidiaries support freedom of association and respect employees' right to choose whether or not join a trade union. No employees of RAI or its operating companies are unionized.

TALENT ACQUISITION

While people are drawn to Reynolds American Inc. and its subsidiaries because of the iconic brands and revolutionary products, they stay for the visionary, principled and passionate people they get to work with every day. We work hard to ensure new hires are equipped with the right tools to succeed in their work and career. With the acquisition of Lorillard, we are especially proud of our efforts to help new hires quickly acclimate to, and feel a part of, our companies. To gather candid feedback about what makes our companies great and how they can be improved, the executive vice president and chief human resources officer of Reynolds American Inc. and RAI Services Company meets monthly with new hires.

In 2015, RAI and its subsidiaries doubled the size of the intern program to 30 interns. We successfully expanded the program to trade marketing, ultimately hiring 15 of the intern class full-time or for a second internship. In addition, we attended more than 60 career fairs, information sessions and employer panels around the country during the 2014–2015 campus recruiting season.

ACCELERATING TALENT DEVELOPMENT

RAI and its subsidiaries encourage employees to take ownership of their job performance and career planning from day one. Our leadership team sets goals to execute against our Transforming Tobacco vision, which are supported by individual goals for each employee. This gives employees a sense of purpose and commitment to RAI's Transforming Tobacco vision, and fosters personal and professional growth, as well as business success. This empowerment contributes to the recruitment and retention of high-performing talent.

To assist employees in meeting their short- and long-term personal growth goals, RAI and its subsidiaries offer many training programs throughout the year. We identify behaviors that exemplify success at each level of the organization, helping employees navigate their personal development within the company. In 2015, we developed new resources to further contribute to employees' individual development, including coaching effectiveness training.

Our robust curriculum includes training on both interpersonal and technical skills to help our employees develop their careers. Training options include “Discovering Emotional Intelligence,” “Presenting for Influence,” “Innovation in Action” and “Running an Effective Meeting.”

In 2015, RAI employees received 231,756 hours of training, for an average of 42 hours per full-time employee and an investment of more than \$2,498 per employee. Training hours decreased from 73 hours per employee in 2014 due to a smaller number of new hires during the year.

The individual development plan (IDP) process puts employees in charge of driving their career progression through a thoughtful planning approach. During the IDP process, employees share their career goals with their manager and review feedback from the succession planning process. Together, they create an actionable IDP to improve personal performance and identify ways to achieve their career goals. Progress toward the IDP is reviewed during annual performance reviews, where each employee receives an assessment of their readiness to take on additional responsibilities. RAI's online talent-management system provides a comprehensive tool for IDP planning, which integrates goal setting, performance evaluations, succession planning and a variety of developmental resources.

Managers hold calibration meetings to discuss performance reviews of all employees. These discussions ensure that employees at each job level are held to consistent standards. Our succession-planning process builds a pipeline of talent that not only benefits employees by providing equal opportunity for advancement, but also maintains a sustainable, high-performing and innovative talent base for our companies.

Compensation programs are designed to reward employees' high performance. We have a pay-for-performance rewards system in which every full-time employee participates in a single bonus plan aligned with overall company goals. Compensation is linked to the annual performance review process. For salaried employees below senior vice president level, bonus payouts are determined through a multiplier of personal and company performance. For production associates (hourly employees), bonuses are determined by a personal performance multiplier. Through this process, employee performance is rewarded and employees feel tied to the success of their companies.

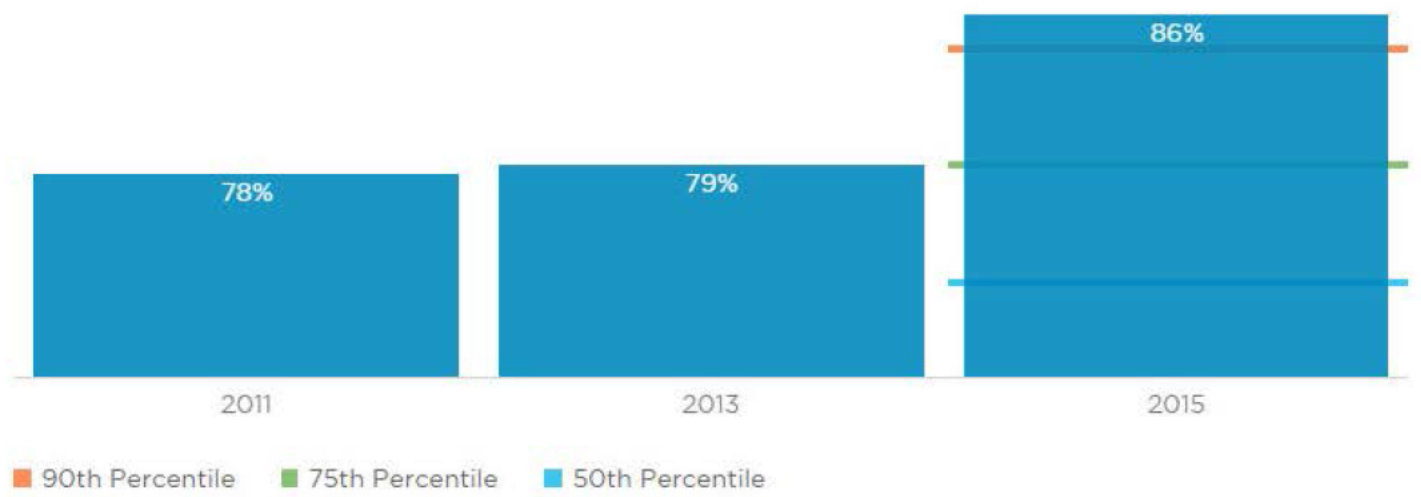
A key indicator of our success in developing talent is the ability to fill vacated roles with qualified employees. In 2015, 76 percent of open positions at RAI and its subsidiaries were filled by internal candidates.

EMPLOYEE ENGAGEMENT

Together, our employees are transforming the tobacco industry. Excitement about RAI's transformation vision and the focus on overall well-being has contributed to employee satisfaction, pride, advocacy and loyalty.

To maintain top-tier talent and a high-performing culture, it is critical for RAI and its subsidiaries to keep our employees engaged. In 2009, RAI began conducting quantitative employee surveys through IBM-Kenexa, in which employees provide feedback on multiple aspects of their employee experience. Over the past several years, RAI's employee engagement score has ranked among the top 25 percent of companies, based on IBM-Kenexa engagement norms, and in the February 2015 survey, the engagement level rose to the top 10th percentile of companies.

EMPLOYEE ENGAGEMENT



EMPLOYEE RESPONSIBILITY

EMPLOYEE WELL-BEING

Reynolds American and its subsidiaries are focused on advancing employee well-being through various programs and policies because when employees thrive, so do our companies. Our programs support employees' total well-being, which is broken into four focus areas:



CAREER WELL-BEING: MASTERY, PURPOSE AND AUTONOMY

RAI and its subsidiaries encourage employees to take ownership of their job performance and career planning from day one and we work hard to make tools and resources available to enable employees to

do so. We maintain a culture where experienced leaders and mentors are both interested and invested in the success of every employee. Managers provide the guidance that employees need to grow based on their performance, unique talents and professional goals. To help employees achieve their goals, we offer a wide selection of world-class professional and interpersonal-skill development programs for employees at every stage of their career.

Whether it's development in role, cross-functional rotations to broaden skill sets, or development in preparation for a promotion, the RAI and its subsidiaries are rich in opportunities and resources to help our trailblazers build remarkable careers. We want our employees to thrive by feeling challenged, engaged and empowered professionally. To promote career well-being we offer:

- Collaborative goal-setting and performance-management processes;
- World-class professional and interpersonal-skill development programs;
- Experienced mentors invested in each employee's success; and
- Developmental cross-functional rotation experiences.

FINANCIAL WELL-BEING: EFFECTIVELY MANAGING THEIR FINANCIAL LIFE

The financial health of employees is vital to their overall well-being. RAI and its subsidiaries go beyond offering competitive compensation and benefits by providing supplemental programs to help employees leverage their benefits, achieve their personal goals and enhance their overall well-being. Our online total-rewards system allows individual employees to see the full range and value of the rewards that are offered by the company, including:

- **Retirement and Savings:** We provide a number of plans for eligible employees that are designed to work with Social Security and personal savings to provide economic security upon retirement, including a comprehensive 401(k) plan. At no cost to them, employees have access to financial counselors and many other tools and resources to support their personal financial goals, such as online retirement savings scenario modeling and financial education. To ensure that employees take advantage of benefits offered them, we automatically enroll new employees in our 401(k) program and increase contributions by 1 percent annually until they reach the maximum contribution. In addition, we require training on personal budgeting, debt management and cash flow, along with training on how to best leverage the extensive company benefits programs.
- **Additional Financial Benefits:** we offer a variety of additional programs to support employees, including tuition reimbursement and purchase of RAI stock at a reduced rate.

PHYSICAL AND EMOTIONAL WELL-BEING: GOOD HEALTH AND ENOUGH ENERGY TO GET THINGS DONE

RAI and its subsidiaries believe the physical well-being of their employees drives a high-performance culture. We are focused on a holistic view of employee physical well-being, which goes beyond comprehensive benefits to include supplemental programs and tools so they can thrive at work and in their personal lives.

Some of the many ways we promote physical well-being include:

- High-quality medical, dental and vision care at affordable rates;
- On-site fitness centers at no cost;
- On-site health centers and telemedicine services;
- Convenient on-site cafes and cafeterias complete with healthy food options; and
- Specialty fitness and nutrition support for field-trade employees.

Support for physical well-being also extends to the office environment. In 2015, renovations began on RAI's headquarters building to improve our work environment, promote collaboration and provide unique features for employees, such as sit-stand desks in each workstation and easy access to walking desks. In January 2015, we implemented a **new policy** eliminating smoking in conference rooms and elevators, and upon full implementation, will restrict the use of cigarettes to designated smoking areas.

SOCIAL WELL-BEING

The transformative effect that recognition has on employee engagement and retention is powerful. In addition to recognizing employee contributions in support of business goals through annual bonuses and pay-for-performance programs, employees of RAI and its subsidiaries are empowered to personally recognize coworkers who have gone above and beyond with "points" redeemable for gifts.

Also important to employee well-being is providing opportunities for employees to give back to their communities through volunteering and the matching-grant program. Employees receive paid time-off to participate in community efforts, such as the **United Way's Days of Caring**, during which employees volunteer to help United Way agencies with everything from routine maintenance of facilities and gardens to agency administration. Employees also participate in the United Way's Young Leaders United program, Women's Leadership Council and hundreds of employees serve in leadership roles in organizations in our communities.

Creating strong relationships forms a platform for the continued growth of our employees and our businesses. We encourage employees to develop internal connections, as well as foster relationships with the communities where they live and work.

EMPLOYEE RESPONSIBILITY

WORKPLACE SAFETY

A safe working environment is critical to the welfare of everybody who works in our facilities. Reynolds American and its subsidiaries promote a culture of safety throughout everything we do. We work to enhance our safety culture by proactively engaging our people to be responsible for their own safety and for those around them. Zero incidents is our goal.



GOAL

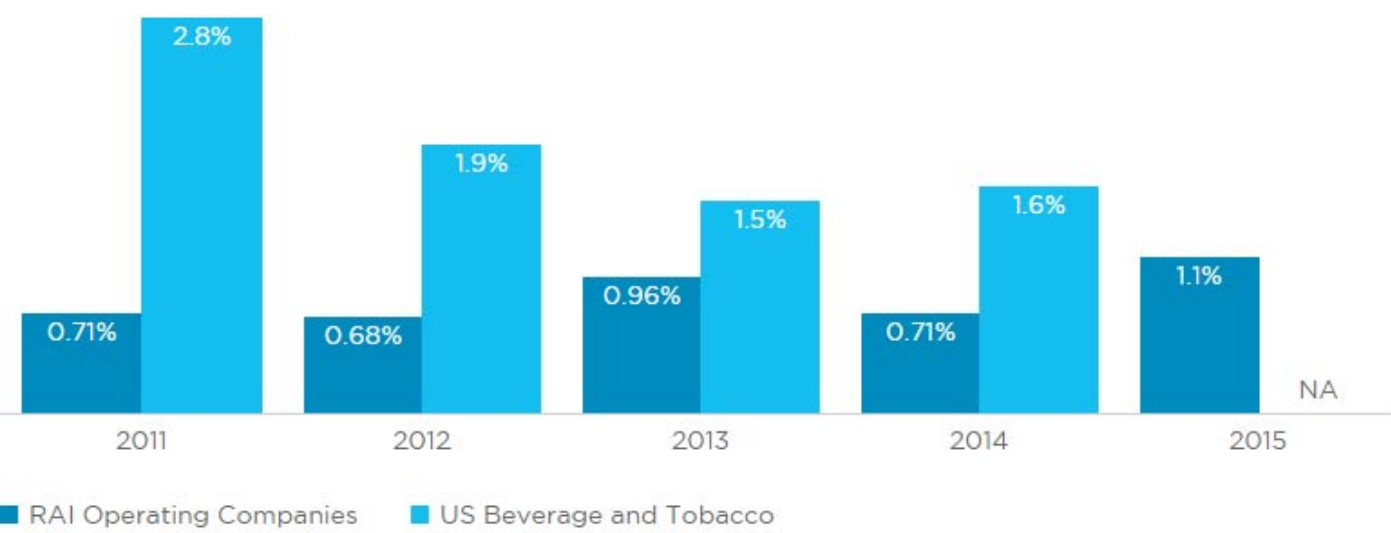
- Proactively engage our people to be responsible for their own safety and for those around them.

Every employee is responsible for maintaining a safe working environment. While initiatives are managed at the operating company level, the operating companies' Environmental Health and Safety (EHS) managers meet regularly as a group to work toward common RAI goals, fostering innovation through sharing best practices and providing tools to the operating companies. Additionally, RAI's operating companies hold an annual EHS Symposium, which brings together internal and external stakeholders to showcase EHS best practices and provide a mechanism for recognition of innovative efforts and accomplishments.

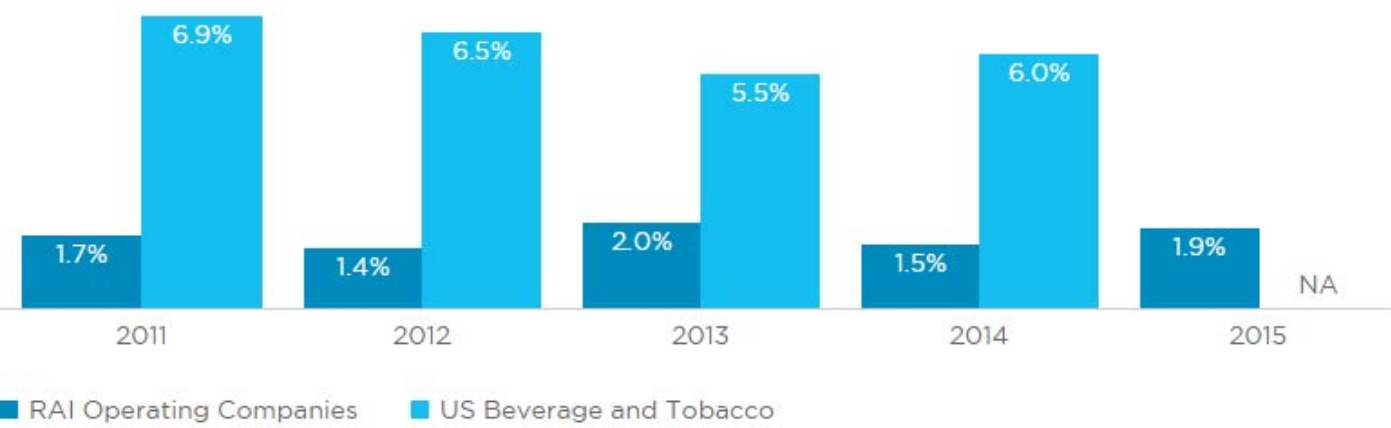
Safety is a top priority at RAI and its operating companies and we have worked hard to develop a strong

safety culture. Our efforts have paid off with employee injury rates that are lower than those of other tobacco companies. According to the U.S. Department of Labor’s Occupational Safety & Health Administration (OSHA), RAI’s operating companies’ OSHA recordable accident rate is lower than the accident rate for the U.S. beverage and tobacco product manufacturing industry as a whole.

LOST TIME INCIDENT RATE



OSHA INCIDENT RATE



Every year, we set aggressive safety goals that include both proactive and reactive measures.

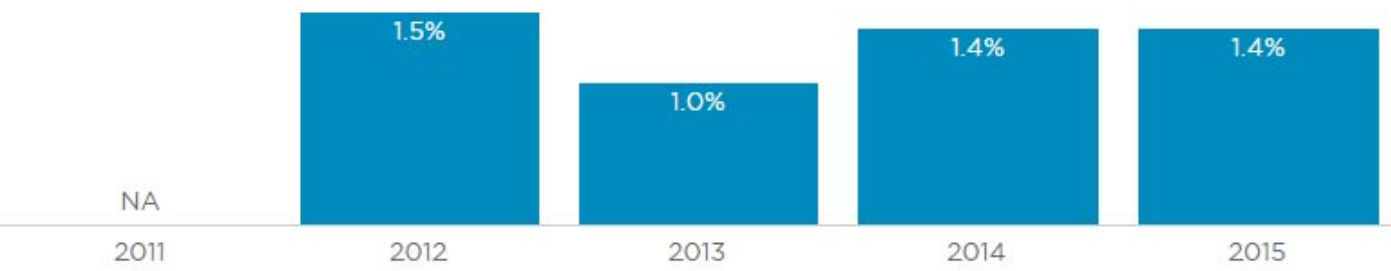
Performance toward safety goals is a component of employees’ annual performance reviews. Employees continuously share best practices and communicate both positive and negative feedback on colleagues’ safety behaviors. All employees are encouraged to report near misses, join safety committees or attend safety committee meetings.

Training is a critical component of our safety program. Our new hires undergo a significant amount of safety training as part of their orientation. Additionally, all employees continually participate in safety training specific to their jobs.

In mid-2015, the N.C. Department of Labor again presented R.J. Reynolds with its Certificate of Safety Achievement for 2014.

Our safety culture extends beyond our employees to the contractors whom we use in a variety of capacities. Each contractor is held to the same standards as our employees. Our operating companies provide contractors with our EHS requirements so they are prepared to participate proactively in our culture of safety and we also perform audits of contract companies.

CONTRACTOR OSHA INCIDENT RATE*



*Represents the experience at R.J. Reynolds Manufacturing. We have plans to discuss extending contractor injury data reporting to other areas of the business.

RESPONSIBLE AGRICULTURE

RAI's largest operating company, R.J. Reynolds Tobacco Company, leads the industry in direct contracting with U.S. growers through innovative engagement programs, Good Agricultural Practices (GAP) leadership and training initiatives.

Through contracts with growers, we require compliance with laws protecting workers and the environment; and compliance with GAP with respect to environmental, agronomical and labor criteria. R.J. Reynolds purchases tobacco through service agreements for each RAI tobacco operating company.

Imported tobacco is sourced through a network of leaf suppliers who participate in the AB Sustain Sustainable Tobacco Production (STP) program. This program provides a platform for periodic review of our leaf supply chain and covers key sustainability areas, such as:

- Factory work environment;
- Safety;
- Carbon footprint;
- Farmer training;
- Soil and water conservation;
- Biodiversity;
- Child labor; and
- Equal opportunity employment.

Through the STP program, we monitor leaf suppliers' performance against these criteria, and create an environment of knowledge transfer, capacity building and continuous improvement within our leaf supplier base.

While RAI and its subsidiaries do not employ farm workers or grow tobacco, we engage with **stakeholders** throughout our sphere of influence to address sustainability risks and opportunities. We put significant effort into ensuring that our contracted growers have the training and resources they need to do the right thing for the people who play an important role in our operating companies' supply chain.

Risks inherent in agricultural work, together with the special issues that arise when a significant number of farm workers are migrant workers, make social sustainability and human rights on contracted farms a concern for R.J. Reynolds and its affiliates that purchase tobacco, and for many of our stakeholders. The GAP standards, against which we review contract growers, address the following social issues:

- Farm labor management;
- Child labor;
- Forced labor;
- Freedom of association;
- Health & safety, including Green Tobacco Sickness;
- Worker housing; and
- Wage & hour compliance.

In 2015, we completed a third-party environmental materiality assessment to determine where our largest environmental impacts lie. Not surprisingly, we found that the significant majority of our environmental impacts occur in our supply chain and in particular the farming of tobacco leaf. The GAP standards, against which we review contract growers, address the following environmental management issues:

- Soil management;
- Water management;
- Energy management;
- Agrochemical management; and
- Agrobiodiversity.

We continue to productively engage with various activist organizations within the agricultural industry to affect positive change in our sphere of influence. Since 2011, R.J. Reynolds has participated in the Farm Labor Practices Group, a multilateral group of manufacturers, grower representatives, worker advocates and government agencies to address the complex issues affecting farm labor. The group meets regularly to discuss how progress can continue to be made to ensure tobacco and other agricultural crop farmworkers have access to proper training and equipment, appropriate living and working conditions and access to accurate information about wages and other topics.

GOALS AND LEADERSHIP

Our goal is to audit or assess, at least every five years, 100 percent of contracted growers in the U.S. against GAP standards and our [grower code of conduct](#). Internationally, 100 percent of leaf suppliers are audited every three years against AB Sustain STP Standards.

The executive vice president of operations for R.J. Reynolds Tobacco Company and executive vice president of public affairs of Reynolds American Inc. (RAI) are ultimately responsible for RAI's tobacco supply chain management and goals. The R.J. Reynolds leaf department has service agreements with each RAI tobacco operating company, enabling an integrated, comprehensive approach to managing our leaf supply chain. Executives from leaf and corporate sustainability and commercial equity collaborate to develop, coordinate and execute programs to achieve company-wide goals and targets.

PROGRAMS AND PRIORITIES

R.J. Reynolds adopts a three-part approach to management of leaf supply chain social and environmental issues.

PROMOTING GOOD AGRICULTURAL PRACTICES (GAP)

R.J. Reynolds and its affiliates that purchase tobacco require growers to comply with the laws and good agricultural practices (GAP) protecting workers and the environment through provisions in their contracts, and also require that growers respect workers' rights of freedom of association and prohibit the employment of persons under 16 years old.

FARMER TRAINING

Growers are all required to receive annual training in GAP, which sets best practices for environmental, agronomic and labor issues. We also work to create and support on-farm worker training.

AUDITS & ASSESSMENTS

R.J. Reynolds, on behalf of each RAI tobacco operating company, has a comprehensive program of audits and assessments in place throughout our tobacco procurement supply chain. Whether domestic growers with whom we contract directly or our third-party leaf suppliers, all of our suppliers are regularly audited and assessed against industry-wide responsible agricultural practices.

RESPONSIBLE AGRICULTURE

PROMOTING GOOD AGRICULTURAL PRACTICES (GAP)

Tobacco leaf production is the most environmentally impactful aspect of RAI's operating companies' supply chains. To reduce negative impacts associated with both environmental and social risks, RAI's tobacco operating companies require growers to comply with Good Agricultural Practices, or GAP, through provisions in their contracts. The GAP program requires growers to comply with trainings and audits that cover environmental and social risks associated with agriculture.

R.J. Reynolds was the first U.S. company to provide a comprehensive and documented Good Agricultural Practices program to its contracted tobacco growers. All contracted growers must register and participate in **GAP Connection (GAPC)**. GAPC is focused on establishing industry best practices in the areas of Crop Management, Environmental Management and Labor Management.

GAP ENVIRONMENTAL MANAGEMENT STANDARDS

GAP Environmental Management best practices reduce environmental impacts of tobacco cultivation. By following GAP with respect to soil management, water management, energy management, agrobiodiversity and agrochemical management, contracted growers can ensure that their operations are environmentally sustainable.

GAP LABOR MANAGEMENT STANDARDS

GAP Labor Management best practices address compliance with the laws that protect workers' health, safety and rights. By following GAP Labor Management practices, growers mitigate the risks inherent in tobacco cultivation and promote the social sustainability of their operations by ensuring that the rights of their workers are respected. Farm workers are critically important to tobacco production. These jobs are seasonal and often filled by migrant workers, many of whom are working to support families in Mexico and other Central American countries. For those migrant workers, these jobs offer significant opportunities and significant challenges.

- **Child Labor:** Grower contracts for all RAI operating companies include a minimum age of 16 for farm workers working in tobacco. The Fair Labor Standards Act (FLSA) allows workers as young

as 12 to be employed in agricultural production. The grower contracts entered into by RAI and its operating companies go further than the FLSA requirements: employment of non-family minors under the age of 16 is prohibited, and employment of minors 16 and 17 years of age is prohibited unless the grower provides safety training and appropriate personal protective equipment, and obtains a written consent from the minor's parent or guardian.

- **Forced Labor:** A hallmark of forced labor is the withholding of workers' identity documents to restrict their travel and ability to return home. Third-party audits include questions directed to this indicator. To date, no instance of withholding of identity documents has been identified on farms with which RAI operating companies contract.
- **Freedom of Association:** Workers who wish to join a union have the right to do so. The law guarantees that right, and RAI's operating companies that purchase tobacco promote respect for that right by requiring compliance in their grower contracts. Growers violate their contract if they retaliate against workers for joining a union or for making complaints about the terms and conditions of their employment.
- **Health & Safety/Green Tobacco Sickness (GTS):** Health and safety risks, including GTS, are included in the GAP training program, at annual grower meetings and in the audit program. Worker training is a key tool for promoting health and safety. RAI tobacco operating companies promote GTS awareness and safety best practices by paying for the production of English- and Spanish-language training DVDs, which are provided to growers to train their workers. In addition, we support live, on-farm training programs, including training on heat stress, heat stroke, personal protective equipment, farm equipment safety and CPR.
- **Housing:** Growers who provide housing to workers are required to have housing inspected and certified by a government-authorized agency prior to occupancy. Housing certification requirements are covered in GAP training and are a focus of third-party audits. Contracted growers are required to comply with the inspection and certification requirements.
- **Wage & Hour:** A key focus of GAP training and audits is compliance with wage and hour laws. R.J. Reynolds' third-party audits of their growers indicate that audited growers do a good job complying with these laws, and uniformly pay at or above minimum wage.

RESPONSIBLE AGRICULTURE

FARMER TRAINING

Growers are required to receive annual training in Good Agricultural Practices (GAP), which sets best practices for environmental, agronomic and labor issues. We also work to create and support on-farm worker training to provide access to information and equipment for necessary safety training.

GOOD AGRICULTURAL PRACTICES

R.J. Reynolds has long supported training and provided materials to farmers and their employees on key issues related to workplace safety, agrochemicals and the use of personal protective equipment. In recent years, RAI's tobacco operating companies have supported meetings and training events that have provided contract growers a more structured and intensive training program. RAI tobacco operating companies have a contractual requirement that growers be trained in GAP prior to the farm season. These training sessions were performed by a third party at R.J. Reynolds' expense.

In 2013, we founded **GAP Connections (GAPC)**, in partnership with Cooperative Extension Services and other tobacco companies, to standardize and simplify the Good Agricultural Practices program. GAPC provides an online portal for growers and their employees to access training manuals and the GAP Record Book — which enables growers to gather, maintain and share with purchasers' documentation related to their compliance with Good Agricultural Practices. The company has provided forums where labor and agriculture specialists offer much more structured and intensive training. Over the past three years, GAPC has trained over 10,000 growers annually on the topics of agronomy, environment and labor. They also have standardized testing of flue-cured barn heat exchangers, which were adopted by the industry to reduce tobacco-specific nitrosamines. This protocol requires testing of curing barns every three years. Prior to GAPC, R.J. Reynolds was already testing curing barns on farms with which RAI operating companies contract to make sure the heat exchangers are functioning properly.

DEPARTMENTS OF LABOR

R.J. Reynolds engages with government agencies and nonprofits to promote good working conditions at its suppliers' farms. Since 2008, the company has supported work by the North Carolina Department of Labor (NCDOL) and U.S. Department of Labor (USDOL) to present educational programs for growers

and migrant workers in English and Spanish. Since the pilot in North Carolina, R.J. Reynolds has collaborated with NCDOL, USDOL and other state departments of labor to expand the program to Kentucky, South Carolina and Tennessee. To date, more than 2,900 growers and their employees have been trained through this program. The company is proud to be the only company to partner with USDOL and these state departments of labor to ensure training is available in Spanish. For more than a decade, R.J. Reynolds has funded safety training DVDs and other materials in both English and Spanish, making them available to farmers and their employees free of charge.

RESPONSIBLE AGRICULTURE

AUDITS & ASSESSMENTS

R.J. Reynolds, on behalf of each RAI tobacco operating company, has a comprehensive program of audits and assessments throughout our tobacco procurement supply chain. Through these processes, we review environmental and social risks inherent in agricultural work for both domestic growers with which we contract directly, and domestic and international suppliers from which we purchase leaf.

GROWER AUDITS

R.J. Reynolds, on behalf of each RAI tobacco operating company, was the first U.S. tobacco company to engage a third-party auditor to audit contracted farm practices against Good Agricultural Practices (GAP) standards, including environmental, agronomic and labor practices, and release that report to the public.

Farm audits include personal interviews with a minimum of 20 percent of the workforce on each farm. Interviews occur outside the presence of the grower and are an important source of information about labor practices. R.J. Reynolds was the first company to include such interviews in its audits, and the first to make them public.

In addition to third-party audits, the company also conducts assessments in which an employee of R.J. Reynolds visits a farm and assesses compliance with GAP standards.

Our goal is to audit or assess, at least every five years, 100 percent of contracted growers in the U.S. against GAP standards and our [grower code of conduct](#). Through audits and regular farm visits, RAI's tobacco operating companies hold suppliers responsible, and non-compliance with applicable laws is grounds for termination of the contract.

Since 2011, we have audited a significant number of our U.S. grower base.

Year	Third-Party Audits	Assessments	Contracted Growers	% Audited or Assessed
2011	94	1,076	2,098	51
2012	314	0	2,228	14
2013*		572	2,171	26
2014	99	294	2,089	18

2015	373	93	1,967	24
2016 (Goal)	350	43	1,967	20

*No audits due to transition to GAP Connections

SUPPLIER AUDITS

In addition to directly contracted growers, R.J. Reynolds and its affiliates who purchase tobacco also audit contracted leaf suppliers. R.J. Reynolds employs A.B. Sustain, an international auditing organization, to conduct third-party audits of all tobacco leaf suppliers that sell tobacco to R.J. Reynolds, American Snuff and Santa Fe. AB Sustain's Sustainable Tobacco Production (STP) program has become the industry standard in tobacco production, providing guidance and support, validation and a step-based approach to facilitate continuous improvement. The STP program is used globally by tobacco companies to encourage clear and consistent standards across the industry. This program provides a platform for periodic review of our leaf supply chain and covers key sustainability areas, such as:

- Factory work environment;
- Safety;
- Carbon footprint;
- Farmer training;
- Soil and water conservation;
- Biodiversity;
- Child labor; and
- Equal opportunity employment.

Through the STP program, we monitor leaf suppliers' performance against these criteria and create an environment of knowledge transfer, capacity building and continuous improvement within our leaf supplier base. Tobacco suppliers complete an online self-assessment annually which allows them to assess their performance and identify improvement opportunities.

AB Sustain performs on-site verification reviews of all suppliers in the program at least every three years. These audits ensure suppliers are accurately responding to the STP questionnaire, verifying a supplier's responses against documented evidence. AB Sustain further reviews documentation against on-site observations. Suppliers are provided with feedback to help them advance their environmental and social footprints and perform any necessary corrective actions.

R.J. Reynolds, as a supplier of leaf to British American Tobacco, is held to the same international standards to which we hold our suppliers, and is audited by AB Sustain in the same manner.

SUPPLIER RESPONSIBILITY

Transforming Tobacco involves not just the internal operations of RAI and its operating companies, but also supplier relationships. We work closely with suppliers to ensure the delivery of high-quality products to adult consumers. RAI's operating companies partner with suppliers who share the commitment to doing what's right for their employees, the environment and society.

RAI and its operating companies hold their suppliers to the same high standards to which they hold themselves. Suppliers are required to comply with applicable laws and regulations, and are expected to go above and beyond what is required in their environmental and social practices. We are committed to working with suppliers to encourage responsible and sustainable practices through a variety of mechanisms.

In 2015, we completed a third-party environmental materiality assessment to determine where our largest environmental impacts lie. Not surprisingly, we found the significant majority of our environmental impacts occur in the supply chain and with our **tobacco growers and suppliers**.

GOALS AND LEADERSHIP

RAI and its subsidiaries strive to minimize the negative environmental and social impacts in our supply chain. We work with our suppliers to ensure they comply with applicable laws and adhere to responsible practices. This collaborative effort helps us achieve our mutual sustainability objectives.

The executive vice president of operations for R.J. Reynolds Tobacco Company and executive vice president of public affairs for Reynolds American Inc. (RAI) are ultimately responsible for RAI's supply chain management and goals. The R.J. Reynolds procurement department has service agreements with each RAI operating company, enabling an integrated, comprehensive supply chain management system. Executives from procurement, along with corporate sustainability and commercial equity, collaborate to develop, coordinate and execute programs to achieve company-wide goals and targets, including:

- Actively engaging with our supply chain partners and sharing best practices to identify and reduce

- environmental impacts; and
- Broadening our companies' engagement with diverse suppliers.

Each of our operating companies offers a Supplier Procurement Guide, with which suppliers must comply. Our guidelines, for which suppliers are screened during the onboarding process, and against which we conduct periodic audits, cover a range of environmental, social and governance factors (ESG), including:

- Compliance with laws;
- Forced labor;
- Child labor;
- Wages & benefits/Working hours;
- Health & safety/Working conditions;
- Non-discrimination;
- Respect and dignity;
- Freedom of Association;
- Environment; and
- Corporate Social Responsibility.

PROGRAMS AND PRIORITIES

RAI is proud of the efforts to promote responsibility in its operating companies' supply chains. Suppliers are truly our partners — working with us to identify improvement opportunities within our companies and sharing best practices and policies.

SUPPLIER RISK MANAGEMENT

Suppliers are continually evaluated for compliance with our operating companies' guidelines, as well as laws and regulations. Reynolds American and its operating companies utilize an annual supplier management activity matrix, which includes supplier self-assessments, FDA-relevant risk assessment and supplier audits.

SUPPLY CHAIN INNOVATION

RAI and its subsidiaries work with their suppliers to reduce the environmental and social impacts associated with the tobacco industry. Through supplier collaboration and material reduction initiatives, RAI and its operating companies work with suppliers to continue transforming the tobacco industry.

SUPPLIER DIVERSITY

Having a diverse supply chain is critical for continued success. Rapidly changing demographics and societal expectations contribute to an ever-evolving landscape. RAI's subsidiaries actively recruit and retain diverse suppliers to drive innovation, reduce our supply chain impacts and enhance the communities in which they operate.

SUPPLIER RESPONSIBILITY

SUPPLIER RISK MANAGEMENT

Suppliers are continually evaluated for compliance with our operating companies' guidelines, as well as laws and regulations. Reynolds American and its operating companies utilize an annual supplier management activity matrix, which includes supplier self-assessments, FDA-relevant risk assessment and supplier audits.

Risks identified from the analyses, including sustainability risks, feed into a supplier segmentation process. Suppliers are assessed on level of risk, as well as their impact to our operating companies. Suppliers who score highly in both areas are further assessed through the RAI Enterprise Risk Management (ERM) process. The ERM process categorizes four main risks:

- Strategic;
- Performance;
- Operational (including environmental and social risk); and
- Compliance, financial reporting and fraud.

Through the ERM process, suppliers' risks are assessed each quarter and identified risks are reported to the Audit and Finance Committee twice a year.

The core principles, values and beliefs that drive RAI and its subsidiaries also guide the standards to which we hold our suppliers. To ensure supplier compliance with applicable laws, regulations and supplier guidelines, suppliers are continually evaluated.

Our operating companies use the Business Enabler Survey Tool (BEST) audit for companies that pose the greatest risk. The BEST audit is composed of 29 excellence criteria covering process & quality control, manufacturing resources, management policy and finance.

BEST surveys give RAI's operating companies the information they need to determine whether suppliers follow first-class business practices concerning key issues such as quality, risk of contamination, security of supply, and safety and environmental standards. The program also identifies areas in which suppliers could improve, and RAI's operating companies work with suppliers to identify corrective actions and ensure timely implementation.

Supplier due diligence is not limited to upstream suppliers. RAI and its operating companies contract with third-party regional distribution centers (RDCs) for finished goods inventory receiving, shipments to customers and inventory reporting. We conduct procedural and physical audits of these downstream facilities at least once every 18 months. Audits include a review of:

- Internal controls to prevent the use and/or shipment of non-conforming, damaged or contaminated product;
- Formal preventive maintenance programs for buildings and equipment;
- Sanitation and pest control;
- Chemical usage;
- Personal hygiene;
- Product handling, identification, traceability and recall; and
- Security and environmental hazards.

SUPPLIER RESPONSIBILITY

SUPPLY CHAIN INNOVATION

Procurement, working in collaboration with suppliers, has various initiatives to drive sustainability, innovation, efficiencies and other supply chain improvements.

RAI and its operating companies have implemented a Value Improvement Process (VIP) team program in which various internal and external stakeholders regularly meet to discuss supply chain issues and opportunities. These teams elevate decisions to the Supplier Management Team, which is empowered to make recommendations for the companies. In 2014, RAI also created an Indirect Supplier Management Team to review and monitor indirect supplier activities and establish appropriate KPIs to ensure consistency across the indirect supply base.

In addition to VIP, key suppliers have been involved in a Value Co-Creation (VCC) program by which suppliers and the operating companies drive value into the supply chain by implementing programs to reduce total product cost.

RAI has leveraged the VCC program with key direct material suppliers to generate numerous new initiatives. Through the VCC process, we worked with our printed packaging supplier to develop alternatives to hot foil-stamping and metalized board. Printed packaging with hot foil-stamping cannot be recycled and any in-process waste has to be disposed of in landfill. Working together, we were able to replace hot foil-stamping with mirror tech metallic inks. This innovation enables the recycling of in-process materials, minimizing our in-process packaging waste.

Our companies work with a wide array of suppliers to reduce our environmental impact through materials reduction, recycling and other initiatives. Environmental supply chain initiatives include:

- Moving to sustainable packaging;
- Demand-based purchasing; and
- Network optimization.

To show our appreciation, each year we award selected suppliers the Most Valuable Partner (MVP) award based on performance metrics. We also acknowledge suppliers through three additional Leadership awards: supplier diversity, sustainability and innovation. Suppliers are encouraged to self-

nominate for the Leadership awards. By recognizing the efforts of suppliers, we collectively learn from and share their successes and best practices.

SUPPLIER RESPONSIBILITY

SUPPLIER DIVERSITY

Having a diverse supply chain is critical for continued success. Rapidly changing demographics and societal expectations contribute to an ever-evolving landscape. RAI's subsidiaries actively recruit and retain diverse suppliers to drive innovation, reduce our supply chain impacts and enhance the communities in which they operate.

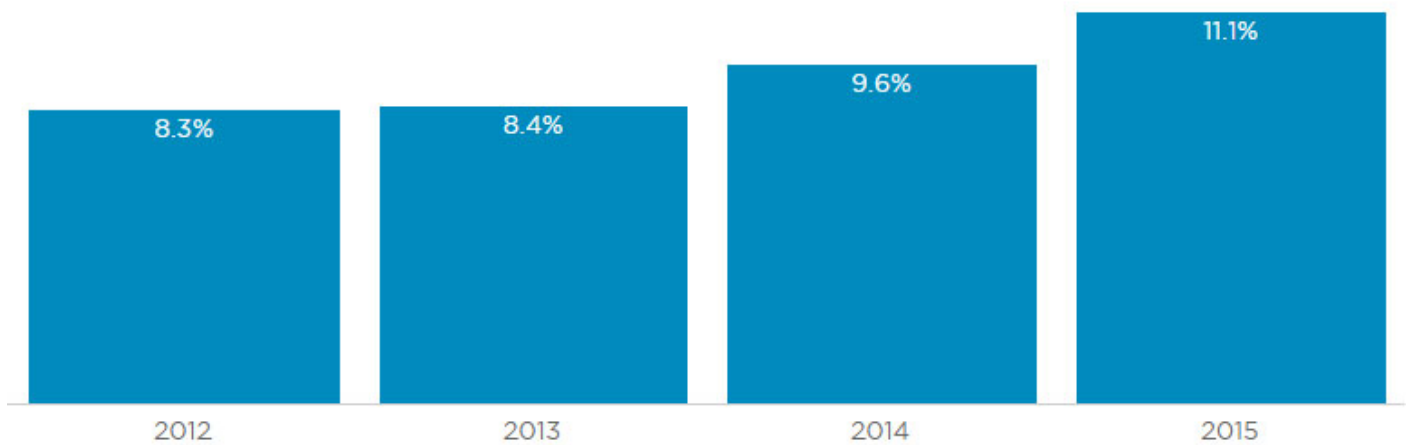
Supplier diversity promotes an innovative business environment not only throughout the RAI companies, but also for their diverse business partners. A diverse supplier base has the following benefits:

- Driving innovation;
- Competitive edge in a changing business culture;
- Competition and inclusion in sourcing decisions;
- Excellence in materials and services;
- Enhanced quality, service and cost competition; and
- Social and economic benefits in local communities.

Our operating companies commit to ensuring equal-access business opportunities to qualified, high-potential, diverse suppliers. Procurement works with each of the operating companies to execute supplier diversity goals. We track the following diverse supplier categories:

- Minority Owned Business;
- Woman Owned Business;
- Minority Woman Owned Business;
- Minority Owned Small Business;
- Women Owned Small Business;
- Minority Woman Owned Small Business;
- Veteran Owned Business;
- Service Disabled Veteran Owned Business;
- Disadvantaged or Disabled-Person Owned Business; and
- HUBZone Business.

DIVERSE SUPPLIER SPEND (PERCENT)



Performance toward supplier diversity goals is currently tracked using data from suppliers that self-report a diversity status or are third-party certified. Moving forward, we will separately track and report on suppliers with third-party certifications. Near-term, we expect these more stringent requirements to result in lower diversity spend than previous years, however, we aspire to reach an 8 to 10 percent diverse spend rate by 2020. As we make this transition, we will be systematically engaging our non-certified minority suppliers to encourage them to obtain their third-party certification and to ensure we have their latest certification on file. As we complete analysis of our supplier base under these new requirements we will refine our goal.

As our supplier diversity program matures, we will also collect:

- Small business spend by supplier and in total;
- Diversity inclusion in Strategic Sourcing Initiatives; and
- Percent of diverse suppliers in total supply base.

To advance our supplier diversity program, the procurement department maintains relationships with the Women's Business Enterprise National Council (WBENC), National Minority Supplier Development Council (NMSDC) and Carolinas-Virginia Minority Supplier Development Council (CVMSDC). In 2015, we participated in an offsite business opportunity fair with the NMSDC. We also held an onsite IT Innovation and Business Opportunity Fair, in partnership with the CVMSDC and Institute for Supply Management.

In 2016, the Supplier Diversity Team plans to advance supplier diversity programs through several initiatives, including:

- Developing a supplier diversity landing page on the RAI website;
- Promoting and improving third-party certification and validation efforts;
- Increasing internal engagement throughout RAI and its subsidiaries;
- Increasing external engagement with suppliers and supply chain groups; and
- Evaluating supplier tracking and reporting systems.

Read an example of how R.J. Reynolds is [engaging a diverse supplier](#).

COMMUNITY ENGAGEMENT

For more than a century, RAI and its subsidiaries have been guided by the principle that our companies' success is tied to the communities where we live, work and actively participate as involved neighbors.

Philanthropy and volunteerism have been core commitments of our business since Richard Joshua Reynolds founded R.J. Reynolds in 1875. Enriching our communities is not just the right thing to do, it also helps our companies create an attractive environment for recruiting and retaining a **high-performing talent base**.

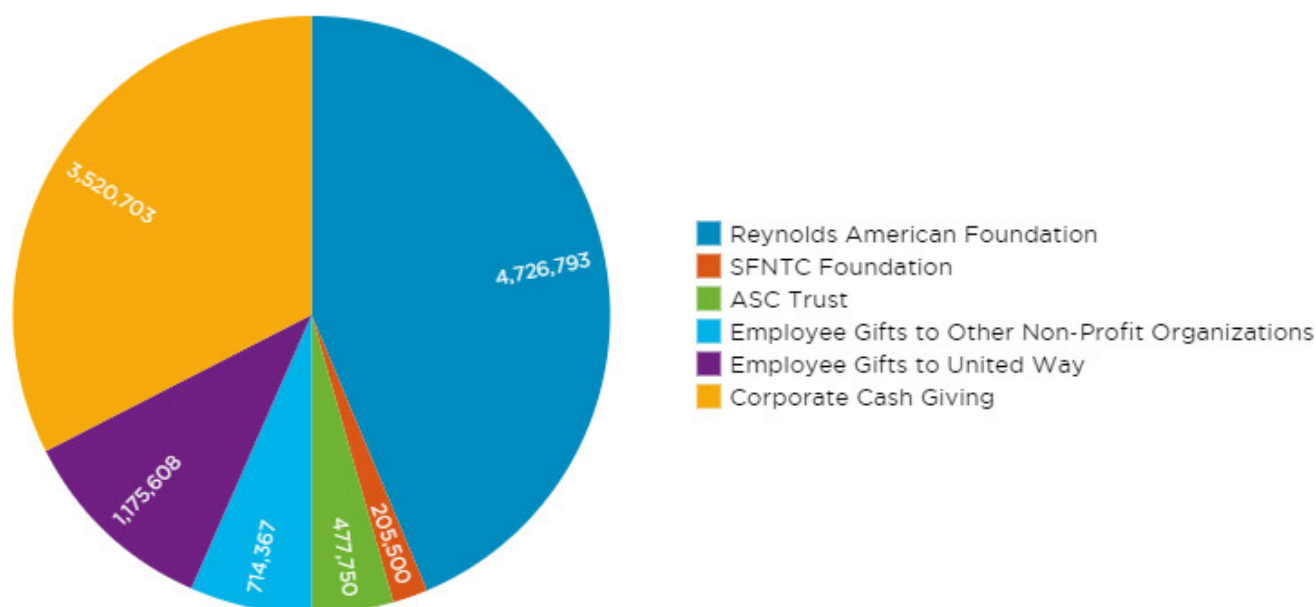
RAI and its subsidiaries make monetary contributions and make non-cash donations such as land and buildings to support nonprofits and economic development efforts in the communities in which we operate. **Three independent foundations**, created and funded by our operating companies, support education, arts and social programs that strengthen local communities.

In addition to corporate and foundation giving, RAI and its subsidiaries encourage employees to demonstrate their personal commitment to our communities through donation of their time, talent and resources. The Reynolds American Foundation matches employee gifts to nonprofit organizations and institutions of higher learning up to \$7,000 per employee per year. Employees are encouraged to give of their time by spending up to an hour weekly of paid time off to volunteer in schools, and to participate annually with colleagues in the **United Way Day of Caring**.

2015 GIVING AT A GLANCE

Our companies, along with their foundations and employees, donated approximately \$10.8 million in cash to a wide range of nonprofit organizations in 2015. Employees gave \$1.9 million to nonprofit and educational organizations, including nearly \$1.2 million to the United Way and employee gifts of \$714,000 which were matched one-for-one by the Reynolds American Foundation.

CASH DONATIONS BY FUNDING SOURCE



EMPLOYEE MATCHING – GRANT GIVING INFORMATION

	2013	2014	2015
Individual Grant Requests Paid	1,192	1,616	1,883
Employees Participating	532	592	689
Charitable Organizations	385	505	512
Dollars Matched	\$448,000	\$577,000	\$714,000

GOALS AND LEADERSHIP

RAI and its subsidiaries are committed to bettering the communities in which we operate. Through both philanthropy and volunteerism, our companies and employees continuously give back to our communities. We measure our success through progress toward our giving goals:

- Increase employee participation in Right Decisions Right Now: Be Tobacco Free;
- Encourage and match employee gifts; and
- Support Foundation and corporate giving that results in a significant community impact.

The director of community and civic engagement leads RAI corporate giving strategies and serves as the executive director of the Reynolds American Foundation. The American Snuff Company Charitable Trust and Santa Fe Natural Tobacco Company Foundation are independently managed by their individual boards of directors which include employees of RAI and its subsidiaries. The executive vice president of public affairs for RAI has executive oversight of the giving strategy and reports progress to the RAI leadership team and the Board.

“We want to make our community a great place to live and work. That means having strong public education, a vibrant arts environment and an inviting, safe community. It means providing second chances to those who are most in need in our community. We want to lead that.”

– Tripp Wilson, vice president for corporate sustainability and commercial equity

PROGRAMS AND PRIORITIES

Our giving strategy aligns with our business strategy and to the needs of the communities in which RAI and its subsidiaries operate. While each foundation has its own specific giving priorities and guidelines, the foundations and RAI’s corporate giving are aligned around education and youth development, including Youth Tobacco Prevention (YTP), economic and social community development, and arts and culture.

FOUNDATION GIVING

RAI and its operating companies contribute to the needs of the communities in which we operate through three independent foundations: The Reynolds American Foundation, The American Snuff Company Charitable Trust and The Santa Fe Natural Tobacco Company Foundation.

EDUCATION

Supporting education and youth development is a critical component of our youth tobacco prevention efforts and contributes to the health of our communities. An educated community helps our communities thrive and contributes to a high-quality future workforce for our companies.

ECONOMIC & SOCIAL DEVELOPMENT

Supporting economic and social development of the communities in which employees live and work is the right thing to do for our communities and for our business. Contributing to the overall welfare of our communities creates a thriving environment for attracting, recruiting and retaining a high-performing talent base.

ARTS & CULTURE

Consistent with the tradition of Richard Joshua and the Reynolds families, RAI, its subsidiaries and foundations support preserving and promoting the arts and culture of our communities. The arts are vital to the vibrancy of our communities, benefit current and future employees, and enhance quality of life.

COMMUNITY ENGAGEMENT

FOUNDATION GIVING

Our foundation giving strategy aligns with the needs of the communities in which RAI and its subsidiaries operate. In addition to corporate and employee giving, RAI and its operating companies contribute to the community through three independent foundations. The foundations support hundreds of national and local organizations that benefit our communities.

THE REYNOLDS AMERICAN FOUNDATION

The Reynolds American Foundation focuses its resources in communities where RAI companies' employees live and work. Grants are awarded annually in the following areas:

- Public-school and community programs that prepare children (birth through grade 12) to enter school ready to learn, and programs that focus on improving academic performance of low-performing and economically disadvantaged students;
- Local campaigns ,including the United Way, that support the basic needs of people;
- Arts and culture programs that enhance quality of life, following the legacy of Richard Joshua and Katharine Reynolds; and
- Programs to encourage employee volunteerism and philanthropy through the Foundation's Matching-Grants Program.

THE AMERICAN SNUFF COMPANY CHARITABLE TRUST

The American Snuff Company Charitable Trust spreads its financial support across a broad range of organizations that have a demonstrated ability to assist people in need in its operating regions, including the American Red Cross, St. Jude's Children's Hospital, United Way, Memphis Child Advocacy Center and Big Brothers, Big Sisters of Clarksville, Tenn.

THE SANTA FE NATURAL TOBACCO COMPANY FOUNDATION

The Santa Fe Natural Tobacco Company (SFNTC) Foundation is dedicated to helping preserve, promote and advance American Indian culture. Using dedicated funds from the sale of SFNTC tobacco products,

the Foundation's three primary objectives are:

- Development of Native American entrepreneurs;
- Facilitation of Native American education; and
- Preservation of Native American languages.

COMMUNITY ENGAGEMENT

EDUCATION

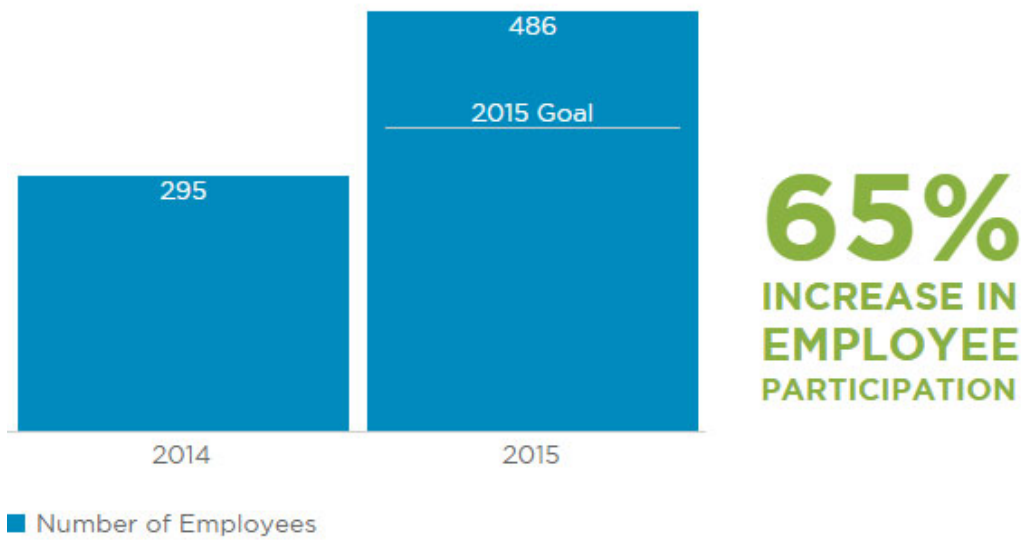
Supporting education and youth development is a critical component of our youth tobacco prevention efforts and contributes to the health of our communities. An educated community helps our communities thrive and contributes to a high-quality future workforce for our companies.

RAI, its subsidiaries and foundations support public-school and community programs that prepare children to enter school ready to learn, as well as programs that focus on improving academic performance of low-performing and economically disadvantaged students. Our [National Merit Scholarship Program](#) rewards the hard-working children of our employees and retirees by providing support for their collegiate education.

Corporate and foundation giving is coordinated with our YTP efforts, including the [We Card Program](#) and [Right Decisions Right Now: Be Tobacco Free \(RDRN\)](#), our free youth tobacco prevention program. In addition to providing funding for these programs, we encourage employee engagement in RDRN by making grants to youth groups that participate in the program. Employees also have training available and can get assistance in ways to effectively present RDRN to youth.

In 2015, 486 employees presented the RDRN program to approximately 250 youth groups, earning those groups about \$250,000 in grant money. In 2015, employee participation in the program increased more than 65 percent over the prior year. Giving time and talent to their community not only makes our employees proud to work for RAI companies, it also engages them in a way that strengthens their sense of purpose around Transforming Tobacco, deepens relationships with their communities and strengthens bonds with colleagues.

RDRN PARTICIPATION BY YEAR



In 2015, our educational giving also included support of:

- Winston-Salem/Forsyth County Schools;
- Winston-Salem State University;
- Wake Forest University; and
- American Indian College Fund.

COMMUNITY ENGAGEMENT

ECONOMIC & SOCIAL DEVELOPMENT

Supporting economic and social development of the communities in which employees live and work is the right thing to do for our communities and for our business. Contributing to the overall welfare of our communities creates an attractive environment for recruiting and retaining a high-performing talent base to our companies. We do this through the work of our foundations, through gifts of land, buildings and cash, and through our employees' time and talent.

SUPPORTING BASIC NEEDS

RAI and its subsidiaries believe it is important to meet the basic needs of the people in our communities. Each year, we partner with organizations in the communities in which we operate to advance the welfare of our neighbors. In 2015, we worked with several organizations to provide support and contribute to the economic and social welfare of the regions in which we work, including:

- United Way of Forsyth County;
- Samaritan Kitchen; and
- Prison and Jail Ministry.

STEWARDSHIP OF LAND AND BUILDINGS

In addition to monetary donations, Reynolds American Inc. and its subsidiaries remain committed to ensuring that company facilities no longer in use continue to play a vital role in economic development. RAI's giving heritage began with Richard Joshua Reynolds and his family's donations of land and buildings to organizations such as Wake Forest University. In 2015, our companies donated facilities, industrial land and buildings in Winston-Salem, N.C., and Robertson County, Tenn.

AGRICULTURAL COMMUNITIES AND RESEARCH

Our support extends to the economic development of our contracted growers' and their workers' communities, as well as the advancement of agricultural sciences through grants to institutions of higher learning, like N.C. State University. Such relationships help improve the lives and livelihood of tobacco farmers and contribute to our tobacco operating companies' ability to maintain access to quality leaf

supply.

Access to quality tobacco leaf is essential to the success of our tobacco operating companies. RAI and its tobacco operating companies offer a variety of support to tobacco growers and researchers to advance environmental and social issues associated with tobacco agriculture. **Responsible Agriculture** programs include:

- Telamon housing grants;
- GAP and the Cooperative Extension; and
- Carolina Farm Stewardship Association.

COMMUNITY ENGAGEMENT

ARTS & CULTURE

Reynolds American, its subsidiaries and foundations support preserving and promoting arts and culture, and preserving the history of our communities. The arts are vital to the vibrancy of our communities, benefit our current and future employees, and contribute to our local economies.

The Reynolds American Foundation lends its support to various cultural institutions, including:

- Arts Council of Winston-Salem & Forsyth County;
- National Black Theatre Festival;
- [Reynolda House Museum of American Art](#);
- The RiverRun International Film Festival; and
- Old Salem Museums and Gardens.

Supporting the preservation, promotion and advancement of American Indian culture in the United States is [Santa Fe Natural Tobacco Company Foundation's](#) core focus. The Foundation provides funding to organizations that preserve and enhance the American Indian culture and languages, including the:

- Institute for American Indian Arts;
- Indigenous Language Institute;
- TREATY Total Immersion School; and
- Southwestern Association for Indian Arts.

Arts and culture are essential components of a community's success, and RAI and its subsidiaries are proud to help enrich the quality of life in our communities.

TOBACCO EXCISE TAXES

RAI and its operating companies oppose additional increases in tobacco excise taxes because they burden adult tobacco consumers and are harmful to our business. These regressive taxes have negative, unintended consequences, such as escalating the amount of illicit tobacco trade and other illegal activity. In fiscal year 2015, more than \$32.9 billion in tobacco excise taxes were paid to federal, state and local governments. In 2015 alone, RAI companies paid about \$3.9 billion in federal cigarette excise taxes.

Cigarettes are already one of the most heavily taxed consumer products in the U.S. The federal excise tax is more than \$1.00 per pack, and every state and the District of Columbia levy their own taxes on cigarettes, ranging from \$0.17 to \$4.35 per pack. Also, more than 500 cities, towns and counties tax cigarettes. As a result, on average, tobacco excise taxes account for more than 50 percent of the total cost of a pack of cigarettes.

Additionally, \$11.1 billion is paid in sales tax and MSA payments to the states each year.

Even so, policymakers support cigarette excise taxes as a way to raise revenue while providing an incentive for people to quit smoking. State and local governments increasingly rely on such taxes to fund vital government services, often earmarking taxes to fund education, health services, or other programs that grow in cost over time due to inflation, population growth and other factors. Over the past decade, the number of cigarettes sold has continued to fall. In the last three years, shipments have decreased by 0.1 percent, 3.2 percent and 4.6 percent in 2015, 2014 and 2013 respectively.

Increasing tobacco taxes to fund government programs is bad public policy. Funding public programs with a declining revenue source, such as tobacco products, invariably falls short of budgetary needs, causing legislators to look for more taxes or sources of revenue to fill the gap. Only about one-third of states that pass tobacco tax increases meet their revenue projections, according to The R Street Institute, a non-profit, non-partisan, public-policy research organization.

“Cigarette taxes are about ten times more burdensome for

low-income taxpayers than for the wealthy.”

Institute on Taxation and Economic Policy, 2009 brief

Excise taxes are considered regressive because they disproportionately impact people with low to moderate incomes. A 2007 study by the [Heritage Foundation](#) found that more than one-fourth of adult smokers live below the federal poverty line. In 2009, a [Gallup poll](#) of more than 350,000 people found that 62 percent of smokers earn less than \$36,000 a year, while 13 percent made more than \$90,000 annually. According to an [Institute on Taxation and Economic Policy](#) 2011 brief, in 2009, “... [t]he poorest twenty percent of non-elderly Americans spent 0.9 percent of their income, on average, on these taxes, while the wealthiest 1 percent spent less than 0.1 percent of their income on cigarette taxes. In other words, cigarette taxes are about ten times more burdensome for low-income taxpayers than for the wealthy.”

Tobacco excise tax increases often have unintended consequences.

- **Taxes can drive illicit trade.** As states continue to increase tobacco excise taxes, there continues to be an increase in the smuggling of cigarettes across state and county lines. According to the Tax Foundation, smuggled cigarettes account for more than 25 percent of consumption in 12 states, with smuggled cigarettes accounting for almost 60 percent of consumption in New York. [Illicit trade](#) also undermines youth tobacco prevention efforts.
- **Higher taxes are bad for retail businesses.** Cigarette tax increases also hurt legitimate retailers and jobs. According to the National Association of Convenience Stores (NACS) [State of the Industry Report](#), in 2014, tobacco products generated more than 32 percent of in-store sales. In pure sales dollars, cigarettes are the leading category for convenience stores. With tobacco excise taxes leading to increased illicit trade, honest businesses are losing out.

GOALS AND LEADERSHIP

RAI's tobacco excise tax strategy is led by the Commercial Integrity Pillar Team, which advocates for policies and activities that support a fair marketplace and a level competitive playing field. The Commercial Integrity Pillar Team, which meets monthly, is composed of individuals from public affairs, consumer and trade marketing, sustainability, strategy and planning, tax and operations. The team reports to the Transforming Tobacco Steering Committee and to the RAI Leadership Team on progress of its programs and priorities.

PROGRAMS AND PRIORITIES

RAI and its operating companies engage with diverse stakeholders, including retailers, consumers and government agencies, to address tobacco excise tax issues. Our dedicated website,

TransformTobacco.com, provides information on tobacco excise taxes and other tobacco-related issues, as well as providing information on how to contact elected officials. RAI Services Company’s public affairs department also works to educate federal, state and local legislators on the negative impact that excessive tobacco excise taxes have on consumers, businesses and society.

As vapor products are different from traditional cigarettes, and may present less risk than cigarettes, we believe they should be taxed differently. In 2015, we particularly focused our efforts on preventing onerous taxes and regulation of vapor.

Traditional Cigarette	Vapor Product
Tobacco	No tobacco leaf
Burns tobacco	Heats a liquid solution producing a vapor
Burning tip	No lighting, no fire
Cigarette smoke, secondhand smoke	No smoke or secondhand smoke
Cigarette ashes, odors and butts	No ashes, no cigarette odor, no cigarette butts

We share the belief of many researchers that smoke-free tobacco products, including vapor products, may pose less risk than conventional cigarettes and high taxes can be a barrier that prevents smokers from considering switching to vapor products.

ILLICIT TRADE

RAI and its subsidiaries believe that the illicit trade of tobacco products is a serious issue. We support efforts to educate elected officials and the public about the illicit trade of tobacco products as well as efforts to deter the illicit trade.

The World Health Organization **estimates** that smuggled cigarettes account for more than 10 percent of the 600 billion cigarettes consumed worldwide each year. The U.S. Bureau of Alcohol, Tobacco, Firearms and Explosives **reports** that illicit trade results in the loss of billions of dollars in tax revenue annually for federal and state governments.

"Tobacco products face varying levels of taxation in different locations, creating opportunities and incentives for illicit trade."

U.S. Government Accountability Office, [2011 report](#)

According to the latest **survey by the Mackinac Center for Public Policy**, excessive excise taxes on tobacco drive illicit trade.

As state and local governments pass additional tobacco product excise taxes to increase revenue, illicit trade is growing:

- Smuggling—such as transporting cigarettes from a low-tax jurisdiction to one where taxes are higher—is increasing;
- Counterfeit cigarettes are imported illegally and sold in the United States; and
- The illegal resale of cheaper cigarettes compromises Youth Tobacco Prevention efforts. Individuals illegally selling cigarettes on street corners out of backpacks likely don't care to whom they sell.

GOALS AND LEADERSHIP

The RAI illicit trade strategy is led by the Commercial Integrity (CI) Pillar Team, which promotes policies and activities that support a fair marketplace and a level competitive playing field. The CI Pillar Team, which meets monthly, is composed of individuals from public affairs, consumer and trade marketing, sustainability, strategy and planning, tax and operations. The team reports to the Transforming Tobacco Steering Committee and to the RAI Leadership Team on progress around our programs and priorities.

PROGRAMS AND PRIORITIES

RAI and its operating companies work with law enforcement officials to combat illicit trade, assisting in investigations into alleged illegal operations. We support dedicating increased law enforcement resources and funding to combat this issue.

Our companies engage with diverse stakeholder groups including law enforcement, tax administrators, community groups, neighborhoods, legislators and others to raise awareness of this issue. By convening such groups, the issue of illicit trade is addressed from multiple angles and feedback is solicited. We support legislative efforts that are effective in reducing smuggling.

HIGHLIGHT STORIES

RDRN AND BOY SCOUTS OF AMERICA

R.J. Reynolds Tobacco Company's Right Decisions Right Now: Be Tobacco Free (RDRN) program has long teamed with the Boy Scouts of America to increase awareness among teens of the dangers of tobacco use.

In 2012, the Boy Scouts created a new patch, earned by scouts who complete the organization's Trail of Courage program and take the Right Decisions Right Now: Be Tobacco Free pledge. Scouts pledge to not use tobacco products, illegal drugs or alcohol. In addition, they commit to "do my best to educate my friends and my family to the dangers of using these products. I commit to living every day by the Scout oath and Scout law. I will make the right decision, right now and choose to refuse when offered dangerous substances."



Boy Scouts of America continues to raise awareness of the dangers of tobacco use. In 2015, the Boy Scouts tobacco-free radio campaign garnered more than 6.1 million impressions, up from about 5.1 million in 2014. Scout camps across the country continue to use the RDRN program. Approximately 22,000 Boy Scouts participated in RDRN at the Boy Scouts of America's Philmont Scout Ranch in New Mexico, with about 50 percent taking the Be Tobacco Free pledge, and an additional 300 participated at the Raven Knob camp in North Carolina.

HIGHLIGHT STORIES

ENERGY REDUCTION PROJECTS AT ASC

In 2015, American Snuff Company's (ASC) Memphis facility partnered with ENERGY STAR, a program of the U.S. Department of Energy and U.S. Environmental Protection Agency. The program provides ASC's facilities with tools to measure and track energy performance, develop and implement energy efficiency programs, and educate employees on energy conservation.



As part of the program, the facility developed an energy team and energy policy. The energy team meets monthly to discuss and present new projects for consideration to reduce energy usage. Through its actions in 2015, ASC's Memphis facility reduced energy intensity, measured in kilowatt hours per case of product, by 10.8 percent over 2014. Additionally, this is the first year the ASC Memphis facility has operated with a new white roof, which reduces energy costs associated with temperature control by reflecting sunlight. In its first year, the project increased energy savings by 10 percent. For their work in energy conservation, ASC Memphis was awarded an Energy Excellence Award from the state of Tennessee, and is a contender for ENERGY STAR Partner of the Year.

Overall, ASC Memphis has realized a 20 percent reduction in energy use in the last 18 months.

ASC partnered with the University of Memphis to perform energy audits at its Clarksville and Memphis, Tennessee, facilities. Taylor Brothers, ASC's manufacturing facility in Winston-Salem, North Carolina, partnered with its local utility provider to perform an energy audit, as well. These audits led to several projects that will return medium- to long-term energy reductions, including:

- Modifying the compressed air system at ASC's Clarksville facility to improve efficiency;
- Equipping office, breakroom and bathroom lighting with sensors in Clarksville;
- Upgrading 20 inefficient dock doors, door sweeps, shelters, and levelers to make them more

efficient at ASC's Memphis facility; and

- Replacing metal halide lighting with LED bulbs in production and warehouse areas in Memphis.

HIGHLIGHT STORIES

WATER REDUCTIONS AT R.J. REYNOLDS COMPANY

In 2015, R.J. Reynolds focused on conserving water throughout its manufacturing operations by analyzing water consumption patterns to identify and implement projects to reduce and reuse water at its facilities.

One project started this year was the redevelopment of its steam trap program.

Steam traps, which assist in discharging condensate without losing steam, require regular maintenance. Through the implementation of a more efficient maintenance program, R.J. Reynolds estimates an annual savings of:

- 48 million pounds of steam;
- More than 50,000 GJ natural gas; and
- More than \$250,000.

Due to the nature of the cigarette manufacturing process, facilities are kept at relatively high humidity. The heating, ventilating and air conditioning (HVAC) systems use large amounts of water to maintain high humidity levels. This year, the R.J. Reynolds team identified an innovative approach to reuse water from the HVAC systems for other mechanical equipment before the water is ultimately discharged. Additionally, improved equipment cleaning techniques were identified. These two process improvements are estimated to result in savings of \$311,000 and conserving 32 million gallons of water per year.

R.J. Reynolds proposed other water conservation projects in 2015, including the reduction of water usage in steam plant operations. Once fully implemented, the total water savings generated by these projects is estimated to be 48 million gallons, approximately 10 percent of RAI's operating companies' annual water consumption, as well as savings of more than \$400,000 in water and wastewater costs per year.



“We are very pleased with the accomplishments that have been achieved and will continue to seek improvements moving forward. Sustainability is not only the right thing to do for our communities, but also it is essential to conducting our business responsibly and successfully. We are committed to continuing our focus on the safety of our employees, on our environmental footprint and on the economic value delivered to the company.”

Johnny Cagigas, vice president of manufacturing for R.J. Reynolds

HIGHLIGHT STORIES

REDUCING WASTE THROUGH SPOT YOU MORE

Each year, Reynolds American's operating companies send out millions of coupons to their adult tobacco consumers. These coupons require paper, ink, postage and transportation, producing a significant environmental footprint. Brice O'Brien, executive vice president of public affairs and chief communications officer for Reynolds American Inc. calls for the company to one day "be completely out of the paper and postage business."



To achieve this goal and improve the adult tobacco consumer experience, R.J. Reynolds created a new mobile marketing technology: Spot You More. Currently being piloted in 64 convenience stores in Columbus, Ohio and Des Moines, Iowa, the system also eliminates pass-along fraud by sending coupons directly to an adult tobacco consumer's mobile device via text, email, app or social media. Coupons can be redeemed using a Spot You More device set up next to the register, which is wirelessly connected to the company's servers. Initial results show the system performs well, with:

- 99 percent of adult tobacco consumers satisfied with the experience;
- 94 percent claim it is easier or the same as a traditional paper coupon; and
- 90 percent say they will definitely redeem future digital promotions.

The system has also led to an increase in sales for retailers, with 64 percent of adult tobacco consumers purchasing additional items. R.J. Reynolds envisions Spot You More providing other business solutions for its brands beyond mobile couponing, including tailoring coupons to adult tobacco consumers' purchasing preferences and providing real-time in-store promotions. R.J. Reynolds is working with a number of technology companies to broaden the business applications of the system and development of commercial plans for Spot You More.

HIGHLIGHT STORIES

SANTA FE NATURAL TOBACCO COMPANY CONTINUES ITS ENVIRONMENTAL LEADERSHIP

SFNTC operates in a manner that protects the interests of its communities and the environment. The company's long-standing commitment to the environment is demonstrated by its manufacturing operation becoming a zero-waste-to-landfill facility in

2014. The last step in this achievement resulted when SFNTC began sending office waste it could not recycle to the U.S. Navy's Norfolk Naval Shipyard in Portsmouth, Virginia, for waste-to-energy conversion. The waste is converted into steam and electricity to supply power to the shipyard and surrounding community, and the ash from the process is used for compost and as a concrete filler material.

The company also replaced all U.S. cigarette-pack foil inner-liners with paper liners made from trees grown in North America under certified sustainable forestry programs. Paper liners do not compromise product integrity and are easily recycled.

Since 2009, SFNTC has purchased wind power for 100 percent of its facilities, making it the only tobacco company to be awarded membership in the U.S. EPA's Green Power Leadership Club. As a demonstration of SFNTC's commitment to energy reduction, its operations have been certified ISO 14064-1 as Carbon Neutral since 2011. In addition, since 2014, Santa Fe's manufacturing facility's Energy Management System was certified under the ISO 50001 standard. Much of the company's machinery is metered, allowing workers to identify and fix spikes in energy in real time. This continuous diligence around energy management has helped Santa Fe achieve a 40 percent decrease in energy used per 1,000 pounds of tobacco since 2009.

Santa Fe is in the planning stages for a new building to be built in 2016. The building will incorporate



water-capture technology, which the company will use for irrigation purposes. This project will enable the company to discontinue its use of reservoir water for landscaping and irrigation.

HIGHLIGHT STORIES

FROM LASER TO WASTE REDUCTION

Historically, printing date codes on the packaging for our companies' products has required the use of volatile organic compound (VOC)-based inks. Ink purchases are not only expensive; ink usage also emits VOCs into the atmosphere and generates hazardous waste, such as empty ink and make-up fluid containers, and leftover ink and make-up fluids.

In 2013, R.J. Reynolds began testing low-wattage laser systems to replace these ink printers. After successful test results, in May 2014, the company began installing new laser systems, which will continue to be implemented through late 2016. The new systems utilize air filters that can be disposed of in an environmentally friendly manner as non-hazardous waste, unlike the ink they replace. The systems also require less maintenance and produce fewer errors than the old printers, improving the efficiency of packaging operations and reducing manufacturing waste. The new lasers reduced R.J. Reynolds' hazardous waste generated by 22 percent and 31 percent in 2014 and 2015, respectively, and resulted in total cost savings of \$1.4 million. We expect hazardous waste from printing packaging codes to further decrease as the installation process continues in 2016.



HIGHLIGHT STORIES

CENTRALIZING THE CHILLERS AT R.J. REYNOLDS

In late 2015, R.J. Reynolds replaced two old chillers at its research and development (R&D) facility in Winston-Salem, North Carolina. The new, 950-ton chillers improve cooling efficiency, on average, by 0.22 kilowatts per ton. In addition, RJRT also removed R-11, a refrigerant linked to ozone depletion, and replaced it with a more environmentally friendly, non-CFC containing refrigerant.



HIGHLIGHT STORIES

CIGARETTE WASTE BRIGADE PROGRAM®

SFNTC's commitment to the environment also extends to the proper disposal of post-consumer cigarette waste. According to Keep America Beautiful, 65 percent of cigarette butts are improperly disposed of, accounting for 38 percent of all U.S. roadside litter. The Ocean Conservancy's 2012 International Coastal Cleanup found cigarette butts to be the most frequently littered item, constituting 32 percent of all litter collected on beaches and waterways.



SFNTC teamed up with TerraCycle, a company that specializes in developing solutions for hard-to-recycle materials, to launch the Cigarette Waste Brigade Program®. This national program is designed to collect and recycle cigarette butts. In 2014, more than 6,000 waste brigades across the nation collected and recycled more than 12 million cigarette butts. Interested individuals can visit terracycle.com to sign up.

HIGHLIGHT STORIES

TOBACCO FREE SPORTS

In 2015, RAI and its operating companies teamed up with Benjamin Boulware, CEO of Baseballcamps.com and former professional player for the Chicago White Sox Organization, for a RDRN baseball and softball camp. Held at the home stadium of Minor League Baseball's Winston-Salem Dash, the camp offered baseball and softball clinics, led by players from the Winston-Salem Dash and softball coaches from a North Carolina university. Employees' children and friends were invited to participate, learning batting, pitching and other essential baseball and softball skills. After the clinics, players spoke to the children about positive and negative decisions they made on their journey to successful sports careers, including past use of tobacco products. Players autographed RDRN posters for each of participant and provided free tickets to a Winston-Salem Dash baseball game. More than 40 children attended the camp, and parents provided positive feedback of the event.



HIGHLIGHT STORIES

RDRN AND THE FIRST SPOUSES

Each year, RAI operating companies attend conferences around the country to educate policy makers, law enforcement officers, educators and other stakeholders on issues relevant to YTP. One such conference is the National Governor's Association Meeting, which brings together Governors from each U.S. state. At the 2015 meeting in West

Virginia, company representatives spoke with First Lady Joanne Tomblin of West Virginia about the Right Decisions Right Now program. After reviewing the program, First Lady Tomblin, an educator with more than 30 years' experience, distributed the RDRN materials to teachers in elementary and middle schools in West Virginia.



The First Lady personally encouraged First Spouses from 46 states to do the same, saying “educating our youth about the dangers of tobacco is a key part of preventing tobacco use in elementary and middle schools across our nation.”

HIGHLIGHT STORIES

LEGISLATIVE ENGAGEMENT IN THR AND YTP

RAI and its operating companies are committed to strengthening state and federal efforts to accelerate the decline in youth tobacco use. We educate federal, state and local legislators on our youth tobacco prevention efforts and it is our belief that all states should have laws covering a broad spectrum of youth tobacco prevention mechanisms.



We also continue to engage with legislators and regulators to support appropriate legislation and regulation covering the broad spectrum of tobacco product categories. We believe there needs to be greater awareness of the relative risks of different tobacco product categories. We believe that states considering taxing vapor products should set the tax rate commensurate with vapor's risk profile, so that taxation is not an impediment to adult smokers who might consider switching from combustible tobacco to vapor products.

We are proud of advancements made in youth tobacco prevention legislation in 2015, including the successful passage of youth tobacco prevention vapor laws in seven states. Two RAI-supported bills were adopted as suggested state legislation by a prestigious national policy group, The Council of State Governments. These bills, in Arkansas and North Dakota, both prohibit sale, purchase and possession of tobacco products by minors, and require child-resistant packaging for liquid nicotine containers used to fill/refill vapor products. The Arkansas bill also requires registration of vapor retailers and manufacturers.

In 2015, both Tennessee and Wyoming passed tobacco harm reduction laws. These laws serve as a model for the development and implementation of programs incorporating the use of peer-reviewed and science-based educational materials on tobacco harm reduction, and the comparative risks of different tobacco product categories. Both laws also expand youth tobacco prevention regulations to include vapor products, providing states with a model for the integration of youth tobacco prevention and tobacco harm

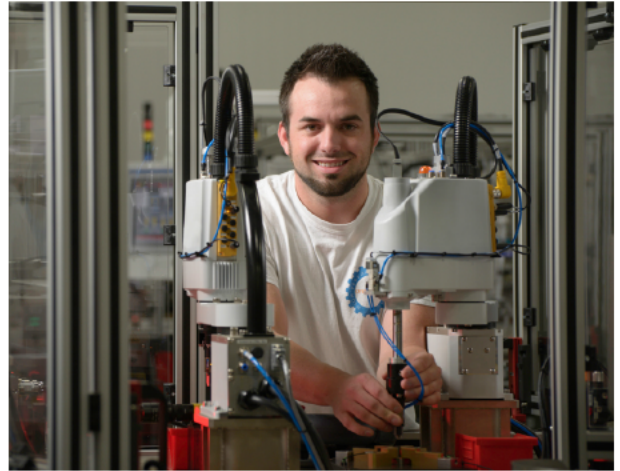
reduction strategies.

In 2015, we hosted two booths at the National Conference of State Legislators to inform legislators about issues we believe are critical to the industry: youth tobacco prevention vapor laws and **illicit trade** of tobacco. About 650 legislators visited our booths, learning how implementing appropriate restrictions on vapor sale/usage and combatting illicit trade can help prevent youth tobacco use. Legislators also learned how high taxes can present a barrier that prevents adult smokers from considering switching to products that we believe present less risk than cigarettes.

HIGHLIGHT STORIES

EMBRACING TECHNOLOGY TO PREVENT YOUTH TOBACCO USE

In late 2015, R.J. Reynolds Vapor Company introduced a Bluetooth-enabled electronic cigarette (e-cigarette). Adult tobacco consumers can download an accompanying app to their mobile device, which offers features such as a child-safety lock, and battery and cartridge life gauges. The Bluetooth safety lock enables adult tobacco consumers to lock their device when not in use, preventing use of the device by youth. This is a great example of how innovation plays a key role in advancing our Transforming Tobacco vision.



HIGHLIGHT STORIES

TOBACCO HARM REDUCTION AS PUBLIC POLICY

In 2008, the American Association of Public Health Physicians noted that the addition of tobacco harm reduction to current policies "...could yield a 50% to 80% reduction in tobacco-related illness and death over the first ten years, and a likely reduction of up to 90% within 20 years."



Unfortunately, government health agencies and many tobacco control organizations have not endorsed tobacco harm reduction as a viable addition to existing abstinence policies, leaving the status quo in place.

It is a Guiding Principle for RAI and its operating companies that governments, public health officials, tobacco manufacturers and others share a responsibility to provide adult tobacco consumers with accurate information about the various health risks and comparative risks associated with the use of different tobacco and nicotine products.

RAI's operating companies are committed to engaging with the Food and Drug Administration on the issue of tobacco harm reduction and education. Discussion about the shaping of appropriate tobacco harm reduction policies can also extend to legislative arenas.

Legislative opportunities to improve public health and reduce state health-care costs may present themselves as revenue bills. For example, policy makers could consider modifying the tax structure on tobacco products based on their comparative risk. Another possibility is exploring whether states could "tier" health insurance rates for state employees who use tobacco based on comparative risk of the form of tobacco used, potentially reducing state employees' health care costs. At a minimum, legislators should explore the enormous potential that tobacco harm reduction could have for society.

RAI and its operating companies are committed to significantly reducing the harm caused by smoking. By embracing tobacco harm reduction principles, manufacturers and policy makers, working together, could herald a new era that fundamentally changes the impact of tobacco use on society. Today, public policy leaders and companies like RAI have a unique opportunity to lead that change.

HIGHLIGHT STORIES

TOBACCO HARM REDUCTION AND SCIENCE

Harm reduction encourages public health initiatives that have the potential to decrease the harm associated with a particular behavior without necessarily eliminating that behavior. That is not to say that the alternative behavior does not pose some risk; it is that the behavior poses less risk.



Examples of public health programs seeking to minimize the impact risky behaviors have on society include alcohol use (e.g., minimum age laws, designated drivers, limiting store hours/locations), road safety laws and needle exchanges for intravenous drug users.

Given the success of harm reduction strategies with these other behaviors, a number of scientists and public health officials are embracing tobacco harm reduction as an additional tool to reduce the harm associated with cigarette use.

In general, the use of smokeless tobacco products has been shown to present less risk than does the use of cigarettes; therefore, this category of products could play a valuable role in reducing tobacco consumers' risks.

For example, a Technical report issued in 2008 by the World Health Organization's study group on Tobacco Product Regulation concluded: "There is little question that, in general, smokeless tobacco products are less harmful than combusted tobacco products such as cigarettes.

This research, and other studies, indicate that it is the combustion of tobacco (i.e., cigarette smoking) rather than the nicotine that exposes tobacco consumers to the most risk.

Other studies support the use of smokeless tobacco as a way to obtain nicotine rather than smoking. A

2007 report from the Royal College of Physicians states that it is the process that one goes through to get nicotine, not the nicotine itself, that determines risk levels.

These researchers similarly concluded that, depending on the product, smokeless tobacco was on the order of 10–1,000 times less hazardous than cigarette smoking; and, if nicotine could be provided in a form that was acceptable and effective as a cigarette substitute (e.g., smokeless tobacco), millions of lives could be saved.

These and other researchers suggest the existence of a pronounced "continuum of risk" of tobacco and nicotine products.

HIGHLIGHT STORIES

PROMOTING SUSTAINABLE AGRICULTURE

Sourcing tobacco from growers who use sustainable agricultural practices is a key market differentiator for Santa Fe Natural Tobacco Company. SFNTC has both organic and Purity Residue Clean (PRC) programs. PRC is an environmental program developed by SFNTC requiring farmers to grow tobacco using a specific protocol allowing only for minimal use of chemicals that have a low impact on the environment. By using specific protocols, the organic and PRC program reduce the use of synthetic and restricted-use agrichemicals. Annually, the organic and PRC programs, through the use of specific protocols, reduce the total amount of synthetic and restricted use agrochemicals. Both the organic and the PRC programs have significant environmental benefit over traditional tobacco farming, and earn the farmers premium prices for their leaf.



SFNTC is a Life Member of the Carolina Farm Stewardship Association (CFSA), which promotes organic farming. In 2009, SFNTC announced its sponsorship of the association's efforts to help establish a market for organic wheat in the Carolinas. Growing wheat in rotation with tobacco helps to sustain the land and replenish the soil, is good for the organic tobacco supply and is good for farmers. Annually, SFNTC-contracted farmers follow their tobacco crops with wheat. Additionally, the use of wheat as a cover crop has sparked a market for North Carolina-brand organic bread flour and other wheat products from which growers are benefiting. SFNTC continues to support this and other organic agronomic programs, and has provided more than \$2.1 million in funding to the CFSA Organic Carolinas Initiative through 2015.

HIGHLIGHT STORIES

TELAMON HOUSING PARTNERSHIP

RAI and its operating companies recognize the importance of good living conditions for farm workers. Our companies support tobacco growers' efforts to provide their workers with safe working environments and well-maintained living conditions. To help improve housing for migrant workers, RAI partnered with the Telamon Corporation, a Raleigh, N.C.-based private non-profit.



Since 2013, RAI has contributed \$790,000 to Telamon Corporation for use in their matching-grant program, which supports grower efforts to improve the condition of housing on North Carolina tobacco farms and labor contractor housing facilities. The program is modeled after a U.S. Department of Labor Program and includes improvements such as:

- Air-conditioning;
- Septic systems;
- Windows and insulation;
- Bathroom and kitchen appliances; and
- Remodeling.

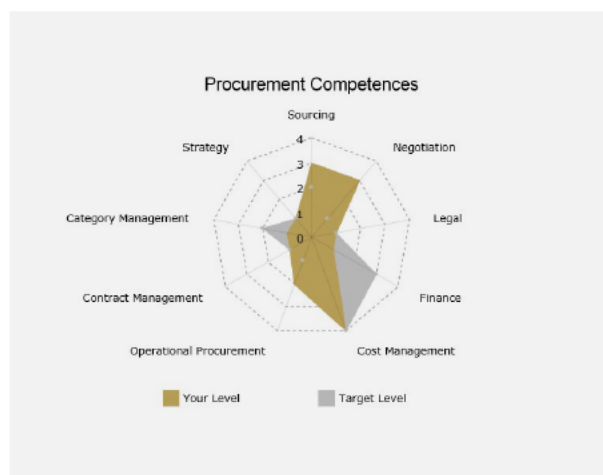
To date, the program has improved housing for nearly 2,700 farmworkers, regardless of whether the grower who employs them does business with our companies.

HIGHLIGHT STORIES

PROCUREMENT ACADEMY

To help develop its procurement staff, in 2015, R.J. Reynolds Tobacco Company enlisted the Procurement Academy, an online education software program. This software program delivers specialized training to the procurement staff, enabling them to better contribute to RAI subsidiaries' purchasing goals. Procurement employees were assessed based on their job descriptions to evaluate their current skill sets.

Based on these assessments, each employee was provided a personal improvement plan, which includes training in core procurement skills identified as key to their role. Training includes a sustainability component, enabling our procurement department to better contribute to RAI's business and sustainability goals.



HIGHLIGHT STORIES

A MORE SUSTAINABLE CIGARETTE PACK

The foil and paper laminate historically used in cigarette packs usually ends up in a landfill, since there is no practical method for recycling it. To increase the recyclability of cigarette packaging, Santa Fe Natural Tobacco

Company eliminated the foil pack liner in all styles and replaced it with a more

environmentally friendly paper inner liner. The new liner allows for the entire package, apart

from the overwrap, to be recycled. Additionally, the packaging paper is made from trees grown in North America under certified sustainable forestry programs.



While researching innovative ways to reduce the environmental waste associated with cigarette packaging, Santa Fe learned the pack overwrap, not the foil, most contributes to product freshness and taste. The removal of foil not only increases recyclability, it also removes a non-renewable resource, aluminum, from the Santa Fe supply chain. Incorporating a paper inner liner into just 53 cigarette packs will save the amount of aluminum in a standard 12-ounce can of soda.

This journey toward a paper inner liner was not easy, and included finding appropriate and sustainable paper, customizing machinery, as well as testing product freshness over time. But when the reward is a “greener” planet, it is worth it.

HIGHLIGHT STORIES

THE NEW TOBACCO ROAD .COM

Illicit trade of tobacco products is a key issue for RAI and its subsidiaries and our Transforming Tobacco vision. Illicit trade of tobacco products robs our retail partners of a leading source of income, contributes to lost tax revenue and undermines Youth Tobacco Prevention efforts. In 2014, RAI Services Company launched a new website, thenewtobaccoroad.com, which

shows how major interstates have become key transit routes for cigarette smuggling from state to state. The website provides important information and resources of interest to lawmakers, law enforcement officials and concerned citizens on how serious the problem of cigarette smuggling really is, and what federal and state governments can do.



HIGHLIGHT STORIES

TRANSFORMING LIVES BY GIVING BACK

Employees at Reynolds American Inc. (RAI) and its subsidiary companies embrace a longstanding tradition of generosity. In 2015, RAI's annual United Way campaign exceeded its goal of \$2.1 million, raising nearly \$2.6 million, the largest corporate annual campaign in history for the United Way of Forsyth County. Of the 1,379 employee donors overall, each gift was a gift times two, with a 100 percent match from the Reynolds American Foundation. [Click here](#) for our employee matching-grant guidelines.



As a result of this generosity, RAI earned the United Way's Spirit of North Carolina award, which recognizes companies and their employees who demonstrate campaign excellence and community commitment through the United Way.

Employees' biggest hands-on project remained the United Way's Days of Caring, a week of giving back to the community by putting in the muscle and time to help United Way agencies with landscaping, construction, painting and other projects. In 2015, about 760 employees participated, showing that community involvement is a cornerstone of our corporate culture.

HIGHLIGHT STORIES

SAMARITAN MINISTRIES

This year, Samaritan Ministries celebrates its 35th anniversary. Reynolds American Inc. has been honored to have long contributed to the organization's good work. In 2014, RAI donated \$175,000 to the Ministries toward the construction of a new facility, almost doubling their square footage. The new building is equipped with a state-of-the-art kitchen, 70 emergency shelter beds and 10 cornerstone beds. In its first year in the new building, Samaritan Ministries served a total of 155,305 meals and provided 26,099 nights of shelter to 607 homeless men.



In December 2015, the Reynolds American Inc. Services Company (RAISC) public affairs team celebrated the holidays by volunteering at Samaritan Ministries. More than 35 employees volunteered to clean the building and serve lunches to people in need. Together, the employees donated hundreds of hours of work to the organization.

“We have enjoyed a long-standing relationship with Reynolds American and the Reynolds American Foundation. From donations to our operating fund to the employee matching gifts program of the Foundation and employee volunteering, RAI's support makes a huge difference. This support speaks to the character of RAI employees and their passion and interest in the community.”

– Sonjia Kurosky, executive director, Samaritan Ministries

HIGHLIGHT STORIES

PRISON AND JAIL MINISTRY

The RAI Foundation is proud to support the Forsyth Jail and Prison Ministries (FJPM) in Forsyth County, N.C. Begun in 1977 as the first jail and prison ministry in North Carolina, and one of the first in the U.S., FJPM provides educational and chaplaincy services for men, women and youth incarcerated in the Forsyth County Law Enforcement Detention Center, Forsyth Correctional Center and Forsyth County Youth Center.



In 2013, FJPM began offering a class based upon the Franklin Covey book, *7 Habits of Highly Effective People*, called "7 Habits on the Inside". The class teaches inmates how to:

- Learn to take initiative;
- Understand there are choices in every situation;
- Complete the course with a plan for operating in society, once released;
- Become positive role models to their families and friends; and
- Discover how to collaborate for successful outcomes.

Beginning with two courses for 75 men, the program has since expanded to three classes for men and three for women. In 2015, the RAI Foundation contributed \$25,000 toward the program, enabling it to expand in both scope and size. With this donation, FJPM is creating the Transitions to Work program, in which educators from Forsyth Technical Community College will teach 7 Habits graduates vocational trades. The program will be matching Transition to Work graduates with employers and help graduates with transportation. Research has shown that employment lowers recidivism by almost 40 percent, and the Foundation is honored to support FJPM and its service to the financial and social welfare of our community.

“We empower the community to take ownership for reducing crime within Forsyth County. We have more than 2,000 volunteers working as a community to reduce crime and support people affected by incarceration. Generous gifts from partners like the Reynolds American Foundation allow us to magnify these impacts.”

– Senior Chaplain Rodney Stilwell, Forsyth Jail and Prison Ministries

HIGHLIGHT STORIES

REYNOLDA HOUSE

The Reynolda House Museum of American Art and Reynolds American Inc. both descend from Richard Joshua Reynolds. Once the home of Richard Joshua and his wife, Katharine, Reynolda House opened as a museum in 1967 as a public gift from Richard Joshua Reynolds' descendants. From the beginning, Katharine envisioned the Reynolda estate would function as an integrated, living, working community.

Working with the architect and landscape architect, Katharine created a 60-room

bungalow for her family, formal and informal gardens, a lake and other facilities for healthy recreation, a model farm for demonstrating the most current farming and dairying practices, and a village and school to house and educate workers and their families. Today, the Reynolda House Museum of American Art includes the art museum, a village and working farm, and 125 acres of public trails and gardens.



Built in 1917, the museum is preparing to honor the centennial of Reynolda House. As part of their centennial celebration, Reynolda House is restoring 19 acres around the museum building. The Reynolds American Foundation is privileged to contribute \$1 million to this restoration effort. The Reynolda House Museum of American Art is restoring the original landscape from the early 20th century from Reynolda's original architectural drawings. The restoration will better connect the Museum of Art to the surrounding park and working farm, and enable the Reynolda House Museum of American Art to continue its work in the community for the estate's second century.

“RAI and Reynolda share the same roots. Doing good work in the community was always at the forefront of the Reynolds' minds—from teaching the latest agricultural techniques to local farmers to building a school to educate the community's youth. Our community strength stems from

Richard Joshua and Katharine Reynolds. A century later, RAI's community support continues this support and they are a wonderful corporate partner."

– Allison Perkins, executive director, Reynolda House Museum of American Art

HIGHLIGHT STORIES

WINSTON- SALEM/FORSYTH COUNTY SCHOOLS

Winston-Salem/Forsyth County Schools (WS/FCS) serves approximately 54,000 students in 81 schools throughout the district. RAI has long supported WS/FCS, and we know our success is tied to the success of the communities' students.



For the past two years, the RAI Foundation has been a proud supporter of WS/FCS' goal to have 90 percent of third-grade students read at or above grade level by 2020. In 2015, the Foundation contributed to a WS/FCS summer program for first- through third-grade students. This program serves approximately 1,400 students and provides remedial education, transportation and meals, free to the students' families. We are honored to consider WS/FCS our community partner and look forward to expanding our relationship and efforts in the near future.

“Across all the regions in which I’ve worked, I have never, before RAI and the RAI Foundation, been approached by a business to see how they can contribute to our mission.”

– Dr. Beverly Emory, Superintendent, Winston-Salem/Forsyth County Schools

HIGHLIGHT STORIES

WINSTON-SALEM STATE UNIVERSITY

Winston-Salem State University, a historically black university in the heart of Winston-Salem, N.C., has long been a partner of RAI and its operating companies. When the RAI Foundation learned a number of rising seniors were affected by a lack of available scholarship dollars and would be unable to return for their final year of school, the Foundation was happy to fill the gap. In 2014, the Reynolds American Foundation gifted \$750,000 to Winston-Salem State University to enable these students, and future students like them, to complete their education. The grant, which provides \$2,500 per student per year, will assist between 150 and 200 students over a five-year period.



HIGHLIGHT STORIES

SUPPORTING AGRICULTURAL RESEARCH

In 2015, RAI pledged \$1.5 million over five years to help sponsor a new agronomist position and a distinguished professorship at North Carolina State University. RAI's gift is part of a \$10 million campaign to establish the positions at the university's College of Agriculture and Life Sciences. The two professorships will be named in part for William K. "Bill" Collins, a tobacco-production expert and international ambassador for the U.S. tobacco industry. The College of Agriculture and Life Sciences at North Carolina State University is one of the world's premier programs for production-oriented tobacco education.



HIGHLIGHT STORIES

INVESTING IN THE FUTURE

Throughout its long history, R.J. Reynolds Tobacco Company has played a key role in its community, not the least of which has been through significant gifts of property to support local economic development and job growth.

In January 2015, R.J. Reynolds donated a significant portion of its Whitaker Park campus to Whitaker Park Development Authority Inc.

(WPDA), a nonprofit corporation created by Winston-Salem Business Inc., the Winston-Salem Alliance and Wake Forest University for economic and redevelopment purposes. The donation consists of 120 acres of land and 1.7 million square feet of laboratory and building space. [View details.](#)



“We’re confident these properties will play a key role in the economic development and transformational growth of Winston-Salem and the greater Triad region.”

– Mark Peters, senior vice president and chief financial officer of R.J. Reynolds

HIGHLIGHT STORIES

EDUCATION FOR TOMORROW'S LEADERS

Education is a key focus of the Reynolds American Foundation's charitable giving, and as part of this mission the Foundation funds a range of student scholarships each year.

Since 1960, more than 2,100 scholarships have been awarded to students by the Reynolds American Foundation Scholarship Program and its predecessor companies and foundations. These scholarships are awarded annually through the National Merit Scholarship Program and National Achievement Scholarship Program.

A recent scholarship recipient in a thank-you letter to the Foundation said: "It is truly an honor to be selected for this award, and I appreciate the financial support as I continue with my education goals. I will do my best to make the most of this opportunity you have given me."

The competition for these scholarships is conducted by National Merit Scholarship Corporation (NMSC), an independent, nonprofit organization.

All Foundation scholarship winners are chosen from a group of candidates who scored high on the Preliminary SAT/National Merit Scholarship Qualifying Test and several academic and other requirements set by NMSC. Scholarship winners are chosen on a competitive basis and without regard to family financial circumstances, gender, race, ethnic origin or religious preference.

"These scholarships are just another way we give back to our community. By investing in these students, we are helping to secure our community's future through tomorrow's leaders."

Tripp Wilson, vice president for corporate sustainability and commercial equity

February 8, 2016

Director of Corporate and Civic Engagement
Reynolds American Inc.
National Merit Scholarship
400 Wall Street
Wilmington, NC 28401

Thank You!

I am writing to thank you for rewarding me a generous scholarship over the past couple of years and give you an update of my current and future academic plans.

I am currently a sophomore attending NC State University where I have been accepted within the Engineering College as a Civil Engineer. My transition to college life has confronted me with opportunities allowing me to grow both academically and personally. Couple of examples: my current G.P.A is 3.8 and I have become very active in Habit for Humanity and Young Life (Christian Organization).

By receiving the National Merit scholarship, you have lightened my family's financial burden allowing me to focus on some of the most important years of my life. Due to this generosity, hopefully, I will be able to give back to your organization and the communities you support.

The Foundation also provides annual scholarships to children of employees at Reynolds American Inc. and subsidiary companies on the same competitive basis.

Each Reynolds American Foundation scholarship stipend is \$2,500 a year for up to four years of college undergraduate study or until baccalaureate degree requirements are completed, whichever occurs first. All phases of the competition, including the selection of winners and payment of scholarship stipends, are handled for Reynolds American Foundation by the National Merit Scholarship Corporation.

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Thanks for your patience, understanding, and help.

HIGHLIGHT STORIES

GOING THE EXTRA MILE

Whether it's celebrating Earth Day by helping employees plant a chemical-free garden, or providing free on-site chair massages or a van service to help with morning and evening commutes, Santa Fe Natural Tobacco Company's commitment to employees shines bright.

Like many other companies, SFNTC provides its people with a variety of high-quality health and welfare benefits, and training and development opportunities. But the company's commitment to its employees extends far beyond that. For example, for many years, the company has periodically offered employees onsite chair massages at its facilities. These free massages are provided by outside professionals who encourage employees to be aware of stress and muscle strain.

Each year, the company celebrates Earth Day by serving employees an organic meal made from locally produced meat and vegetables. And in keeping with its commitment to sustainability, SFNTC created a garden that is free of chemical fertilizers and pesticides for Santa Fe employees in 2011. The project is designed to teach employees how to produce fresh, natural fruits and vegetables.



HIGHLIGHT STORIES

TOBACCO USE POLICY

In 2014, RAI announced a revision to its tobacco-use policy for its headquarters and subsidiary facilities, effective January 1, 2015. The policy began by eliminating smoking in conference rooms and elevators, and upon full implementation, will restrict smoking to designated smoking areas.

Unlike smoking bans in many locations across the country, our tobacco use policy does not ban all tobacco products. While employees may not consume traditional combustible cigarettes other than in designated smoking areas, employees may continue to use tobacco products such as snus, moist snuff, vapor products or heat-not-burn cigarettes in communal areas. This approach enables each of our employees to feel comfortable in the workplace.

The policy is designed to be inclusive, rather than exclusive. Designated smoking areas, being constructed in 2015–2016, will provide spaces where employees can collaborate. We hope to create a bright, enriching and innovative environment in which employees can enjoy our companies' diverse products.



HIGHLIGHT STORIES

SAFETY ACHIEVEMENT FOR 2014

Six R.J. Reynolds locations were awarded the N.C. Department of Labor's Gold Level Certificate of Safety Achievement, the state's highest safety award. All six of the facilities have received the award for several consecutive years.

The latest awards, presented in mid-2015 by N.C. Commissioner of Labor Cherie Berry, recognize companies that excel in safety. To qualify for the gold award, each company must have 10 or more full-time employees and must have achieved Days Away, Restricted and Transfer (DART) case rates that are at least 50 percent below national averages.

The RAI Main office also received a One Million Employee Hours Award, which recognizes locations that achieve one million man-hours with no lost-time workplace accidents.



"We are very pleased to receive these awards from the N.C. Department of Labor in recognition of our commitment to safety. The safety of our employees is our number one priority at R.J. Reynolds. Commitment, leadership and active involvement throughout all levels of our organization are essential for us to drive continuous success in safety performance."

Johnny Cagigas, vice president of R.J. Reynolds manufacturing

HIGHLIGHT STORIES

SAFETY BEHIND THE WHEEL – HIGH-RISK DRIVER PROGRAM

Trade marketing employees spend much of their time driving from site to site. Being cautious behind the wheel ensures their personal safety, as well as those with whom they share the road. In 2011, RAI Services Company created the High-Risk Driver Program to help improve road safety behaviors. The program identifies employees who drive a company-provided vehicle as high-risk based on their history of traffic accidents and motor vehicle violations. New employees are also enrolled in the program for their first year.



The program equips employees' vehicles with telematics devices, which instantly alarm the driver when the device senses aggressive acceleration and maneuvering, speeding and other potentially unsafe movements. The devices simultaneously transmit data to a driver scorecard, which an employee reviews monthly with the manager to provide the employee specific feedback on their driving performance. Since creating the program, more than 20 employees have graduated and exited from the High-Risk Driver Program.

HIGHLIGHT STORIES

FIELD TO TABLE

Santa Fe Natural Tobacco Company (SFNTC) has worked hard to earn its reputation as a strong steward of the environment. The company's long-standing commitment to environmental sustainability — which is part of RAI's vision of Transforming Tobacco — has helped many tobacco farmers work their fields in ways that minimize the impact on the environment. To help further those efforts, the company has developed an innovative community outreach program that's focused on sustaining both the planet and its people.



SFNTC launched its first Field to Table program in 2012, at the company's headquarters in Santa Fe, New Mexico. Every week, SFNTC purchases 70 shares worth of locally grown produce from Beneficial Farms, a CSA cooperative that supports about 40 small farms in northern New Mexico and southern Colorado. Each share costs the company \$25, which provides a guaranteed, consistent source of income for the farms, regardless of how good or bad the growing season happens to be.

The food is delivered directly to The Food Depot, a Santa Fe-based non-profit organization that partners with more than 135 agencies across nine counties in northern New Mexico to provide more than 400,000 meals each month to feed the hungry.

In May of 2013, the company started a similar program in Oxford, North Carolina, the home of SFNTC's manufacturing operations. Under the North Carolina program, SFNTC purchases \$2,000 of organic produce every week from Eastern Carolina Organics (ECO), a Durham, North Carolina.-based cooperative of more than 70 organic farms. The food is donated to Area Congregations in Ministry (ACIM), a non-denominational organization in Oxford that runs The Food Bank as part of its services to assist the basic needs of the community. The Food Bank helps to feed more than 6,700 Granville County residents each year.

"It's a win-win-win program. From Field to Table was specifically designed to be an earth-friendly program that helps sustain local agriculture while providing food for the hungry. The design of the program is pretty simple but its leverage and its beneficial effects are profound."

Keith Grover, SFNTC's director of sustainability

Santa Fe Natural Tobacco Company (SFNTC) has worked hard to earn its reputation as a strong steward of the environment. The company's long-standing commitment to environmental sustainability — which is part of RAI's vision of Transforming Tobacco — has helped many tobacco farmers work their fields in ways that minimize the impact on the environment. To help further those efforts, the company has developed an innovative community outreach program that's focused on sustaining both the planet and its people.