SUSTAINABILITY APPROACH

CEO LETTER

Reynolds American and its subsidiaries are pleased to present this view of their businesses through the lens of sustainability.

When British American Tobacco p.l.c. acquired the remaining 57.8 percent of Reynolds American it did not already own in July, 2017, it created a truly global tobacco company, with a portfolio of strong brands and expanded capabilities in Next Generation Products and research and development. It also brought together two leaders in sustainability, each with a track record of success and a commitment to transforming tobacco.

This transformation is being driven by a focus on preventing youth from using tobacco products, on reducing the harm associated with tobacco, and on meeting society’s expectations for how we treat people and the planet – something we call commercial integrity. This report details the priorities, processes, and achievements relevant to each of these objectives.

For example, 2017 was a year of great achievement in youth tobacco prevention. Employee presentations of the Right Decisions Right Now youth tobacco prevention program increased 60% over 2016, as 864 employees made a total of 444 presentations. Our support of the Boy Scouts of America’s Trail of Courage, adapted from Right Decisions Right Now, helped the Boy Scouts reach thousands of youth. 21,137 scouts heard the tobacco prevention message, and 12,118 scouts earned the Trail of Courage patch for their commitment to a healthy, tobacco-free lifestyle.

Agricultural sustainability is an important focus for R.J. Reynolds, American Snuff Company, and Santa Fe Natural Tobacco Company. Their programmatic approach to addressing agronomic, environmental, and labor-rights risks in the supply chain is described in detail in this report. Transparency and due diligence are central to their approach, and the 2017 Good Agricultural Practices Assessment Summary
shows excellent compliance rates with the laws and best practices that protect the environment and workers. The results of this and every other independent assessment conducted since 2011 are available on this site.

Our past, present, and future successes in transforming the industry have been and will be driven by the people of Reynolds American and its subsidiaries. For this reason, RAI’s recognition as a Great Place to Work® for 2017-2018 and its selection to the Achievers 50 Most Engaged Workplaces are not only significant in their own right, but also are a leading indicator of future achievement.

Ricardo Oberlander, President and CEO, Reynolds American Inc.
ABOUT THIS REPORT

Our Corporate Sustainability microsite highlights our sustainability programs and performance. The site has been updated to include 2017 data of RAI and its subsidiaries.

RAI was acquired by British American Tobacco p.l.c. in July, 2017. RAI’s first report as an indirect, wholly-owned subsidiary is more focused than previous reports, which included topics and data relevant to its status as the publicly held, ultimate parent company of the RAI operating companies. Please see the BAT Sustainability Report for more information. For ease of locating information of interest to our stakeholders, we have included references throughout the report to identify the GRI G4 indicator(s) disclosed on each page. Visit the Content Index to learn more about what is reported in this document. For more information on GRI, please visit www.globalreporting.org. The environmental, health and safety data described in this sustainability report are verified by an independent third party; our assurance statements are publicly available:

- Environmental; and
- Safety.

Questions and comments regarding this report and its contents can be directed to TalkToRAI@RJRT.com.

The external links and resources are provided as a convenience, but Reynolds American Inc. and its subsidiaries are not responsible for the content on the linked websites or in the resources. The statements and views available on those sites and in those resources do not necessarily represent the views of Reynolds American Inc. and its subsidiaries.
SUSTAINABILITY APPROACH

ORGANIZATIONAL PROFILE

Reynolds American Inc., referred to as RAI, is a holding company headquartered in Winston-Salem, N.C., with subsidiaries that manufacture and market tobacco products and nicotine replacement therapy (NRT) products to adult tobacco consumers, as well as the production of proteins for pharmaceutical and other purposes. RAI is an indirect, wholly owned subsidiary of British American Tobacco p.l.c. (BAT).

OUR LOCATIONS

RAI and its subsidiaries operate primarily in the United States, and RAI’s operating companies serve a U.S. adult consumer base.

EMPLOYEES BY SUBSIDIARY
To learn more about RAI and its subsidiaries’ game changing employees, visit the Employee Responsibility section of this report.

**OUR VALUE CHAIN**

To learn more about RAI's operating companies’ suppliers, visit the Responsible Agriculture and Supplier Responsibility sections of this report.
AWARDS & RECOGNITION

REYNOLDS AMERICAN AWARDS

- N.C. Department of Labor Safety Awards:
  - Million Hour Award
  - Gold Award (8th consecutive year)
- United Way of North Carolina’s Excellence in Community Spirit Award
- Bloomberg Best 401(k) Plans
- PlanSponsor 2016 Best in Class 401(k) Plans
- Achievers Most Engaged Workplaces in North America
- Vault Top 50 Best Internships
- Hackett Group Talent Management Maturity Leader
- Samaritan Ministries Good Samaritan Award
- American Red Cross Annual Disaster Giving Program Partner
- United Way Women’s Leadership Council Outstanding Corporate Chapter

R.J. REYNOLDS TOBACCO COMPANY AWARDS

- Forsyth County Special Environmental Award
- N.C. Department of Labor (NCDOL) awarded the NCDOL Gold Award for safety for these locations:
  - R.J. Reynolds' Research and Development (35 consecutive years)
  - R.J. Reynolds' Main office (18 consecutive years)
  - R.J. Reynolds' Tobaccoville Manufacturing (16 consecutive years)
  - R.J. Reynolds' Leaf Department (17 consecutive years)
  - RAI’s Main Office (8 consecutive years)
  - R.J. Reynolds’ Shorefair Manufacturing facility (6 consecutive years)
- R.J. Reynolds’ Tobaccoville and research and development facilities received recognition for working more than one million hours without a lost-time incident.

- R.J. Reynolds' Main Office received recognition for working more than three million hours without a lost-time accident.
SANTA FE NATURAL TOBACCO COMPANY AWARDS

- EPA Green Power Leadership Club (4th consecutive year)
- Environmental Stewardship Initiative (Steward Status) by N.C. Department of Environment Quality
- Carbon Neutral Certified (5th consecutive year)

AMERICAN SNUFF COMPANY AWARDS

- Tennessee Green Star Partnership Three-Star Certification
- ENERGY STAR Partner
- ASC Taylor Brothers - 3 consecutive years of receiving the NCDOL Gold award
- ASC Taylor Brothers - N.C. Department of Environmental Quality (Partner Status)
- ASC Clarksville-Montgomery - Clarksville Green Certified
- Tennessee Chamber of Commerce and Industry Comprehensive Energy Excellence Award
STAKEHOLDER ENGAGEMENT & MATERIALITY

STAKEHOLDERS & 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. Through this process, we aim to speak with and hear from representatives of stakeholder groups that are affected by, and affect our businesses. Led by a third-party engagement specialist, this ongoing dialogue process provides RAI and its subsidiaries with important 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 three pillars: **Youth Tobacco Prevention**, **Tobacco Harm Reduction** and **Commercial Integrity**, which collectively serve as the foundation of the Transforming Tobacco vision.

We believe stakeholder engagement is an important tool in identifying, prioritizing and managing sustainability issues and for this reason, continue to regularly interact with our 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 these critical stakeholders significant commercial events that support our Transforming Tobacco vision, such as **Youth Tobacco Prevention** and **Tobacco Harm Reduction**, and we want to understand their positions on key issues. We also annually report corporate political contributions in the **Transforming Tobacco** section of RAI’s website.

**Stakeholder Dialogues:** To date, RAI companies have conducted 60 formal, third-party facilitated stakeholder engagements. The conversations are focused on gaining insights into stakeholder perceptions and expectations and building strategic partnerships.

**Association Engagement:** Through our association memberships, we participate in public discussions about important industry and scientific issues. Currently, RAI and its subsidiaries participate 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 companies will continue to evolve our vision to lead the industry as we engage with diverse stakeholder groups. Together, we are Transforming Tobacco.

**MATERIALITY**

RAI built this materiality matrix by compiling a universe of environmental, social and governance (ESG) topics identified through the dialogue process as well as through industry research and from peer benchmarking. Following this identification process, we collected feedback, evidence and recommendations from the stakeholders engaged through the dialogue process, and mapped this feedback to ESG topics. This direct engagement was supplemented by a review of stakeholders’ relevant publicly available information.

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<tr>
<th>Stakeholder Group</th>
<th>Dialogues Conducted by Third-Party</th>
<th>Review of Relevant Public Information</th>
<th>Review of Relevant Internal Information</th>
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<td>Adult Tobacco Consumers</td>
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With the help of a third-party firm, stakeholder feedback was scored to prioritize these topics and identify where they occur along our value chain.

Through this materiality assessment, RAI and its subsidiaries confirmed the importance of the three pillars to our stakeholders. 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.

By committing time, energy and resources to the principles
that drive the three pillars, we continue to transform the tobacco industry to achieve sustainable growth and meet the expectations of our stakeholders.
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.

Independent studies show long-term, substantial progress in reducing youth tobacco use and access. Most notably, a recent survey by the Centers for Disease Control and Prevention (CDC) and the U.S. Food and Drug Administration’s (FDA) Center for Tobacco Products shows decline in all forms of tobacco by youth.

According to the study, the number of U.S. middle school and high school students who say they are current tobacco users – defined as having used a tobacco product in the past 30 days – dropped from 4.7 million in 2015 to 3.9 million in 2016.
The decline in youth use of tobacco products was primarily driven by a drop in e-cigarette use among middle school and high school students from 3 million in 2015 to just under 2.2 million in 2016. In addition, declines were also seen during 2015-2016 among high school students who used two or more tobacco products, any combustible tobacco products, and hookahs.

“While these latest numbers are encouraging, it is critical that we work to ensure this downward trend continues over the long term across all tobacco products.”
FDA Commissioner Scott Gottlieb.

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 & 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 our Right Decisions Right Now: Be Tobacco Free program (RDRN);

• Number of our employee-led RDRN presentations;

• Education and training materials to retailers to stop the sale of tobacco products to minors; and

• Legislation passed to prevent minors from purchasing, using and possessing tobacco products, including e-cigarettes.

Our YTP efforts are a collaboration among representatives from public affairs, government relations, philanthropy and communications. In addition to the work happening throughout RAI and its subsidiaries, our YTP strategy seeks to generate greater understanding and involvement from external stakeholders by developing reliable engagement mechanisms, messaging and metrics. The engaged stakeholder groups include employees, trade partners, educators, government officials, non-profit organizations and consumers.

**PROGRAMS & PRIORITIES**

RAI and its subsidiaries are proud of the youth tobacco prevention 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 is the right thing to do for our society and it is 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 27 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 effective laws addressing 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 27 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 skills they need to handle peer pressure and to make healthy lifestyle decisions, including the decision not to use tobacco products.

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

In 2017, RDRN set another record level of employee engagement. The number of employee presenters reached an all-time high of 864, breaking the record of 493 set the previous year. Policy changes in late 2016 made the number of non-profits for which each employee can earn grants unlimited. In 2017, 444 youth-oriented organizations (a 60 percent increase) received $432,000 in grants from R.J. Reynolds for participating in the program. The RDRN Program’s goal is to increase the number of our companies’ employees who participate in the RDRN employee participation program year-over-year.
R.J. Reynolds Tobacco Company’s Right Decisions Right Now: Be Tobacco Free (RDRN) program has long partnered with the Boy Scouts of America, and continues to gain momentum in increasing awareness among teens of the dangers of tobacco use. Read more about our partnership with the Boy Scouts here.

WE CARD

In 1995, R.J. Reynolds was a founding supporter of the We Card program, readily 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, 23 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. In 2017, governors in 38 states recognized We Card in its 22nd anniversary year of the national non-profit organization for providing training and education to help retailers comply with age-restricted product laws and serve their communities as responsible retailers. We Card’s online training includes real-life video scenarios where retailers are challenged with photos of fake IDs and portrayals of youth who are not of legal age. Store employees are required to respond in the online training to properly validate identification before any tobacco sale is completed. To date:

- We Card has held over 2,100 classroom training sessions in all 50 states in the U.S. and U.S. territories;
- Over 440,000 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;
• Over 1.18 million We Card kits that include materials to aid in verifying the age of a buyer 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 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 that FDA audits show that the illegal sale of tobacco products to minors has been reduced dramatically. The FDA has completed more than 587,377 retail compliance checks involving minors since 2011. In 2017, 87 percent of retailers successfully confirmed the purchasers’ age during retail compliance checks.
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 that 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:** In addition to our education efforts through RDRN, RAI and its subsidiaries support legislative and regulatory efforts to keep tobacco products out of the hands of youth. All states prohibit the sale of tobacco products to persons under at least age 18. The RAI companies also support laws that criminalize possession and use of tobacco products by minors;

- **Penalties for complicit adults:** According to the CDC, minors may obtain tobacco products from social sources such as complicit adults, rather than retail outlets, 86 percent of the time. Many states have laws penalizing complicit adults, but they can and should go further. RAI’s subsidiaries advocate for legislation on par with, or more stringent than, states’ Social Host laws for furnishing alcohol to minors; and

- **No tobacco possession on school grounds:** RAI and its subsidiaries support the complete ban on the use and possession of tobacco and vapor products on school grounds, including by adults. We support legislation to keep tobacco products out of 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.”
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 consider switching to these tobacco products.

In response to the Surgeon General’s report in 1964, 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 15.1 percent (1965–2015). However, despite near-universal awareness of the health risks associated with cigarettes, the CDC reports that 37 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 they believe that the alternative behavior likely 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 who are not interested in quitting smoking 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 & 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. This goal is embedded throughout RAI and its subsidiaries to ensure activities are aligned and deliver on our Transforming Tobacco vision. We intend that the existing 37 million adult smokers in the U.S. have access to next generation products (NGP) that will meet their evolving tobacco product preferences. RAI Innovations Company, an RAI subsidiary focused on product development, innovation, and commercialization of NGPs, was created to do just that.

PROGRAMS & PRIORITIES

Reynolds American and its operating companies continue to transform the tobacco industry by:

- Conducting research and evaluating the growing body of scientific evidence to better understand the relative risks of different tobacco products;
- Engaging with legislators, regulators and other stakeholders with a goal of having the elements of tobacco harm reduction reflected in future legislation and regulation; and
- Creating new and innovative products to meet the changing expectations of adult tobacco consumers.

SOUND SCIENCE

Reynolds American’s subsidiaries are adding to a growing body of science demonstrating that smokeless tobacco products present less risk than cigarettes and that other non-combustible tobacco products that are much newer to the market, such as vapor products, may present significantly less risk than cigarettes. The varying risks presented by these products can be viewed as a risk continuum. Misunderstandings of this risk continuum create barriers to millions of smokers living better lives — smoke-free.

LEGISLATIVE & REGULATORY PRIORITIES

To realize the potential of tobacco harm reduction, it is essential that Reynolds American and its subsidiaries work with policymakers to address concerns about non-combustible tobacco products.

PRODUCT INNOVATION

A growing body of scientific research demonstrates a continuum of risk associated with tobacco products.
RAI's operating companies are working to innovate and introduce new products with the potential to reduce these risks, while continuing to meet the changing expectations of adult tobacco consumers. This approach begins with the principle that nothing is to be done or added to products that increases their inherent risks.
SOUND SCIENCE

Cigarette smoking is a leading preventable cause of death. Smoking cigarettes has been linked to increased risk of lung cancer, heart disease, chronic bronchitis, emphysema and other serious diseases and conditions. Yet many smokers are unwilling to choose complete abstinence of nicotine and tobacco.

According to the CDC:

- More than 16 million American adults live with a smoking-related disease.
- Each year, smoking-related illness in the U.S. costs more than $300 billion, of which nearly $170 billion is for direct medical care for adults.

As a cigarette burns, the tobacco is inhaled while burning at an average of 3,000 degrees Fahrenheit. This combustion of tobacco releases harmful chemicals, including carcinogens. It is these chemicals, rather than nicotine, that contribute to the high-risk profile of cigarettes. Because smokeless tobacco products do not burn tobacco, they provide a less risky alternative to cigarettes for millions of adult smokers.

With respect to vapor products, another category of non-combustible tobacco products, a growing body of scientific evidence shows that they may present less risk than cigarettes. A 2014 study found that although “…e-cigarette vapors contained some toxic substances... The levels of the toxicants were 9–450 times lower than in cigarette smoke and were, in many cases, comparable with trace amounts found in the reference product [a medicinal nicotine inhaler].” A study from the University of Victoria, Centre for Addictions Research of British Columbia found that “vapor from e-cigarettes contains only a fraction of the toxins (18 of 79) found in tobacco cigarettes and generally in substantially lower levels. [E-cigarettes] also do not deliver tar. In addition, vapor is airborne for only 30 seconds, compared to 18-20 minutes for cigarette smoke, thereby greatly reducing second-hand exposure.”

However, some in the tobacco control community advocate a precautionary approach. For instance, a 2016 Surgeon General’s note states that “[vapor] products are now the most commonly used form of tobacco among youth in the United States, surpassing conventional tobacco products, including cigarettes, cigars, chewing tobacco and hookahs.” In addition to concerns over youth usage, the Surgeon General also expressed concerns over the variability of ingredients and manufacturing processes, which
have raised questions as to the harm reduction potential of this category.

The Surgeon General has also expressed concerns about the effects of nicotine on developing brains and pregnant women. While nicotine alone can increase heart rate and blood pressure, nicotine is not a major source of harm to otherwise healthy adults who are not pregnant. In fact, according to Professor John Britton, who leads the tobacco advisory group for the Royal College of Physicians: “Nicotine itself is not a particularly hazardous drug. It’s on par with the effects you get from caffeine.” Mitch Zeller, Director of the FDA Center for Tobacco Products agrees, saying: “When nicotine is attached to smoke, it will kill. But if you take that same drug and put it in a patch, it is such a safe medicine that it doesn’t even require a doctor’s prescription.” Despite science to the contrary, 80 percent of Americans believe nicotine is a carcinogen.

RAI’s subsidiaries’ research and development efforts focus on creating a broad portfolio of new and innovative products placed throughout the risk continuum that align with changing consumer preferences. Their research includes:

- Analytical chemistry and toxicology;
- Epidemiology and clinical research; and
- Materials science and engineering.

Tobacco harm reduction is a complementary approach to prevention and cessation which may lead to greater reduction in smoking and an improvement to overall public health. Reynolds American and its subsidiaries believe accurate, credible information needs to be available to smokers so they can make informed decisions about switching to smoke-free alternatives.

"We may well have missed, or are missing, the greatest opportunity in a century. The unintended consequence is more lives are going to be lost”
David B. Abrams, senior scientist at the Truth Initiative, an antismoking group, on the potential presented by vapor products
RAI and its operating companies are committed to reducing the harm caused by smoking. To that end, RAI’s operating companies have focused on the development of products that present or may present less risk than cigarettes.

INNOVATING FOR HARM REDUCTION

In early 2016, RJR Vapor Company and Niconovum USA were moved into RAI Innovations Company, an RAI subsidiary, to centralize efforts on product development, innovation and commercialization of next-generation vapor and nicotine products. 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 growing segments of our industry that also offer potential for higher margins.

RAI’s 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. For the past decade, we have been focusing research and development efforts, as well as acquisitions, to create a broad portfolio of products placed throughout the risk continuum that are aligned with changing adult tobacco consumer preferences.

Our companies are not interested in innovation for its own sake. Rather, they are working to address industry trends and emerging adult tobacco consumer preferences.

PRODUCT & PROCESS INTEGRITY

Product stewardship 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.
RAI and its subsidiaries believe reducing disease and death associated with cigarette smoking is in the best interest of not only smokers, but society as well. We believe a science-based tobacco harm reduction strategy serves as a complementary approach to smoking cessation that may lead to a greater reduction in cigarette usage and an improvement to overall public health, and we support legislation and regulation that builds on the science-based approach and incorporates relative risk.

ENGAGING IN CONVERSATIONS

RAI Services Company’s public affairs employees advocate for legislation that enables adult smokers who choose not to quit to make informed decisions about switching to smoke-free alternatives.

Our current legislative priorities include:

- Differential treatment of excise taxes, marketing restrictions, flavor availability, public place use, etc., that encourage adult smokers to switch to alternative options that may present less risk;
- Clearly defined regulatory pathways that encourage manufacturers to innovate and create products which pose or may pose less risk for adult smokers compared to cigarettes; and
- Complete and accurate information available to adult smokers, regulators and health care practitioners that outlines the relative risk of different tobacco and nicotine products.

RAI and its subsidiaries believe the U.S. can learn from the experience in the U.K. and Sweden, where vapor products and smokeless products, respectively, are being used to move adult smokers toward smoke-free.

In the U.K., Public Health England (PHE) launched several public awareness campaigns over the last several years, encouraging smokers to quit or — if unwilling to quit — to switch to e-cigarettes. In 2016, the U.K. enacted the Tobacco and Related Products Regulations, which treats cigarettes differently from other tobacco products. The Medicine and Healthcare Products Regulatory Agency goes so far as to license specific e-cigarettes as tobacco cessation medication. PHE announced that in 2016, the smoking rate in England fell below 17 percent for the first time. In 2018, PHE published a review of evidence
related to e-cigarettes. It found that “e-cigarette use is associated with improved quit success rates and accelerated a drop in smoking rates across the country.”

“In the interests of public health, it is important to promote the use of e-cigarettes, NRT and other non-tobacco nicotine products as widely as possible as a substitute for smoking.”

Public Health England

In Sweden, the availability of Snus as a socially acceptable alternative to smoking has drastically lowered smoking rates. At 13 percent, Sweden has the lowest smoking rate in the European Union (28 percent, on average), as well as the lowest rate of smoking-related diseases of the E.U., U.S., Canada and Australia.

We believe a similar approach to tobacco harm reduction can improve the lives of millions of Americans. RAI and its subsidiaries will continue to work with legislators and regulators to make accurate, credible information available to smokers, so they can make informed decisions about switching to smoke-free alternatives.

“If a smoker, otherwise unable or unwilling to quit, completely substituted all of the combusting cigarettes that they smoked with an electronic cigarette at the individual level, that person would probably be significantly reducing their risk.”

Mitch Zeller, Director of the Center for Tobacco Products at the FDA

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.”

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
consituents.”

In 2016, the FDA finalized and published its deeming regulations for vapor products. In its final rule, the Agency outlined its plans to require the following:

- Manufacturer and product registration;
- Ingredient disclosures and initial reporting of harmful and potentially harmful constituents (HPHCs);
- Product approvals processes;
- Ban on the sale of these products to anyone below the age of 18;
- Ban on the distribution of free samples;
- Ban on vending machine sales, unless located in a facility that ensures individuals under 18 are prohibited from entering at any time; and
- Health warnings for product packaging and advertisements.

It is important to note that the deeming regulations do not directly impact internet sales, television or radio advertising, exposed or “open” tank systems, or characterizing flavors. The FDA may determine that future regulation is required to address these topics.

Since passage of the Family Smoking Prevention and Tobacco Control Act 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;
- Registering domestic tobacco product manufacturing 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; 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.
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.

**MARKETING RESPONSIBILITY**

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

**TOBACCO EXCISE TAXES**

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

**ILICIT TRADE**

Supporting law enforcement and communities to help combat illicit trade.
RAI and its subsidiaries are committed to understanding and mitigating the environmental costs of our businesses. Minimizing our environmental impact is the right thing to do for society and for our bottom line.

Through a comprehensive third-party environmental footprint assessment, we have quantified the impacts of our operations and supply chain on more than 2,000 environmental issues. By expressing these environmental issues in financial costs terms, we are able to prioritize our efforts on the material environmental and business issues. Our most material and financially impactful issues are within the tobacco leaf production and direct materials supply chain, along with our energy usage.

To mitigate the RAI companies’ environmental impacts, we continue to focus our efforts on sustainability projects within high-impact areas. These projects were grouped by area and operating company. Equipped with internal and external project data, and using the most respected, peer-reviewed assessment framework, we systematically approach these projects for consistent and coherent assessment of both the environmental and financial values, enabling us to optimally allocate our resources to the projects that would most likely generate the greatest environmental and financial returns.

Our supply chain partners, including the tobacco growers with whom we contract, are critical to this effort. They must understand their own impacts associated with the goods and services they supply us, and we are committed to working with them to identify mutually beneficial initiatives to mitigate environmental impacts in the supply chain.

Read more about our environmental supply chain strategy in the Supplier Responsibility and the Responsible Agriculture sections.

GOALS & LEADERSHIP

Our goal is to minimize the environmental impact of our operations.
• **Stabilize greenhouse gas (GHG) emissions** 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 Tobacco Company and EVP of law and external affairs for Reynolds American Inc. (RAI) are ultimately responsible for RAI and its subsidiaries’ environmental goals. Executives in law and external affairs, supply chain, operations, marketing, human resources, research and development, finance and leaf collaborate with operations personnel to develop, coordinate and execute programs to achieve company-wide targets. In addition, our Corporate Sustainability Team continues its focus through a collaboration of employees from more than 10 different departments across RAI's subsidiaries to further drive an appropriate sustainability culture, with measurable results. Oversight of the Corporate Sustainability Team is provided by the RAIS Vice President, Corporate Sustainability and Commercial Integrity.

Each operating company identifies and selects its own strategies to drive return on investment and environmental impact for the targets it controls. Using results from our environmental 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 goals, fostering innovation through sharing best practices and providing tools to the operating companies. Additionally, RAI’s operating companies have held annual EHS Symposia, which brought together stakeholders from within and outside the companies. The Symposia have served as a showcase of EHS best practices, and a mechanism for recognition of innovation efforts.

In 2017, in an effort to further engage different areas of the organization, the company’s Environment, Health and Safety (EHS) department “took safety on the road” with the first annual EHS Roadshow. The roadshow was designed to engage employees with a variety of EHS topics, including hazard communications, ergonomics, hazard analysis, waste and recycling and hazard identification. It also provided an opportunity for employees to meet with and engage with members of EHS team.

Each of RAI’s operating companies not only continued to drive safety and health among our employees, but also maintained the safety and health focus with contractors and visitors. Contractor safety meetings and engagement occurred on an on-going basis in 2017 in order to enhance the overall company-wide safety and health culture and performance for all personnel.

ENVIRONMENTAL MANAGEMENT SYSTEMS
Strong operating systems are important 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 then 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, N.C., and Clarksville and Memphis, Tenn., have in place environmental management systems based on the ISO 14001 format. These 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.

AUDIT & ASSURANCE PROCEDURES

In 2017, RAI’s operating companies moved from a risk-based to a three-tier audit platform. The platform utilizes a proactive approach to audit, by continually monitoring and evaluating EHS processes. Tiers include:

- First-party – regular inspections, led by front-line managers, employees and facility management;
- Second-party – conducted by EHS teams from company affiliates every other year to enhance program consistency across operating companies; and
- Third-party – independent EHS audits conducted by external experts every three years.

RAI’s subsidiaries continue to manage environmental performance by measuring, monitoring and reporting key environmental metrics such as GHG emissions, energy efficiency, water consumption and waste disposal.

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;
- The Forsyth County Environmental Assistance and Protection department;
- The North Carolina Department of Environmental Quality;
- Montgomery County, Tennessee; and
- Winston-Salem/Forsyth County City/County Utilities.

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

**PROGRAMS & PRIORITIES**

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 doing the right thing for society and the planet, 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 have made significant progress in reducing water consumed in their operations. By reducing our water requirements, we are sustaining a freshwater supply for future generations.

**WASTE & RECYCLING**

RAI’s operating companies continuously look for additional ways to recycle and limit waste from their products and production processes.
GREENHOUSE GAS & ENERGY

We established GHG and energy goals guided by industry benchmarking, along with the results of the third-party environmental materiality assessment. These goals are outlined below:

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.

TOTAL DIRECT & INDIRECT GREENHOUSE GAS EMISSIONS
Each operating company is responsible for identifying and executing its own strategy to meet greenhouse gas and energy reduction goals. Through the environmental materiality assessment results, operating companies are equipped with specific opportunities and able to prioritize effective reduction strategies.
WATER

Clean, plentiful water is an important resource for our companies and communities. Since 2009, our operating companies have reduced water consumption by approximately 27 percent. We introduced a water intensity goal to further our companies’ progress in water reductions:

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.

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.
WASTE & RECYCLING

Since 2009, RAI's operating companies have reduced total waste generated by approximately 31 percent. Our operating companies actively work to limit material inputs and reuse process waste throughout the manufacturing process. In 2015, we introduced a waste 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 2017, their efforts led to an increase in our recycling rate to 74 percent.

RAI's operating companies continuously work with both internal and external stakeholders to reduce material inputs and prevent waste from entering landfills. SFNTC’s Oxford, N.C., facility has been zero-waste-to-landfill since 2014, and in April 2016, began sending filter waste material to Terracycle for recycling. So far, SFNTC has recycled 83 tons of filter waste material through this partnership. Teams at ASC in both Memphis and Clarksville, Tennessee, continued progress toward zero-waste-to-landfill this year, including composting more than 16 million tons of tobacco waste.

In recent years, R.J. Reynolds introduced several new recycling programs, including polypropylene recycling at its tobacco processing facility, and plastic bottle and aluminum can recycling at leaf receiving stations.
stations. The R.J. Reynolds facilities in Tobaccoville, N.C., formed a new team to streamline recycling efforts for packaging materials and further educate and engage employees. This new program has increased the amount of material diverted from landfill while generating an additional revenue stream. The R.J. Reynolds leaf department also partnered with the Ag Container Recycling Council (ACRC) to expand and promote an agricultural container recycling program with contracted growers.

WASTE GENERATED

<table>
<thead>
<tr>
<th>Year</th>
<th>Waste Recycled (millions lbs.)</th>
<th>Waste Disposed (millions lbs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>31.0 (46%)</td>
<td>36.8</td>
</tr>
<tr>
<td>2012</td>
<td>18.7 (30%)</td>
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<tr>
<td>2013</td>
<td>25.5 (42%)</td>
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<tr>
<td>2014</td>
<td>26.9 (53%)</td>
<td>23.7</td>
</tr>
<tr>
<td>2015</td>
<td>33.2 (59%)</td>
<td>23.3</td>
</tr>
<tr>
<td>2016</td>
<td>48.1 (69%)</td>
<td>21.8</td>
</tr>
<tr>
<td>2017</td>
<td>48.7 (74%)</td>
<td>17.4</td>
</tr>
</tbody>
</table>
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 & LEADERSHIP

Our company’s vision and core values guide our direction and purposeful work — and we strive to embed them in everything we do. As a result, people are drawn to working for our companies because of the iconic brands and revolutionary products, but 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 companies thrive;
- 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.

Human resources (HR) at RAISC is organized into four Centers of Expertise (COEs) to mirror a consumer-
centric organization, with the employees as our “consumers."

The HR leadership team is composed of individuals from these COEs. Through this structure, we are better able to steward a high-performing culture across the RAI companies and meet employee expectations.

Our talent strategy is directly aligned to our business strategy and initiatives and focuses on four imperatives:

- Strengthen the Talent Pipeline;
- Advance Employee Well-Being;
- Improve HR Service Delivery; and
- Mitigate Risk
The Thrive at RAI portal is an integrated human resources management system that provides employees access to 18 different HR service providers with a single login. This system streamlines 150 HR processes and provides employees with easy and fast access to a variety of services, including career development, wellness, benefits and more. The HR Service Team also maintains an internal telephone and email support center for employees. Staffed by HR employees, the team provides a single point-of-contact to support fellow employees if they need assistance with any of our services, systems or processes. At year-end 2017, the service team had handled more than 16,000 employee cases during its 18 months in operation.

Over the past two years, these efforts were recognized by various external stakeholders, including:

- Achievers 50 Most Engaged Workplaces
- Great Place to Work Certified - September 2017-September 2018
- PlanSponsor Best in Class 401(k) Plan
- The Hackett Group Talent Management Maturity Leader
- Vault.com 50 Best Internships

**PROGRAMS & 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 important to their ongoing development and our commercial success.

**TALENT PIPELINE**

Attracting, engaging and inspiring trailblazing talent is critical to the long-term sustainability of RAI and its subsidiaries. Our companies’ employees are essential to achieving our transformation vision; they are the trailblazers who drive innovation and ignite the breakthroughs that are changing an entire industry.

**EMPLOYEE WELL-BEING**

By advancing and supporting employee well-being through programs and policies, we know 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

Attracting, engaging, and inspiring trailblazing talent is critical to the long-term sustainability of RAI and its subsidiaries. We are passionate about strengthening our talent pipeline with diverse and highly skilled employees, and continuously look at how we can take our talent practices to the next level, ensuring that we have the right people, programs and work environment.
Strengthen the Talent Pipeline
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 5,200 employees in the U.S. In aggregate, RAI’s subsidiaries’ workforce was 30 percent female and 27 percent minority in 2017. Within the ranks of management, 33 percent were female and 18 percent were minority. At the end of 2017, the executive leadership team was 24 percent female.

GENDER DIVERSITY

<table>
<thead>
<tr>
<th>Year</th>
<th>Percent Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>28.8%</td>
</tr>
<tr>
<td>2013</td>
<td>28.4%</td>
</tr>
<tr>
<td>2014</td>
<td>29.0%</td>
</tr>
<tr>
<td>2015</td>
<td>29.3%</td>
</tr>
<tr>
<td>2016</td>
<td>29.5%</td>
</tr>
<tr>
<td>2017</td>
<td>29.8%</td>
</tr>
</tbody>
</table>
ETHNIC DIVERSITY

TALENT ACQUISITION

While people are drawn to Reynolds American’s subsidiaries because of their iconic brands and innovative products, they stay for the visionary, principled and passionate people they get to work with every day. We work hard to ensure a consistent experience from candidate to employee, and that new hires are equipped with the right tools to succeed in their work and career. 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 with new hires on a regular basis.

In 2017, RAI and its subsidiaries again increased the size of the intern program to 44 interns, ultimately offering full-time positions or a second internship to 57% of the interns. This year, the RAI Intern Program was listed on Vault’s 50 Best Internships as the highest rated in the Retail and Consumer Products category. In addition, we attended more than 70 career fairs, information sessions and employer panels around the country during the 2016–2017 campus recruiting season. Read more about joining our companies on the RAI careers page.

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 companies’ vision, which are supported by individual goals for each employee. This gives employees a sense of purpose and commitment to the vision, fosters personal and professional growth, and helps overall business success. This empowerment contributes to the recruitment and retention of high-performing talent.
Because we want employees to build a remarkable career where they feel challenged and engaged, our organization encourages employees to grow in new directions, offering multiple paths for professional development to nurture their unique ideas, diverse talents and career interests. We identify behaviors that exemplify success at each level of the organization, helping employees navigate their personal development within the company. In 2016, we furthered our employee individual development programs, such as the coaching effectiveness training, in which more than 3,000 employees took part through December 2017. Through coaching effectiveness, our trailblazers are provided tools and practices to make everyday performance and development conversations more effective.

Our robust curriculum includes training on both business competencies and technical skills to help our employees develop their careers. In 2016, The Hackett Group recognized us as a Leader in Talent Management Maturity, in large part due to our robust learning and development programs, resources and tools.

In 2017, we expanded our e-learning offerings to provide employees multiple ways to nurture their diverse talents and career interests so they can achieve their current and future development goals.

In 2017, employees received a combined 202,000 hours of training, for an average of 39 hours per full-time employee. Including tuition reimbursement, this results in an investment of about $862 per employee. While hours of training remained fairly constant compared to 2016, total investment per employee went down slightly due to the conversion of numerous instructor-led courses to e-learning.

The individual development plan (IDP) process puts employees in charge of 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 equitable ratings and employee ownership of rewards for incremental compensation for above-the-bar performance. 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 and encourage employees to think and act boldly. We have a pay for performance rewards system in which all full-time employees (VP level and below, salaried and hourly) participate in the annual incentive plan that rewards based on individual and company performance. For salaried employees, bonus pay is linked directly to performance ratings with pay multipliers for above-the-bar achievements. Senior management (internal directors and above) receive stock that vests over three years — rewarding the leaders in our organization to deliver sustainable, future-focused growth. We believe our high-performing culture is a tangible outcome of all things we have put in place with the focus on employees as one of our strongest assets.

A key indicator of our success in developing talent is the ability to fill vacated roles with qualified employees. In 2017, 94 percent of open positions at RAI and its subsidiaries were filled by internal candidates.

EMPLOYEE ENGAGEMENT

Our companies’ employees are essential to achieving our transformation vision; they are the trailblazers who drive innovation and ignite the breakthroughs that are changing an entire industry. Mutual passion for transforming our industry along with a 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’s important that our employees have the opportunity to build a career where they feel challenged, engaged and empowered professionally, and engage in purposeful work where they can make a real difference.

In 2013, we established a five-year vision to become an “Employer of Choice,” enabling us to attract and retain a high-performing, sustainable and innovative talent base. We sought to increase employee engagement from the top 25th percentile to the top 10th percentile of companies (measured by our enterprise-wide engagement survey), a goal that we achieved three years ahead of schedule.

In 2017, RAI was included in the Achievers “50 Most Engaged Workplaces” for the second year in a row. This annual award is sponsored by Achievers, a leading provider of employee engagement solutions, and judged by an eminent panel of academics and thought leaders. Companies are evaluated according to eight elements. RAI’s overall performance earned it a spot on the list, and its top score in the “Vision and Values” element placed it among the “Elite 8.”
EMPLOYEE RESPONSIBILITY

EMPLOYEE WELL-BEING

Our talent strategy focuses on the total well-being of our employees and recognizes that a culture of well-being is a tapestry of physical, emotional, social and financial elements that help our employees achieve their personal, professional and financial goals:

CAREER WELL-BEING: MASTERY, PURPOSE & AUTONOMY

The RAI companies are rich in opportunities, commitment and resources to help employees build the remarkable career they envision. Whatever their ambitions may be, employees can make them happen.
by taking an active role in charting their growth. 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. Employees continually receive feedback and recommendations for development that will help move their careers forward. We also invest in life-long learning opportunities by encouraging employees to attend seminars, conferences or eLearning, complete job-related certifications and receive advanced degrees.

We categorize the behaviors, skills and abilities critical to achieving our business goals into six Leadership Dimensions, and provide employees with the knowledge to perform to the best of their capabilities in each. The Talent Management 2.0 program provides a roadmap for our employees to understand, develop and manifest the observable behaviors necessary for leadership in their present and future roles. For each level in the company, online videos with resources for development enable employees to take charge of their career.

Whether it’s development in role, cross-functional rotations to broaden skill sets, or development in preparation for a promotion, RAI and its subsidiaries are rich in opportunities and resources to help our trailblazers build remarkable careers. 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 also providing financial education programs to help employees better leverage their benefits, achieve their personal goals and enhance their overall financial well-being. Our online total rewards portal allows employees to see the full range and value of the rewards that are offered by the company, including:

- **Pay for Performance:** Throughout our operating companies, we strive for market leadership. We believe that to achieve market leadership, employees must receive fair and competitive pay that is linked to their performance. Our compensation packages are based on individual performance, as well as the performance of our companies, rewarding their contributions to Transforming Tobacco. All levels below Senior Vice President take part in the Annual Incentive Awards Program.
- **Retirement and Savings:** We provide a number of plans for eligible employees that are
designed to support the lifestyle they want during their career and in retirement. Employees can take advantage of the company-matched award-winning 401(k) plan, confidential personal financial counseling services, and many other tools and resources that support their personal financial goals. 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 provide 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 education loans.

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

We are focused on a holistic view of employee physical and emotional well-being, which goes beyond comprehensive benefits to include programs and tools that help them thrive at work and in their personal lives.

We offer a medical plan option with lower premiums than our standard plan. Employees who choose this plan receive a health savings account (HSA) to use for medical expenses and a $600 start-up contribution to their HSA. Employees are provided the tools to evaluate their options and select the one that works best for them.

**Virgin Pulse** — a healthy lifestyle incentive program — is available to employees throughout RAI and its subsidiaries. Employees can use a Virgin Pulse Max™ activity tracker or a variety of other wearables to track healthy behaviors such as walking, drinking water and getting enough sleep. Employees can earn rewards, including gift cards and merchandise, for participating. The program includes:

- Activity tracking with choice of multiple devices and apps;
- Encouragement, feedback and motivation;
- Personalized content on a variety of well-being topics;
- Social feeds and community features;
- Stress, nutrition and sleep tracking; and
- Team challenges and contests.

In addition to the Virgin Pulse program, we promote physical well-being through:

- High-quality medical, dental and vision care at affordable rates;
- On-site fitness centers at no cost;
• On-site health centers and telemedicine services; and
• Convenient on-site cafeterias complete with healthy food options.

Promoting well-being also means fostering a culture where employees can manage their work-life balance by giving them more control over their schedules. Full-time office employees may shift their work hours or location in keeping with our flexible and remote working policy.

SOCIAL WELL-BEING

Our employees say they are drawn to working for us because of our operating companies’ brands, but they stay for the visionary, principled and passionate people they get to work with every day. 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.

The transformative effect that recognition has on employee engagement and retention is powerful. We have three distinct programs: peer recognition, years of service and Leadership Team awards. Our peer recognition program is our way of acknowledging that our employees’ hard work and dedication directly contribute to the organization’s success. It’s also a great way to empower employees to personally recognize each other for lending a helping hand, an impactful thought or idea, demonstration of great teamwork or for simply going the extra mile. We also celebrate and recognize career milestones as a way to acknowledge an employee’s collective “body of work” over time. The highest level of recognition is the Leadership Team Awards where our Executive Leadership honors employees who make exceptional contributions to achieve extraordinary business results.

Our employees demonstrate their personal commitment to our communities through donations of their time, talent and resources. They are passionate about employee-directed giving — organized at both the enterprise and local levels. The Reynolds American Foundation matches employee gifts to nonprofit organizations and institutions of higher learning up to $7,000 per employee per year. Our companies, along with their foundations and employees, donated more than $32.6 million in cash and property to a wide range of nonprofit organizations in 2017.

Employees have access to eConnect, an online tool that allows them to track their donations of time and money, and connects them to opportunities to volunteer. Read more in community engagement.
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.

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 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.

To further engage different areas of the organization, the Environment, Health and Safety (EHS) department took safety on the road with the first annual EHS Roadshow. The roadshow was designed to engage employees with a variety of EHS topics including, hazard communications, ergonomics, hazard
analysis, hazardous waste and recycling, and hazard identification. It also provided an opportunity for employees to meet with and engage with members of EHS team.

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 incident rate is lower than the incident rate for the U.S. beverage and tobacco product manufacturing industry as a whole. Our safety data is annually verified by an independent third party.

**LOST TIME INCIDENT RATE**

<table>
<thead>
<tr>
<th>Year</th>
<th>RAI Operating Companies</th>
<th>US Beverage and Tobacco</th>
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</tr>
<tr>
<td>2017</td>
<td>0.95</td>
<td>NA</td>
</tr>
</tbody>
</table>

*Subject to third-party verification

**OSHA INCIDENT RATE**
Every year, we set aggressive safety goals that include both proactive and reactive measures. Employees continuously share best practices and communicate both positive and negative feedback on safety behaviors and practices. 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 2017, the N.C. Department of Labor presented seven operating locations with its Gold Award for their 2016 safety achievements.

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 contracted 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.

*Represents the experience at R.J. Reynolds Manufacturing. We have plans to discuss extending contractor injury data reporting to other areas of the business.
While RAI’s operating subsidiaries do not employ farm workers or grow tobacco, we engage with growers, leaf suppliers and other stakeholders to address social and environmental sustainability risks and opportunities in the tobacco supply chain. 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.

Through contracts with growers, we require compliance with laws protecting workers and the environment; and compliance with Good Agricultural Practices (GAP) standards for environmental, agronomical and labor practices and standards. R.J. Reynolds purchases tobacco leaf and provides services relating to tobacco leaf procurement through services agreements for American Snuff Company (ASC) and Santa Fe Natural Tobacco Company (SFNTC).

Imported tobacco is sourced through a network of leaf suppliers who participate in the AB Sustain Sustainable Tobacco Production (STP) program. AB Sustain, an international auditing organization, conducts third-party audits of all tobacco leaf suppliers that sell tobacco to R.J. Reynolds, ASC and SFNTC. This program provides a platform for periodic review of our international 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
- Equal opportunity employment

Through the STP program, we monitor leaf suppliers’ performance against criteria pertaining to sustainability, and create an environment of knowledge transfer, capacity building and continuous improvement within our leaf supplier base.
Risks inherent in agricultural work, together with the special issues that arise when a significant number of farm workers are migrant workers, make compliance with the laws that protect farm workers on contracted farms a priority for R.J. Reynolds and its affiliates that purchase tobacco, and for many of our stakeholders. The GAP standards, against which we also 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
- Wage & hour compliance

In 2015, we completed a third-party environmental materiality assessment to determine where our largest environmental impacts occur. 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
- Agrobiodiversity

Multi-party engagement is critical to driving improved sustainability in the supply chain. Many growers sell to multiple purchasers, creating the need and the opportunity for the industry, growers’ associations, government, labor unions, and other stakeholders to work together in appropriate ways to address general issues in the supply chain. The two most significant multi-lateral stakeholder groups in the United States are the Farm Labor Practices Group and GAP Connections.

The Farm Labor Practices Group, a multilateral dialogue group that includes manufacturers, growers’ associations, a labor union, and the U.S. Department of Labor, works to address the complex issues associated with migrant and seasonal farm labor. The FLPG has made significant progress. Most recently, it has authorized and issued a Request for Proposals for the design and administration of a pilot voluntary grievance mechanism.

GAP Connections is a non-profit agricultural organization founded to simplify and streamline the processes that connect growers to purchasers and to assist each in meeting regulatory requirements and ensuring sustainable and socially responsible production. GAP Connections provides training and education programs and resources to growers, and has, since 2014, contracted with independent supply chain assessment firms to conduct environmental, agronomic, and labor rights due diligence on behalf of many of its member companies, including R.J. Reynolds.

**GOALS & LEADERSHIP**
R.J. Reynolds’ 2017 goal was to audit or assess 33% of its contracted grower base. 340 contracts were audited by independent assessors at 293 sites (two growers may be associated with a single site) and 377 assessments were conducted by R.J. Reynolds personnel, accounting for 36% of growers contracted to sell to R.J. Reynolds or its affiliates.

The executive vice president of operations for R.J. Reynolds Tobacco Company is ultimately responsible for RAI’s operating companies’ tobacco supply chain management and goals. Through services agreements, R.J. Reynolds provides services relating to tobacco leaf procurement to other RAI tobacco operating companies that purchase tobacco leaf, enabling an integrated, comprehensive approach to managing the leaf supply chain. Executives from the leaf department and corporate sustainability and commercial equity collaborate to develop, coordinate and execute programs to achieve company-wide goals and targets.

**PROGRAMS & PRIORITIES**

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

**PROMOTING GOOD AGRICULTURAL PRACTICES (GAP)**

Through provisions in their contracts with growers, R.J. Reynolds and its affiliates that purchase tobacco require growers to comply with laws and good agricultural practices (GAP) protecting workers and the environment. The contracts 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 itself, and on behalf of its affiliates that purchase tobacco, has a comprehensive program of audits and assessments in place throughout our tobacco procurement supply chain. Whether 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 tobacco operating companies’ supply chains. To reduce negative impacts associated with both environmental and social risks, RAI’s operating companies that purchase tobacco 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 Connections (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.

Our contracted U.S. tobacco growers have a great environmental stewardship story to tell. Our 2017 audit report demonstrates soil and water management, and agrochemical management practices that benefit the environment. These include:

- Presence of buffer zones between farmland and bodies of water (99.6%);
- Use of a Licensed Pesticide Applicator (98%);
- Conservation plan in place for Highly Erodible Land (HEL) (95%); and
- Maintenance of all proper soil and water management documentation (98%).

Internationally, our tobacco suppliers have made significant progress in lessening their impact on the
environment, both in their operations and on the farms from which they source tobacco. Historically, tobacco farmers in many countries outside the U.S. have used wood from native forests for curing fuel and barn construction. This has led to unnecessary deforestation and, as a result, a loss of biodiversity and increases in carbon emissions in countries such as Brazil. Our suppliers are collaborating with their contracted farmers to lessen the environmental impact of tobacco curing through:

- Improving barn efficiency and reducing fuel needs;
- Transitioning to sustainable wood sources and alternative fuel sources such as biomass; and
- Assisting with reforestation projects.

**GAP LABOR MANAGEMENT STANDARDS**

GAP Labor Management best practices address compliance with the laws that protect employees’ 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 employees are respected. Farm employees are critically important to tobacco production. These jobs are seasonal and often filled by migrant employees, many of whom are working to support families in Mexico and Central American countries. For those migrant employees, these jobs offer significant opportunities and significant challenges.

- **Child Labor:** Grower contracts for all RAI operating companies that purchase tobacco include a minimum age of 16 for farm employees working in tobacco in the U.S., which is more stringent than the legal requirement. Employment of minors 16 and 17 years of age is permitted where 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 employees’ identity documents to restrict their travel and ability to return home. Third-party audits include questions directed to this issue. To date, no instance of withholding of identity documents has been identified on farms with which RAI operating companies contract. In our 2017 audit report, 100 percent of interviewed farm employees reported that they had free access to their passports or identity documents and 100 percent of the employees interviewed reported that they felt free to leave or terminate their employment at any time.

- **Freedom of Association:** Farm employees who wish to join a union have the right to do so. Growers violate their contract if they retaliate against employees for joining a union or for making complaints about the terms and conditions of their employment. In our 2017 audit report, 99 percent of the farm employees interviewed reported that they were aware of their right to join a labor union.

- **Health & Safety/Green Tobacco Sickness (GTS):** Growers and workers are trained in identifying and avoiding health and safety risks, and are assessed on their efforts to instruct their employees, including regarding GTS. These topics 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 employees. In addition, we support live, on-farm training programs, including training on heat stress, heat stroke, personal protective equipment, farm equipment safety and CPR. In our 2017 audit report, 99 percent of farm employees interviewed reported receiving GTS and Heat Stress training

- **Housing**: Growers who provide housing to employees 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. In our 2017 audit report, 100 percent of farm employees interviewed reported being paid above the local minimum wage, and 98 percent reported receiving some form of itemized pay statement.
FARMER TRAINING

Growers are required to receive training in Good Agricultural Practices (GAP), which sets best practices for environmental, agronomic and labor issues. This training is delivered through GAP Connections, which held 104 GAP meetings in 2017 at which 7523 growers received training. Growers also received the following materials at the 2017 annual GAP Connections training events: Labor management resource guide; U.S. Department of Labor materials addressing compliance with Federal labor laws and farm worker rights; All-in-one labor poster, containing in a single document all of the legally required notices to employees; and, a Worker Rights and Responsibilities guide for distribution to workers.

In 2017, GAP Connections also held 13 On-Farm Safety, Health and Compliance events at seven different locations in Georgia, South Carolina, North Carolina, Virginia, and Kentucky during the months of June and July. The purpose of these events is to educate and train growers, migrant, seasonal, and local farm workers on specific safety, health and compliance topics that comply with Good Agricultural Practices (GAP).

GOOD AGRICULTURAL PRACTICES

R.J. Reynolds has long supported training and provided materials to growers and for 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 operating companies that purchase tobacco 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, R.J. Reynolds 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 evolution of both the GAP Connections grower training program and the On-Farm Safety, Health,
and Compliance events demonstrates the need and utility of multi-lateral approaches to labor practices issues and the leadership of R.J. Reynolds in partnering with government to pioneer training programs that evolve into industry-wide initiatives. The Farm Labor Practices Group, which includes both the U.S. and North Carolina Departments of Labor, developed an enhanced labor management training program and new informational materials. This new curriculum was piloted by GAP in 2014, with presentations being delivered by representatives of the Department of Labor at 17 sites in North Carolina and two sites in Kentucky. The enhanced labor management module was revised and expanded in 2015, when it was delivered across all GAP Connections training meetings. In 2017, the FLPG and GAP Connections collaborated to revise and develop training materials used in the program.

The On-Farm Safety, Health, and Compliance Events grew out of an on-farm training program originally offered by the North Carolina Department of Labor with the support of R.J. Reynolds. Now sponsored by multiple companies and offered through GAP Connections, the success of this training underscores the logic of R.J. Reynolds’ approach. By developing and supporting innovative programs and working effectively with other stakeholders to refine and expand the programs’ content and distribution, R.J. Reynolds is helping to promote responsible labor practices across the tobacco supply chain generally.

**NORTH CAROLINA DEPARTMENT OF LABOR**

Since 2008, R.J. Reynolds has supported the North Carolina Department of Labor’s efforts to make safety training more available to farm workers. In addition to our pioneering support for on-farm safety training, now provided by GAP Connections, R.J. Reynolds funded safety training DVDs and other materials in both English and Spanish, making them available to farmers to use with their employees free of charge. In 2016, R.J. Reynolds supported the development of a new NCDOL comprehensive training DVD. The new DVD brings together best practices for a variety of on-farm safety best practices into a single resource for farmers. These DVDs were made available to growers for the 2017 growing season. The R.J. Reynolds employee who led these efforts received a safety training award from NCDOL.
AUDITS & ASSESSMENTS

R.J. Reynolds itself, and on behalf of the other RAI tobacco operating companies with which it has service agreements, 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 itself, and on behalf of its affiliates that purchase tobacco, relies on third-party auditors to audit growers’ compliance with Good Agricultural Practices (GAP) standards, including environmental, agronomic and labor practices and standards. 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.

Farm audits include personal interviews with a minimum of 20 percent of the workforce present on the day of the assessment. 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.

Our 2017 goal was to audit or assess 33 percent of contracted growers in the U.S. against GAP standards and our grower code of conduct. Arche Advisors audited 340 growers at 293 sites (multiple growers may be associated with a single site). During these audits, Arche conducted 443 farm worker interviews. R.J. Reynolds personnel assessed another 377 growers. As a result, 717 growers, or 36 percent of the grower base, were audited or assessed in 2017.

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Third-Party Audits</th>
<th>Assessments</th>
<th>Contracted Growers</th>
<th>% Audited or Assessed</th>
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</thead>
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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 contracts AB Sustain, an international auditing organization, to conduct third-party audits of all tobacco leaf suppliers that sell tobacco to R.J. Reynolds, ASC and SFNTC. 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. This program provides a platform for periodic review of our leaf supply chain and covers key sustainability areas, such as:

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

Through the STP program, we monitor leaf suppliers’ performance against criteria pertaining to sustainability 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 and verify a supplier’s responses against documented evidence. Suppliers are provided with feedback to help them advance their environmental and social footprints and perform any necessary corrective actions. The R.J. Reynolds leaf procurement leadership team meets quarterly to review STP submissions and supplier progress.

R.J. Reynolds, as a supplier of leaf to international purchasers, is held to the same standards to which we hold our international suppliers, and is audited by AB Sustain in the same manner.
RAI’s operating companies work closely with suppliers to deliver high-quality, innovative products to adult tobacco consumers. To do so, RAI’s operating companies partner with suppliers to innovate and drive capacity and to minimize environmental and other adverse impacts throughout the supply chain.

RAI’s impact on society and the environment is driven not only by the behavior of RAI and its subsidiaries, but also by the behavior of their suppliers. RAI’s operating subsidiaries hold suppliers to the same high standards to which they hold themselves. Each supplier is expected to have systems and processes in place to ensure compliance with applicable laws and regulations, and to go beyond compliance in managing environmental, social and governance (ESG) practices. RAI’s operating companies encourage responsible and sustainable practices in the supply chain through a variety of mechanisms.

RAI’s operating companies source from numerous suppliers covering a range of categories, including leaf growing and processing; manufacturing support; marketing; and distribution. In addition to tobacco leaf, other suppliers include:

- Direct materials suppliers;
- Indirect materials and services suppliers;
- Maintenance, repair and operations; and
- Logistics and finished goods suppliers.

While we source from suppliers around the world, almost 95 percent of our non-leaf suppliers are located in the United States.

In 2015, we completed a comprehensive third-party environmental materiality assessment to determine where our largest environmental impacts exist. Not surprisingly, we found the significant majority of our environmental impacts occur in the supply chain and with our contracted tobacco growers and suppliers. Read more about our approach to responsible agriculture.
GOALS & LEADERSHIP

RAI’s operating companies strive to minimize the negative environmental and other impacts in the supply chain. We work with suppliers to ensure they comply with applicable laws and adhere to responsible employment practices. This collaborative effort helps us achieve our mutual sustainability objectives.

The executive vice president of operations for R.J. Reynolds Tobacco Company is ultimately responsible for supply chain management and goals. In addition, the executive vice president of corporate sustainability and commercial integrity for RAIS provides oversight on sustainability in the supply chain. 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;
- Broadening our companies’ engagement with diverse suppliers; and
- Achieving an 8 to 10 percent spend rate with certified diverse suppliers by 2020.

In 2016, RAI created the Upstream Team of the Corporate Sustainability Committee, composed of individuals from throughout operations, including both procurement and leaf. In addition to the Upstream Team, other sub-teams of the Corporate Sustainability Committee have been formed and are responsible for projects such as incorporating environmental and social sustainability initiatives into RAI and its operating companies’ supply chains. An example of these projects includes participating in the U.S. Environmental Protection Agency’s SmartWay program.

RAI and its subsidiaries offer a Supplier Guide, which outlines the code of conduct with which suppliers must comply. This guide outlines requirements and expectations for which suppliers are screened during the onboarding process, and against which we conduct periodic audits. Our supplier requirements and expectations 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
- Corporate sustainability

PROGRAMS & PRIORITIES

RAI is proud of the efforts to promote responsibility in its operating companies’ supply chains. Suppliers are truly our partners — working together to identify innovative opportunities, best practices and policies.
SUPPLIER RISK MANAGEMENT

On an ongoing basis, suppliers are evaluated for compliance with our operating companies’ guidelines, as well as laws and regulations. RAI subsidiaries utilize an annual supplier management activity matrix, which includes supplier self-assessments, an FDA-relevant risk assessment and supplier audits. Through these activities, suppliers are evaluated for reputational, operational and strategic risks.

SUPPLY CHAIN INNOVATION

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

SUPPLIER DIVERSITY

RAI subsidiaries are committed, across the enterprise, to enhance our participation with diverse suppliers. A diverse supplier base is integral to the RAI companies’ strategic objectives. Rapidly changing demographics and societal expectations contribute to an ever-evolving landscape. RAI’s subsidiaries actively recruit and retain diverse suppliers to further drive innovation, reduce our supply chain impacts and enhance the communities in which they operate.
SUPPLIER RESPONSIBILITY

SUPPLIER RISK MANAGEMENT

On an ongoing basis, suppliers are evaluated for compliance with our operating companies’ guidelines, as well as laws and regulations. We employ robust supplier risk management processes, which include environmental, social and governance factors. RAI subsidiaries utilize an annual supplier management activity matrix, which includes supplier self-assessments, FDA-relevant risk assessment and supplier audits. In 2017, 78 percent of direct materials suppliers and 20 percent of active indirect suppliers were assessed.

Risks identified from the analyses, including sustainability risks, inform a supplier segmentation process. Suppliers are assessed on likelihood of risk, as well as its impact to our subsidiaries. Suppliers who score highly in both areas are further assessed through the RAI Enterprise Risk Management (ERM) process.

RAI employs a holistic ERM process that aligns with the COSO Framework. Governance is provided by the RAI Risk Committee, which is chaired by the CEO. ERM at RAI is centralized for purposes of governance, thought leadership, process leadership (including the use of a common risk language, assessment tools, etc.) and enterprise communication and reporting. With respect to risk assessment, management and ownership, ERM is decentralized and embedded in the subsidiaries with second line oversight by the supplier compliance, supplier quality assurance and procurement functions. Critical suppliers’ risks are assessed and reported to the Group Risk Management and Regional Audit and CSR Committee twice a year through the ERM office.

Our subsidiaries use various levels of supplier audits based on the supplier segmentation results and quality issues. These audits are led by supplier quality assurance and supplier compliance and include cross-functional teams comprising procurement, finance and other departments. Audit focus areas include quality, training, risk of contamination, logical and physical security, change control, product recall and business continuity. The program also identifies areas in which suppliers could improve, and RAI’s subsidiaries work with suppliers to identify corrective actions and ensure timely implementation.

In addition to these audits, RAI subsidiaries evaluate critical and strategic suppliers for financial health. Procurement engages with various third parties to evaluate the financial statements of both publicly and privately held suppliers.
Supplier due diligence is not limited to upstream suppliers. RAI’s 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 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. The RAI operating companies 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, such as:

- Customer response time; and
- Issue resolutions.

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. The RAI operating companies have leveraged the VCC program with key direct material suppliers to generate numerous new initiatives.

In 2016, the RAI companies created the Upstream Team of the Corporate Sustainability Committee, whose members work throughout operations, including both procurement and leaf. The team is responsible for identifying, evaluating and implementing new supply chain sustainability initiatives.

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:

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

In 2017, R.J. Reynolds continued several initiatives to reduce its supply chain environmental impact:
• Participating in the U.S. Environmental Protection Agency’s SmartWay program; and
• Minimizing the environmental impacts of its distribution facilities.

Read an example of how R.J. Reynolds is promoting environmental sustainability in the supply chain.

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 business 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. We’re committed, across the enterprise, to enhance our participation with diverse suppliers.

In order to accomplish this goal, we will:

- Cultivate relationships with diverse suppliers;
- Broaden the pool of diverse suppliers for consideration via the RFP process;
- Reach beyond conventional procurement into the areas of our business that traditionally do not process their spending decisions through the procurement function;
- Invest money to attend national Supplier Diversity symposiums and subscribe to databases where Diverse Suppliers are listed; and
- Engage and educate employees to encourage them to broaden supplier networks.

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

- Driving innovation
- Fostering a competitive edge in a changing business culture
- Promoting competition and inclusion in sourcing decisions
- Promoting excellence in materials and services
- Facilitating enhanced quality, service and cost competition
- Enhancing 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 determine and execute supplier diversity goals. We track the following diverse supplier categories:
Historically, we measured performance toward supplier diversity goals using data from suppliers that self-report a diversity status or are third-party certified. In 2016, we completed a validation effort to identify third-party certified suppliers, enabling separate tracking and reporting on suppliers with third-party certifications.

We have reaffirmed our goal to reach an 8 to 10 percent spend rate with certified diverse suppliers by 2020. We will continue to systematically engage non-certified minority suppliers to encourage them to obtain their third-party certification, as well as look to broaden the number of minority suppliers with whom we do business.

As we expand our supplier diversity program, we will update our tracking and reporting metrics to include the following:
- 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 2016, we expanded our partnership with the WBENC and participated in several conferences to seek out Women and Minority Business Enterprises (WMBE).

The Supplier Diversity Team plans to advance supplier diversity programs through several initiatives, including:

- Developing relationships with the National Veteran Owned Business Association and the United States Hispanic Chamber of Commerce;
- Growing and developing the number of certified diverse suppliers;
- Engaging and promoting internal communications with business functions to obtain the commitment and support of supplier diversity objectives;
- Continuing the development of robust externally facing communication;
- Driving supplier diversity to further inclusion as part of the RAI culture; and
- Promoting and improving certification efforts to drive integrity and compliance.

We also anticipate collaborating further with diversity councils, suppliers and other partners to drive supplier diversity throughout our companies’ supply chains.

Read an example of how R.J. Reynolds is engaging a diverse supplier.
COMMUNITY ENGAGEMENT

RAI’s companies are guided by the principle that our success is tied to the communities where we live, work and actively participate as involved neighbors. Philanthropy and community engagement are traditions and points of pride.

RAI’s companies and our employees generously contribute their time, talent and money to benefit others and the communities where we live and work. We find great value in building strong community connections through philanthropic giving, employee-directed giving and volunteer participation.

Giving back to our communities is not just the right thing to do; it also fosters an attractive environment for recruiting and retaining a high-performing talent base. By providing opportunities for employees to engage with nonprofit organizations, the RAI companies’ employees build personal community connections and experience professional development while helping their neighbors. For example, serving on a non-profit board of directors offers training in areas such as financial and organizational management that can directly benefit an employee’s professional development.

2017 GIVING AT A GLANCE

Our companies, along with their foundations and employees, donated more than $32.6 million in cash and property to a wide range of nonprofit organizations in 2017. Employees gave approximately $2 million of their own money to nonprofit and educational organizations through the United Way campaign and the employee matching grants program. Employee contributions were matched one-for-one by the Reynolds American Foundation.

DONATIONS BY FUNDING SOURCE
GOALS & LEADERSHIP

RAI's total giving programs are led by the director of community engagement programs and the vice president of corporate sustainability, who also serve as the executive director and president, respectively, 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. The executive vice president of Law and External Affairs for RAI has executive oversight of the giving strategy and reports progress to the RAI leadership team and the Board.

RAI and its subsidiaries are focused on facilitating opportunities for employees to engage in the community, with the goal of increasing the number of employees participating in matching grant programs and in volunteerism. This requires understanding our employees’ interests and effectively communicating activities and opportunities.

We conducted an employee survey and hosted focus groups to learn of employees’ current volunteer efforts and their interests in community engagement. Insights gained from our employees guide our planning of community engagement activities. Some of the insights were shared with the internal United Way Steering Committee, who used them to increase the number of donors and conduct another successful campaign. RAI enhanced its communications about its own activities and those of the Reynolds American Foundation, significantly increasing internal communications about grant recipients and opportunities for partnering with colleagues to become more engaged in the community. The Reynolds American Foundation also expanded its presence on social media, heightening awareness of the activities of grant recipients.

These and other efforts led to significant increases in the number of employees who invest their money
and time in the community in 2017:

- The number of employee donors to United Way campaign increased by 292, or 7.7%; and
- 1,250 employees volunteered their time in connection with the United Way Days of Caring program, an increase of 48%.

There is also a new web-based tool that will connect employees with volunteer opportunities and allow them to track their volunteer hours.

“The most rewarding aspect of being involved in these volunteer efforts is getting to be a part of something bigger than yourself. The RAI companies’ support of our volunteer efforts proves that they value employees and the community at the same time.”

Keith Lonon, Senior Area Manager and United Way Days of Caring past chair

PROGRAMS & PRIORITIES

Community outreach efforts are an important part of our sustainable business practices and our commitment to being a positive, connected contributor in the community. To this end, RAI and its subsidiaries' total giving programs are defined by four components:

FOUNDATION GIVING

Three independent foundations created, staffed and funded by RAI and its operating companies, support education, arts and social programs that strengthen our local communities.

CORPORATE GIVING

RAI and its subsidiaries make monetary contributions and non-cash donations, such as land and buildings, to support nonprofits and economic development efforts in the communities in which we operate.

EMPLOYEE GIVING

Employees can direct foundation and corporate funds through a variety of mechanisms. For example, the Reynolds American Foundation matches employee gifts to nonprofit organizations and institutions of higher learning up to $7,000 per employee per year.
Employees enjoy giving back to our communities in a wide variety of ways. RAI provides an easy, online portal for employees to find volunteer opportunities that connect them to other employees with similar interests and the greater community.

**GIVING PRIORITIES**

Our companies’ foundations, corporate and employee giving focus on three areas — education, economic and social development, and arts and culture — where we believe we can make the most impact in the communities where we live and work.
COMMUNITY ENGAGEMENT

FOUNDATION GIVING

RAI and its subsidiaries contribute to the needs of the communities in which we operate through three independent foundations. The foundations support hundreds of national and local organizations that benefit our communities.

REYNOLDS AMERICAN FOUNDATION

The Reynolds American Foundation focuses its contribution resources in communities where significant numbers of RAI companies’ employees live and work. Grants are made for one year only; applicants must reapply for additional funding. Grants are awarded in the following areas:

- **Education**: Public school and community programs that prepare children to enter school ready to learn and programs that focus primarily on improving academic performance of lower-performing and economically disadvantaged students.

- **Arts & Culture**: Programs focused on enhancement of organizations, opportunities, resources and availability of arts in target communities.

- **Social & Economic Development**: Programs designed to address unmet needs of at-risk community populations, focusing on overall quality of life. Most funding is allocated to support the United Way in target communities and other organizations focused on basic human needs.

In addition, the Reynolds American Foundation encourages employees’ community support through the Foundation’s Matching Grants Program and utilization of the scholarship program for children of employees.

The Reynolds American Foundation created employee sub-committees around each of its priority giving areas. The committees provide additional opportunities for employee involvement in community engagement. They also better enable the Reynolds American Foundation to support our communities.
AMERICAN SNUFF COMPANY CHARITABLE TRUST

The American Snuff Company (ASC) 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, Ronald McDonald House and Big Brothers, Big Sisters. Each year, ASC rotates a large donation among their locations of Clarksville, Memphis and Winston-Salem to make a significant contribution, most often to an organization that addresses basic human needs such as food, clothing and shelter. In 2017, ASC presented the Memphis, TN, Brinkley Heights Ministries Emergency Services Program with a donation of $30,000.

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

CORPORATE GIVING

As a community leader, RAI often contributes corporate funds for sponsorships in key community events and activities to support community engagement for education, arts, social and economic development and other priority areas as defined by employee interests. An assortment of community sponsorships include the Winston-Salem Open, National Black Theatre Festival, Old Hickory Council Boy Scouts and the organization's Trail of Courage program, Big Brothers Big Sisters, Senior Services and the NAACP.
COMMUNITY ENGAGEMENT

EMPLOYEE GIVING

Over the past year, RAI and its subsidiaries have developed a multi-year strategic plan to improve employee engagement, through giving and volunteerism, in the communities in which they work and live.

EMPLOYEE-DIRECTED GIVING

RAI encourages employees to contribute time, talent and funds to community and non-profit organizations that matter most to them. Employees of RAI and its subsidiaries are able to direct foundation and corporate funds through a variety of programs:

- The Reynolds American Foundation matches employee gifts to any nonprofit organizations or institutions of higher learning of their choice, up to $7,000 per employee per year.
- Every employee contribution to the United Way is matched by the Reynolds American Foundation.
- Employees may award a $500 grant to a nonprofit organization when they present the Right Decisions Right Now: Be Tobacco Free program. Employees can present the program, thus awarding grants, to an unlimited number of eligible non-profit organization.

EMPLOYEE VOLUNTEERISM

Employees of RAI and its subsidiaries are known throughout the communities where they work and live for their contributions of time and talent. Often, nonprofit organizations call upon RAI when seeking to fill leadership and board of director positions. RAI encourages employees 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.
COMMUNITY ENGAGEMENT

GIVING PRIORITIES

The RAI companies’ foundations and corporate and employee giving broadly center on three critical areas — education, economic and social development, and arts and culture — where we believe we can make the most impact in the communities where we live and work. Even so, our companies and employees have interests that don’t always fit neatly into these three categories, so we do tackle other issues of need.

EDUCATION

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 in impacted schools working to better the outcomes of students. Improving education helps our communities thrive and contributes to a high-quality future workforce for our companies. Our National Merit Scholarship Program rewards the hard-working children of our employees and retirees by providing support for their collegiate education.

In 2017, our educational giving also included support for:

- Project Impact, supporting the Winston-Salem/Forsyth County Schools;
- Forsyth Technical Community College; and
- Winston-Salem State University.

Through the support of the United Way to the Winston-Salem/Forsyth County Schools and the many organizations working with our youth, the community has seen its graduation rate increase from 70.7% in 2007 to 86.5% in 2017. Many of the educational programs supported by the corporate and foundation funds have made a positive difference in students’ success.

Supporting education and youth development is also a critical component of our youth tobacco prevention efforts and contributes to the health of our communities. Corporate and foundation giving is coordinated with our Youth Tobacco Prevention efforts, including the We Card Program and Right Decisions Right Now: Be Tobacco Free (RDRN), our free youth tobacco prevention program. We encourage employee
engagement in RDRN by making grants to youth groups that participate in the program and had 864 employees present to 444 youth-focused organizations in 2017, a 75% increase over the previous year.

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 businesses. Contributing to the overall well-being 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 employee volunteerism.

In 2017, we worked with numerous organizations to provide support and contribute to the economic and social welfare of the regions in which we work, including the:

- United Way of Forsyth County;
- Arts Council of Winston-Salem & Forsyth County;
- Authoring Action; and
- RiverRun International Film Festival.

In addition to monetary donations, RAI and its subsidiaries remain committed to ensuring that our companies’ formerly used facilities 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 later years, our donations of land and property have led to the redevelopment of downtown Winston-Salem to what is the now-vibrant Innovation Quarter, as well as the redevelopment of the Whitaker Park manufacturing site by a collaborative private-public sector nonprofit group.

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.

In 2017, the Reynolds American Foundation lent its support to various local cultural institutions, including the:

- National Black Theatre Festival;
- Old Salem Museums and Gardens; and
- Reynolda House Museum of American Art;
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 American Indian culture and languages, including the:

- Institute for American Indian Arts;
- Indigenous Language Institute; and
- Southwestern Association for Indian Arts.
RAI’s operating companies are responsible marketers of age-restricted tobacco products. The operating companies comply with the marketing restrictions in the Family Smoking Prevention and Tobacco Control Act, enacted by Congress in June 2009.

RAI’s largest operating company, R.J. Reynolds Tobacco Company (R.J. Reynolds), has long abided by voluntary advertising restrictions set forth in the Voluntary Cigarette Advertising 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;
- Bans on the use of billboards, stadium signs, transit signs and certain other outdoor advertising of tobacco products;
- Bans on the use of tobacco-branded merchandise (such as caps and T-shirts);
- Bans on 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;
- Bans on the use of non-tobacco brand names on tobacco products; and
• Bans on licensing 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 a database of adult tobacco consumers to facilitate marketing communications directly with adult tobacco consumers who have expressed an interest in receiving communications from the companies. To be added to this database, the adult tobacco consumer must certify that they are an existing consumer of tobacco products, are at least 21 years of age and wish to receive mailings and offers. The age of consumers who sign up through a brand website or the consumer relations center is verified using independent third-party sources that access and utilize 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 marketing 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 tobacco operating companies and brands.

STRICT ADVERTISING STANDARDS

RAI’s operating companies’ policies for placing print advertising are designed to limit youth exposure while exercising 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 audience-measurement data regarding the age of a publication’s readership,
  ◦ Where data are available on a publication’s readership aged 12 or older, the companies only advertise in magazines with readership of at least 85 percent aged 18 or older,
  ◦ For publications where audience measurement data are available only for readership 18 and older, the companies advertise only if the median age of the audience is 23 or older;

• Analyze the editorial content of the publications over time to assess whether the topics covered by such publications 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 subject to a different regulatory regime than cigarettes and smokeless tobacco.
Nevertheless, R.J. Reynolds Vapor Company works to ensure its brand advertising placement is consistent with RAI and its operating companies’ commitment to limiting youth exposure to tobacco-related messages. All consumer advertising for vapor products indicates that the product contains nicotine, which is addictive. Any VUSE brand television advertising is placed only during programming viewed primarily by adults, according to Nielsen data or other reliable third-party sources.

**TRAINING OUR EMPLOYEES**

Every employee who interacts with adult tobacco consumers is trained to ensure that marketing safeguards and standards are adhered to in 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.
RAI and its operating companies oppose additional increases in tobacco excise taxes because they unfairly burden adult tobacco consumers. These regressive taxes also have negative, unintended consequences, such as escalating the amount of illicit tobacco trade and, potentially, other illegal activity. In fiscal year 2017, more than $33.4 billion in tobacco excise taxes were paid to the U.S. federal, state and local governments.

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 600 cities, towns and counties tax cigarettes in addition to federal and state taxes levied. As a result, on average, tobacco excise taxes account for more than 50 percent of the total cost of a pack of cigarettes.

Additionally, roughly $12 billion in sales tax and MSA payments was paid to the states in fiscal year 2017.

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 decreased by an average of 3.6 percent per year.

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. Even so, some policymakers support cigarette excise taxes as a way to raise revenue while providing an incentive for people to quit smoking.

“Cigarette taxes fall disproportionately on low-income taxpayers.”

Institute on Taxation and Economic Policy, 2016 brief
Excise taxes are considered regressive because they disproportionately impact people with lower to moderate incomes. The Centers for Disease Control and Prevention reports that about 26 of every 100 adult smokers live below the poverty level. According to an Institute on Taxation and Economic Policy 2016 brief, in 2015, “...[t]he poorest twenty percent of Americans spent 0.8 percent of their income, on average, on cigarette taxes while the wealthiest 1 percent spent less than 0.1 percent of their income on these taxes. Simply put, cigarette taxes fall disproportionately on low-income taxpayers.”

Tobacco excise tax increases often have unintended consequences.

- **Taxes can drive illicit trade.** Increases in tobacco excise taxes drive higher rates of cigarette smuggling across state and county lines. According to the Tax Foundation, smuggled cigarettes account for more than 25 percent of consumption in 8 states, with smuggled cigarettes accounting for more than 55 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), in 2017, tobacco products generated more than 34.1 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 sales.
- **Taxes may lead to budget shortfalls.** Earmarking funds from a declining tax revenue stream, such as tobacco products, may cause budget shortfalls and force cuts in important government services.

**GOALS AND LEADERSHIP**

Individuals from public affairs, consumer and trade marketing, sustainability, strategy and planning, tax and operations are responsible for executing RAI subsidiaries’ tobacco excise tax strategy. These representatives advocate for policies and activities that support a fair marketplace and a level competitive playing field.

**PROGRAMS AND PRIORITIES**

RAI and its subsidiaries engage with diverse stakeholders, including retailers, consumers and government agencies, to address tobacco excise tax issues. **Own It Voice It** is the website designed to provide information on tobacco product excise taxes and other tobacco-related issues to adult tobacco consumers and retailers, as well as information on how to contact elected officials when important issues are under consideration in their state. 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.

RAI and its subsidiaries believe tax rates on tobacco products should be based on their relative risks to encourage switching to smoke-free alternatives. High taxes can be a barrier that prevents smokers from considering switching to vapor products. A growing body of scientific evidence shows that non-combustible tobacco and vapor products may present less risk than cigarettes. RAI and its subsidiaries believe the use of these products presents a complementary approach to prevention and cessation which may lead to greater reduction in smoking and an improvement to overall public health. Read more about RAI and its subsidiaries’ approach to tobacco harm reduction.

A sound approach to the taxation of vapor products would avoid discriminating between disposable and rechargeable vapor products; it would avoid extending punitive tax rates from traditional cigarettes to vapor products, and would not hinder consumer opportunities for the use of vapor products as a method of smoking cessation.

*Tax Foundation, 2016 brief*
RAl and its subsidiaries believe that cigarette counterfeiters and smugglers undermine health and fiscal policy and hurt legitimate businesses and communities. We support efforts to educate elected officials, law enforcement and the public about the illicit trade of tobacco products as well as efforts to combat its growth.

CIGARETTE SMUGGLING

Cigarettes are taxed on a national, state and often, local level. The tobacco excise tax rates adopted by different states and localities, often neighboring localities, may vary substantially from one another. These tax differentials have contributed to the purchase and illegal resale of cigarettes across markets, known as cigarette smuggling. A 2016 literature review from the Mackinac Center for Public Policy shows that smuggled cigarettes may account for nearly a third of the entire U.S. cigarette market. 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.

"Cigarettes aren't illegal, but governments have artificially raised the price of the product to such a degree that their sale and purchase are now tinged with many of the consequences of full alcohol prohibition. Thanks to "prohibition by price," people commonly smuggle cigarettes across borders, usually illegally, to evade excise taxes."

Michael D. LaFaive, Senior Director of the Morey Fiscal Policy Initiative, Mackinac Center and Todd Nesbit, Assistant Professor of Economics, Ball State University, 2018 Article

SOCIETAL IMPACTS

As state and local governments pass additional tobacco product excise taxes to increase revenue, illicit trade continues to grow. This illicit trade has several unintended consequences, such as
Undermining Youth Tobacco Prevention efforts. The illegal resale of cheaper cigarettes compromises Youth Tobacco Prevention efforts because criminals don’t care to whom they sell.

Declining tax revenue for our communities. Since the appropriate taxes are not paid on the illegal sale of cigarettes, illicit trade contributes to the loss of state and local tax revenue. According to the National Research Council and Institute of Medicine, “…[t]he illicit tobacco market results in the loss of government revenues. In the United States, these losses are especially incurred by the states: at least $2.95 billion were lost in state tax revenues in 2010-2011.”

WORKING WITH LAW ENFORCEMENT

Our companies engage with diverse stakeholder groups including law enforcement, tax administrators, civic organizations, legislators and others to raise awareness of this problem. In addition to cooperating with law enforcement, for example, by assisting in the identification of counterfeit products. RAI’s subsidiaries support organizations such as the National Sheriffs’ Association, which offers training and education to sheriffs and their deputies to assist them in understanding and combatting contraband cigarette trafficking.
### DATA TABLES

#### Energy Consumption Within the Organization (G4-EN3 & G4-EN5)

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<td>Natural Gas (GJ)</td>
<td>1,752,024</td>
<td>1,818,811</td>
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<td>#2 Fuel Oil (GJ)</td>
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<td>856</td>
<td>404</td>
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<td>29,886</td>
<td>16,064</td>
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<td>Diesel Fuel (GJ)</td>
<td>2,460</td>
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<td>Jet Fuel (GJ)</td>
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<td>404</td>
<td>0</td>
<td>29,886</td>
<td>16,064</td>
<td>2,226</td>
<td>8,070</td>
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<td>Total Direct Energy (GJ)</td>
<td>2,181,992</td>
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<td>Total Indirect Energy (Electricity) (GJ)</td>
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#### Renewable Energy and Carbon Credits Purchased

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<td>Wind Energy (GJ)</td>
<td>20,977</td>
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<td>21,114</td>
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<td>28,080</td>
<td>31,450</td>
<td>32,399</td>
<td>34,919</td>
</tr>
<tr>
<td>Carbon Offsets (Tonnes CO2e)</td>
<td>3,108</td>
<td>3,330</td>
<td>3,524</td>
<td>3,877</td>
<td>4,188</td>
<td>4,523</td>
<td>4,866</td>
<td>31,690</td>
</tr>
<tr>
<td>Total Direct and Indirect Greenhouse Gas Emissions (G4-EN15, G4-EN16 &amp; G4-EN18)</td>
<td>117,798</td>
<td>113,517</td>
<td>107,093</td>
<td>109,535</td>
<td>105,689</td>
<td>107,501</td>
<td>107,431</td>
<td>73,927</td>
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<tr>
<td>Scope 1 Emissions (Metric Tonnes CO2e)</td>
<td>191,816</td>
<td>180,735</td>
<td>167,402</td>
<td>167,019</td>
<td>137,577</td>
<td>140,028</td>
<td>131,280</td>
<td>109,383</td>
</tr>
<tr>
<td>Scope 2 Emissions (Metric Tonnes CO2e)</td>
<td>309,614</td>
<td>294,252</td>
<td>274,495</td>
<td>276,554</td>
<td>243,266</td>
<td>247,529</td>
<td>238,711</td>
<td>183,310</td>
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#### Water Withdrawal (G4-EN8)

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<tbody>
<tr>
<td>Water Consumed (Cubic Meters)</td>
<td>2,019,481</td>
<td>1,947,681</td>
<td>1,875,407</td>
<td>1,930,470</td>
<td>1,929,955</td>
<td>1,897,514</td>
<td>1,721,835</td>
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#### Wastewater Generated (G4-EN22)

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</thead>
<tbody>
<tr>
<td>Untreated to Municipal Sewer (Cubic Meters)</td>
<td>1,135,078</td>
<td>1,033,505</td>
<td>1,317,372</td>
<td>1,467,163</td>
<td>1,421,391</td>
<td>1,383,846</td>
<td>1,230,608</td>
<td>1,071,097</td>
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<td>Pre-Treated to Municipal Sewer (Cubic Meters)</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>2,729</td>
<td>5,221</td>
<td>8,132</td>
<td>4,944</td>
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<tr>
<td>Treated, to Surface Water (Cubic Meters)</td>
<td>2,715</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1,162</td>
<td>1,426</td>
<td>790</td>
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<tr>
<td>Treated, to Land Application (Cubic Meters)</td>
<td>850</td>
<td>662</td>
<td>1,841</td>
<td>1,339</td>
<td>1,000</td>
<td>1,162</td>
<td>1,426</td>
<td>790</td>
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<tr>
<td>Total Wastewater (Cubic Meters)</td>
<td>1,138,643</td>
<td>1,034,167</td>
<td>1,319,213</td>
<td>1,471,231</td>
<td>1,427,612</td>
<td>1,393,140</td>
<td>1,236,977</td>
<td>1,080,059</td>
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#### Total Waste by Type and Disposal Method (G4-EN23)

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<tbody>
<tr>
<td>Non-Hazardous Wastes: Sent to Landfill (Metric Tonnes)</td>
<td>19,343</td>
<td>16,672</td>
<td>20,257</td>
<td>15,684</td>
<td>10,506</td>
<td>10,164</td>
<td>9,245</td>
<td>7,478</td>
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<tr>
<td>Non-Hazardous Wastes: Incinerated (Metric Tonnes)</td>
<td>8</td>
<td>4</td>
<td>10</td>
<td>90</td>
<td>218</td>
<td>263</td>
<td>289</td>
<td>224</td>
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<tr>
<td>Non-Hazardous Wastes: Recycled (Metric Tonnes)</td>
<td>9,906</td>
<td>13,992</td>
<td>8,342</td>
<td>11,584</td>
<td>12,211</td>
<td>9,580</td>
<td>15,917</td>
<td>14,753</td>
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<tr>
<td>Non-Hazardous Wastes: Composted</td>
<td>33</td>
<td>74</td>
<td>156</td>
<td>0</td>
<td>0</td>
<td>5,905</td>
<td>5,905</td>
<td>7,319</td>
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<tr>
<td>Metric Tonnes</td>
<td>ASC (FTEs)</td>
<td>RJRT (FTEs)</td>
<td>SFNTC (FTEs)</td>
<td>Other (FTEs)</td>
<td>Trade Marketing Services</td>
<td>Total FTEs</td>
<td>Part-time</td>
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<tr>
<td>-----------------------------------</td>
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<td>--------------</td>
<td>---------------------------</td>
<td>------------</td>
<td>-----------</td>
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<tr>
<td>Non-Hazardous Wastes: Other</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>514</td>
<td>54</td>
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<tr>
<td>Hazardous Wastes: Sent to Approved Landfill</td>
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<td>0</td>
<td>8</td>
<td>5</td>
<td>2</td>
<td>0.2</td>
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<td>Hazardous Wastes: Incinerated</td>
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<td>18</td>
<td>19</td>
<td>18</td>
<td>16</td>
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<tr>
<td>Hazardous Wastes: Recycled</td>
<td>0</td>
<td>0</td>
<td>2.3</td>
<td>1.8</td>
<td>0.2</td>
<td>0.2</td>
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<tr>
<td>Hazardous Wastes: Energy Recovery</td>
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<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Hazardous Wastes: Other</td>
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<td>0</td>
<td>0</td>
<td>6</td>
<td>5</td>
<td>9</td>
<td>11</td>
<td></td>
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<tr>
<td>Total Hazardous</td>
<td>17</td>
<td>19</td>
<td>22</td>
<td>28</td>
<td>27</td>
<td>369</td>
<td>165</td>
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<tr>
<td>Total Waste</td>
<td>29,307</td>
<td>30,761</td>
<td>28,787</td>
<td>27,386</td>
<td>22,963</td>
<td>31,726</td>
<td>29,940</td>
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<tr>
<td>% Recycled</td>
<td>34</td>
<td>46</td>
<td>30</td>
<td>42</td>
<td>53</td>
<td>59</td>
<td>69</td>
<td></td>
</tr>
<tr>
<td>% Disposed</td>
<td>66</td>
<td>54</td>
<td>70</td>
<td>58</td>
<td>47</td>
<td>41</td>
<td>31</td>
<td></td>
</tr>
</tbody>
</table>

**Employee Breakdown by Operating Company (G4-9):**

- **ASC (FTEs):** 514, 512, 550, 562, 557, 574, 560
- **RJRT (FTEs):** 3,942, 3,632, 3,607, 3,592, 3,738, 2,090, 1,445
- **SFNTC (FTEs):** 415, 373, 357, 397, 447, 274, 188
- **Other (FTEs):** 514, 455, 474, 717, 776, 614, 652
- **Trade Marketing Services:** 1,853, 2,365

**Diversity (G4-LA12):**

- **% Female:** 29.7, 29.4, 28.8, 28.4, 29.0, 29.4, 29.5, 29.8
- **% Minority:** 24.5, 23.3, 23.0, 23.8, 25.4, 26.1, 26.8, 27.0

**Employee Annual Performance Reviews (G4-LA11):**

- **% Receiving Annual Performance Reviews:** 100, 100, 100, 100, 100, 100, 100, 100

**Hires and Promotions:**

- **% of open positions filled by internal candidates:** 63, 76, 87, 94

**Employee Training (G4-LA9):**

- **Average hours per full-time employee of training and development (hours):** 73, 42, 42, 39
- **Average amount spent per full-time employee on training and development ($):** 2,600, 2,498, 921, 862

**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, 0.91, 0.85
- **OSHA Incident Rate:** 1.7, 1.4, 2, 1.5, 1.9, 1.8, 1.9
- **Contractor OSHA Incident Rate:**

**Community (G4-EC1):**

- **Donations ($MM):** 10.2, 10, 7.7, 11.6, 10.4, 10.8, 15.3, 32.6
- **Cash Donations ($MM):**

**Employee Matching-Grant Information:**

- **Individual Grant Requests Paid:** 1,192, 1,616, 1,883
- **Employees Participating (FTEs):** 532, 592, 689, 826, 860
<table>
<thead>
<tr>
<th>Charitable Organizations</th>
<th>385</th>
<th>505</th>
<th>512</th>
<th>632</th>
<th>487</th>
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</thead>
<tbody>
<tr>
<td><strong>Youth Tobacco Prevention</strong></td>
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<tr>
<td>YTP Grant Dollars ($)</td>
<td>150,000</td>
<td>250,000</td>
<td>275,000</td>
<td>432,000</td>
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<tr>
<td>Employee Participation (FTEs)</td>
<td>295</td>
<td>486</td>
<td>493</td>
<td>864</td>
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<tr>
<td>Number of Presentations</td>
<td>158</td>
<td>251</td>
<td>279</td>
<td>444</td>
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<tr>
<td><strong>Supply Chain</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Supplier Diversity (% Spend)</td>
<td>8.3</td>
<td>8.4</td>
<td>9.6</td>
<td>11.1</td>
<td>5.8</td>
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<tr>
<td>(US) Grower Audits &amp; Assessments (#)</td>
<td>1,170</td>
<td>314</td>
<td>572</td>
<td>393</td>
<td>466</td>
</tr>
<tr>
<td>(US) Grower Audits &amp; Assessments (%)</td>
<td>51</td>
<td>14</td>
<td>26</td>
<td>18</td>
<td>24</td>
</tr>
</tbody>
</table>

2. Recycled total includes wastes composted and sent for energy recovery (fuel blended)
3. 2016 data include tuition reimbursement
4. Measured at RJRT Manufacturing facilities
5. 2016 data reflect updated diverse-supplier classification methodology
For ease of locating information, we have mapped the content of our 2016 Sustainability Report microsite to the Global Reporting Initiative (GRI) G4 guidelines.

### GENERAL STANDARD DISCLOSURES

<table>
<thead>
<tr>
<th>GRI Indicator</th>
<th>Description</th>
<th>DJSI</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>G4-1</td>
<td>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</td>
<td></td>
<td>CEO Letter</td>
</tr>
<tr>
<td>G4-3</td>
<td>Name of the organization</td>
<td></td>
<td>About Us</td>
</tr>
<tr>
<td>G4-4</td>
<td>Primary brands, products and services</td>
<td></td>
<td>About Us</td>
</tr>
<tr>
<td>G4-5</td>
<td>Location of organization’s headquarters</td>
<td></td>
<td>Winston-Salem, North Carolina</td>
</tr>
<tr>
<td>G4-6</td>
<td>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</td>
<td></td>
<td>United States</td>
</tr>
<tr>
<td>G4-7</td>
<td>Nature of ownership and legal form</td>
<td></td>
<td>About Us</td>
</tr>
<tr>
<td>G4-8</td>
<td>Markets served</td>
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<td>About Us</td>
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<tr>
<td>G4-9</td>
<td>Scale of the reporting organization</td>
<td></td>
<td>Data Tables</td>
</tr>
<tr>
<td>G4-10</td>
<td>Total workforce by employment type, employment contract and region, broken down by gender</td>
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<td>Employee Responsibility Data Tables</td>
</tr>
<tr>
<td>G4-11</td>
<td>Report the percentage of total employees covered by collective bargaining agreements</td>
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<td>Employee Responsibility Data Tables</td>
</tr>
<tr>
<td>G4-12</td>
<td>Supply Chain</td>
<td>1.7</td>
<td>Supplier Responsibility Responsible Agriculture</td>
</tr>
<tr>
<td>G4-13</td>
<td>Significant changes during the reporting period regarding the organization’s size, structure, ownership, or its supply chain</td>
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<td>CEO Letter</td>
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### Identified Material Aspects & Boundaries

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<tr>
<th>G4-17</th>
<th>Entities included in the organization consolidated financial and nonfinancial reports</th>
<th>Organizational Profile About Us</th>
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<tbody>
<tr>
<td>G4-18</td>
<td>Process for defining report content</td>
<td>2.1, 3.1 Stakeholder Engagement &amp; Materiality</td>
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<tr>
<td>G4-19</td>
<td>Material aspects identified in the process for defining report content</td>
<td>1.4 Stakeholder Engagement &amp; Materiality</td>
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<tr>
<td>G4-20</td>
<td>Aspect Boundary-Internal</td>
<td>Stakeholder Engagement &amp; Materiality</td>
</tr>
<tr>
<td>G4-21</td>
<td>Aspect Boundary-External</td>
<td>Stakeholder Engagement &amp; Materiality</td>
</tr>
<tr>
<td>G4-22</td>
<td>Restatements</td>
<td>Stakeholder Engagement &amp; Materiality</td>
</tr>
<tr>
<td>G4-23</td>
<td>Changes to scope and aspect boundary</td>
<td>Stakeholder Engagement &amp; Materiality</td>
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### Stakeholder Engagement

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<tr>
<th>G4-24</th>
<th>List of stakeholder groups engaged by the organization</th>
<th>1.4 Stakeholder Engagement &amp; Materiality</th>
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<tr>
<td>G4-25</td>
<td>The basis for identification and selection of stakeholders with whom to engage</td>
<td>1.4 Stakeholder Engagement &amp; Materiality</td>
</tr>
<tr>
<td>G4-26</td>
<td>Approach to stakeholder engagement</td>
<td>1.4</td>
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<tr>
<td>G4-27</td>
<td>Key topics and concerns raised through stakeholder engagement</td>
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**Report Profile**

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<tr>
<th>G4-28</th>
<th>Reporting period</th>
<th>2017</th>
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<tr>
<td>G4-29</td>
<td>Date of most recent previous report</td>
<td>2016</td>
</tr>
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<td>G4-30</td>
<td>Reporting cycle</td>
<td>We report progress on our sustainability initiatives annually.</td>
</tr>
<tr>
<td>G4-31</td>
<td>Contact point for questions regarding the report or its contents</td>
<td><a href="mailto:TalkToRAI@RJRT.com">TalkToRAI@RJRT.com</a></td>
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**Governance**

| G4-34 | Governance structure | 1.1 | Our strategic approach to sustainability |

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**SPECIFIC STANDARD DISCLOSURES**

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<tr>
<th>GRI Indicator</th>
<th>GRI Aspect</th>
<th>Description</th>
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<th>Location</th>
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<td><strong>Economic</strong></td>
<td>G4-DMA</td>
<td>Governance, Codes of Conduct &amp; Ethics</td>
<td>Management Approach</td>
<td>Ethics &amp; Compliance</td>
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<td>G4-EC1</td>
<td>Economic Performance</td>
<td>Direct economic value generated and distributed</td>
<td>Data Tables</td>
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<td>G4-DMA</td>
<td>Community Engagement</td>
<td>Management Approach</td>
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<td>G4-DMA</td>
<td>Excise Taxes</td>
<td>Management Approach</td>
<td>Tobacco Excise Taxes</td>
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<td>Illicit Trade</td>
<td>Management Approach</td>
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<td>Environmental Sustainability</td>
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<td>G4-EN3</td>
<td>Energy</td>
<td>Energy consumption within the organization</td>
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<td>G4-EN6</td>
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<td>Reduction of energy consumption</td>
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<td></td>
<td>G4-EN8</td>
<td>Water</td>
<td>Total water withdrawal by source</td>
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<td>G4-EN10</td>
<td>Water</td>
<td>Percentage and total volume of water recycled and reused</td>
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<td>G4-EN15</td>
<td>Emissions</td>
<td>Direct GHG emissions (Scope 1)</td>
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<td>G4-EN16</td>
<td>Emissions</td>
<td>Energy indirect GHG emissions (Scope 2)</td>
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<td>Reduction of GHG emissions</td>
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<td>G4-EN22</td>
<td>Effluents and Waste</td>
<td>Total water discharge by quality and destination</td>
<td>Water Data Tables</td>
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<td>G4-DMA</td>
<td>Litter Prevention</td>
<td>Management Approach</td>
<td>Waste &amp; Recycling</td>
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<td>G4-EN23</td>
<td>Effluents and Waste</td>
<td>Total weight of waste by type and disposal method</td>
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<td>G4-EN25</td>
<td>Effluents and Waste</td>
<td>Weight, and percentage transported internationally, of waste deemed hazardous</td>
<td>Waste &amp; Recycling Data Tables</td>
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<td>Effluents and Waste</td>
<td>Percentage of new suppliers screened using environmental criteria</td>
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<td><strong>Social</strong></td>
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<td>Talent Management</td>
<td>Management Approach</td>
<td>Talent Pipeline</td>
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<td>G4-LA2</td>
<td>Employment</td>
<td>Employee benefits provided</td>
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<td>G4-DMA</td>
<td>Safety</td>
<td>Management Approach</td>
<td>Workplace Safety</td>
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<td>G4-LA6</td>
<td>Occupational Health and Safety</td>
<td>Type and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities</td>
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<td>Training and Education</td>
<td>Average training hours</td>
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<td>G4-LA10</td>
<td>Programs for skills management and lifelong learning</td>
<td></td>
<td>3.3</td>
</tr>
<tr>
<td></td>
<td>G4-LA11</td>
<td></td>
<td>Percentage of employees receiving regular performance and development reviews</td>
<td>3.4</td>
</tr>
<tr>
<td></td>
<td>G4-LA12</td>
<td></td>
<td>Composition of governance bodies and employees</td>
<td>Talent Pipeline</td>
</tr>
<tr>
<td><strong>Human Rights</strong></td>
<td>G4-DMA</td>
<td>Responsible Agriculture</td>
<td>Management Approach</td>
<td>Responsible Agriculture</td>
</tr>
<tr>
<td>G4-HR5</td>
<td>Operations and suppliers at risk for incidents of child labor, and measures taken</td>
<td>1.7, 3.2</td>
<td>Promoting Good Agricultural Practices (GAP)</td>
<td></td>
</tr>
<tr>
<td>G4-HR6</td>
<td>Operations and suppliers at risk for incidents of forced or compulsory labor, and measures taken</td>
<td>1.7, 3.2</td>
<td>Promoting Good Agricultural Practices (GAP)</td>
<td></td>
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<tr>
<td>G4-DMA</td>
<td>Supply Chain Management</td>
<td>Management Approach</td>
<td>Supplier Responsibility</td>
<td></td>
</tr>
<tr>
<td>G4-HR10</td>
<td>Supplier Human Rights Assessment</td>
<td>Percentage of new suppliers screened using human rights criteria</td>
<td>1.7, 3.2</td>
<td>Supplier Risk Management Audits &amp; Assessments</td>
</tr>
<tr>
<td>G4-HR11</td>
<td>Actual and potential negative human rights impacts in the supply chain and actions taken</td>
<td>1.7, 3.2</td>
<td>Promoting Good Agricultural Practices (GAP)</td>
<td></td>
</tr>
</tbody>
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**Product Responsibility**

| G4-DMA   | Youth Tobacco Prevention | Management Approach | Youth Tobacco Prevention |
| G4-DMA   | Tobacco Harm Reduction   | Management Approach | Tobacco Harm Reduction |
| G4-DMA   | Product Innovation       | Management Approach | Product Innovation |
| G4-DMA   | Responsible Marketing    | Management Approach | Marketing Responsibility |
| G4-PR3   | Information required by procedures for product and service labelling | | Marketing Responsibility |
R.J. Reynolds Tobacco Company’s Right Decisions Right Now: Be Tobacco Free (RDRN) program has long partnered with the Boy Scouts of America, and continues to gain momentum in increasing 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 promise to “do my best to educate my friends and my family about 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.”

RDRN’s partnership with the Boy Scouts of America continued in 2017 with outstanding results.

RDRN / Boy Scouts of America partnership - Philmont Ranch, NM

- 21,137 Scouts heard RDRN’s anti-tobacco youth message at Philmont Ranch.
- 12,118 Scouts earned Trail of Courage patch.

The Trail of Courage program expanded to troops in the Nashville, TN, area and the Raleigh, NC, area.

- 878 patches — Middle Tennessee Council (covering Montgomery County, home to American Snuff Company’s Clarksville operations)
- 2,543 patches — Occoneechee Council (covering 12 NC counties, including Granville County, home to Santa Fe Natural Tobacco Company’s Oxford plant)
In total, 78,185 Scouts have earned Trail of Courage patches since 2011.
RAI and its subsidiaries are committed to engaging 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 choose not to quit altogether might consider switching from combustible tobacco to vapor products.

Our current legislative priorities include:

- Differential treatment of excise taxes, marketing restrictions, flavor availability, public place use, etc., that encourage adult smokers to switch to alternative options that may present less risk;
- Clearly defined regulatory pathways that encourage manufacturers to innovate and create products which pose or may pose less risk for adult smokers compared to cigarettes; and
- Complete and accurate information available to adult smokers, regulators and health care practitioners, that outline the relative risk of different tobacco and nicotine products.

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. We also favor the legislative approach to taxation taken by North Carolina, Kansas, Louisiana and West Virginia, as opposed to those taken by Minnesota and Pennsylvania.
Sourcing tobacco from growers who use sustainable agricultural practices is a key market differentiator for Santa Fe Natural Tobacco Company (SFNTC). SFNTC has both organic and Purity Residue Clean (PRC) programs.

PRC is an environmental program developed by SFNTC involving farmers who grow tobacco using a specific protocol, allowing only for minimal use of approved chemicals that have a low impact on the environment. Both the organic and the PRC programs offer significant environmental benefits as compared to 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 benefitting. SFNTC continues to support this and other organic agronomic programs, and has provided about $3.2 million in funding to the CFSA Organic Carolinas Initiative, including $598,464 in 2017.
REYNOLDA HOUSE

R.J. Reynolds lived less than a year at Reynolda House and Gardens, the country estate that he and his wife Katherine built in Winston-Salem, N.C., in 1917. But if R.J. could visit Reynolda today, he would no doubt be both proud and amazed by the legacy his family left for the public, which the company he founded in 1875 continues to support today.

In 2017, Reynolda House Museum of American Art marked its centennial as an estate and its 50th anniversary as a public museum that today features the Southeast’s finest collection of American art -- a premier collection of masterpieces that span three centuries.

Continuing the strong spirit of community support that R.J. himself established during his lifetime, Reynolds American has long been a strong corporate member of Reynolda House, including contributions in 2017 to help revitalize Reynolda Gardens and to support the Centennial Ball, which helped fund Georgia O’Keeffe: Living Modern, a major exhibition celebrating the American modernist’s life, sensibilities and art.

During the last four decades of his life, as he worked to build his business, R.J. Reynolds also worked to improve the quality of life in the adjoining towns of Winston and Salem. He generously funded and helped build housing, hospitals and schools, including what is now Winston-Salem State University, which also celebrated its 125th anniversary in 2017.

“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
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 announced the donation of a 70,000-square-foot laboratory building on approximately four acres of land 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. This included plans to donate an additional 120 acres of prime commercial and industrial land, along with buildings totaling approximately 1.7 million square feet.

On April 13, 2017, the company announced it finalized the donation and officially handed over keys for the property to WPDA. “I want to thank R.J. Reynolds for this very generous gift to the community,” said Don Flow, chairman of WPDA. “All of us at WPDA are committed to re-purposing this property by creating new jobs, expanding the area tax base and creating new energy and vitality to this historic site.”

Named in honor of John C. Whitaker, a former chairman of R.J. Reynolds, the Whitaker Park manufacturing plant opened in 1961 and initially covered about 14 acres, including 615,295 square feet of floor space. Designed by R.J. Reynolds’ engineering department and constructed by employees, it was the world’s largest and most modern cigarette plant at the time.

“We’re very pleased to honor our commitment made two years ago to this community by completing a donation that we believe will have a significant impact in transforming
Winston-Salem for many years to come. It is our sincere hope that these properties will be an engine for economic development and will attract more jobs and opportunity to this area. It is another important example of our commitment to supporting the communities where our employees live and work.”

Joseph (Joe) P. Fragnito, president and chief commercial officer of R.J. Reynolds
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.

In a thank-you letter to the Foundation, a recent scholarship recipient 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

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 bachelor’s 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.

“I’m proud of both of my children for receiving the National Merit Scholarship. But I’m even more proud to work for a company that values higher education and makes it a priority for its employees’ children.”

Ashley Chilton, training analyst at American Snuff Company
Many take it for granted that young children would enter school with an understanding of reading. And, many more are surprised to find that some young children don’t even know how to correctly hold a book. This is the case for many local preschoolers. That is, until Project Impact came along with a focus on helping incoming kindergartners attain that early-reading skill.

Project Impact is a six-year plan to improve third-grade reading and math proficiency in the Winston-Salem/Forsyth County Schools. That requires beginning earlier, helping younger children with counting, letter naming and even such basics as going through the cafeteria line.

Begun in 2016, Project Impact has received commitments of $25 million. Among other local businesses and individuals, the Reynolds American Foundation provides a significant contribution. That commitment will continue through 2022, said Mamie Sutphin, director of community engagement programs at RAI Services Company. Reports on the program’s progress and stewardship show that, so far, 3,100 students have benefited, she said.

**IMPROVING LIFELONG CHANCES**

Hal Kaplan, the executive chairman of the Kaplan Early Learning Company, said that children who fall behind in elementary school are more likely than others to face lifelong problems, such as unemployment and poor health. To combat that, Project Impact has identified a pivotal metric — third-grade reading and math scores — and three priorities:

- Expanded pre-k opportunities for at-risk children
• Extended-day and summer learning opportunities
• Expanded staff development and instructional support

Sutphin sees the program and its goals as visionary. “As a lead sponsor of Project Impact, the Reynolds American Foundation recognizes the importance of developing a strong, talented workforce for the future,” she said. “The whole community will benefit from this program in the long term.”
Reynolds American Inc. is passionate about strengthening its talent pipeline with diverse and highly skilled employees. Through the RAI internship program, undergraduate and graduate students can shape the future in a culture that empowers and encourages everyone to blaze new trails and challenge the status quo.

Throughout the 10-week program, interns lead a range of projects across numerous departments at RAI and its subsidiaries, including finance, research and development, consumer and trade marketing, operations, and many more. Interns are given the opportunity to exercise initiative, and to engage in creative problem solving, teamwork, and influencing — core skills that will help them thrive no matter where their careers may take them.

The 2017 group of 44 interns came from various colleges and universities across the country. Most interns feel that their biggest takeaway is the valuable experience they gain in their fields, as well as knowledge on what it’s like to work within the RAI companies as a whole. We are proud that this group of interns rated their experience so highly that for the second year running, our program earned us placement on Vault.com’s Top 50 Internships list and #1 internship in Retail & Consumer Products internships overall.

Our internship program is more than just a summer job. The program is rigorous and, for the right candidate, it’s the start of a remarkable career. In fact, 26 of our 2017 interns joined the RAI companies as full-time employees or for a second internship.
“As our talent needs and landscapes shift, we will continue to recruit high caliber students with a specific focus towards filling our pipeline with the future leaders of Reynolds American Inc. and its subsidiaries. Our internship program, now with a global component, will provide interns the opportunity to infuse their fresh perspectives and innovative spirits into our expanded transformation journey. There has never been a better time to join the team.”

Phaedra Grove, Senior Director, Talent Acquisition

Participants go through a comprehensive interview process before being selected. If you are interested in being a part of the RAI internship program, please visit our careers website or come see us at one of our college and career fairs.
HIGHLIGHT STORIES

INSPIRING A CULTURE OF INNOVATION

RAI and its subsidiaries are committed to developing a robust talent pipeline by enabling employees to own their personal and professional development. In 2014, Research and Development (R&D) at R.J. Reynolds Tobacco Company initiated the New Hire Onboarding (NHO) program to help do just that. Renamed Reynolds Innovation Academy (RIA) in 2018, the program strives to enhance R&D’s creative imperative by immersing newly-hired employees in an environment of innovation and discovery.

Approximately 20 recently hired employees are selected each year to participate in RIA. Instructors are scientists and engineers who are trained in a broad spectrum of innovation techniques and who are able to pass on years of experience from R&D’s long legacy of scientific accomplishment. The techniques presented are geared toward building proficiencies in creative thinking, innovation and meeting facilitation. Participants are also taught “ice-breakers” to promote conversation in group settings, as well as team-building exercises to develop group unity. These techniques are used within the program, but are intended to be applied throughout participants’ careers.

Early in the program, participants are divided into teams, based on department, social style, and Myers–Briggs personality types. By including a variety of personality/professional types RIA seeks not only to promote networking, but also to simulate realistic team dynamics. Each team, comprising 6 to 8 participants, is then assigned a specific ideation challenge based upon current business opportunities, promising technologies or corporate initiatives. Sometimes a broader general challenge, shared across all teams, is also assigned. In the past, topics have ranged from product improvements and new business opportunities to corporate sustainability (2016) and artificial intelligence (2017).

As soon as participants have mastered a few basic ideation techniques, the teams begin applying their
new skills to the assigned challenges. This ideation phase of the program extends until late August or September, proceeding in parallel with continuous learning, practice and interaction with instructors. Typically hundreds of ideas are generated by early September. Those hundreds are then subjected to an intensive Kepner-Tregoe analysis, a logical decision-making and problem-solving process utilized to filter ideas and identify best solutions. From the list of hundreds, a best-of-the-best selection of approximately 10 or 12 ideas emerges.

After identifying the top ideas, each team makes formal presentations — first to their own management, and then to the R&D leadership team. At this point, the most promising ideas may be integrated into actual R&D work streams, or distributed to the appropriate R&D group for additional information gathering.

While novel scientific ideas and innovative work streams often come out of the program, the real value of RIA is much deeper. The most important lessons are, in fact, the team-building skills and networking opportunities acquired by participants. It’s no exaggeration to say that those lessons are touchstones of a vibrant, innovative R&D and creative, satisfying employee careers.
FOCUSING ON SAFETY IN OPERATIONS


The company started setting aggressive proactive safety performance goals in 2011 to enhance its safety culture. These goals, called the Safety Performance Index (SPI), include many leading indicators such as safety training, safety ownership and safety engagement. While R.J. Reynolds continued its use of SPI in 2016 with enhancements, SPI was also implemented at both American Snuff Company and Santa Fe Natural Tobacco Company facilities in 2016.

SAFETY AND HEALTH OWNERSHIP

In 2017, production associates in operations led the way by conducting more than 4,400 peer-engagements dealing with safety-related topics. In addition, salaried employees conducted more than 750 employee engagements in 2017 and completed more than 650 individual audits. Safety Committees identified 105 safety projects, all of which were brought to completion or are a focus of on-going efforts. This level of safety and health ownership is what continues to make the Reynolds American Inc. organization a leader in safety and health, and drives our safety culture from the grassroots level. Additionally, safety committees from each operating company facility location and shift are chaired by a production associate, encouraging ownership and ensuring that the safety culture is embedded in each workday.

To further engage different areas of the organization, the Environment, Health and Safety (EHS) department took safety on the road with the first annual EHS Roadshow. The roadshow was designed to engage employees with a variety of EHS topics including, hazard communications, ergonomics, hazard analysis, hazardous waste and recycling, and hazard identification. It also provided an opportunity for
employees to meet with and engage with members of EHS team.

Each of RAI's operating companies not only continued to drive safety and health among our employees but also maintained the safety and health focus with contractors and visitors. Contractor safety meetings and engagement occurred on an on-going basis in 2017 in order to enhance the overall company-wide safety and health culture and performance for all personnel.

Our 2017 safety efforts were recognized by the North Carolina Department of Labor (NCDOL). The NCDOL awarded seven operating company locations with the NCDOL Gold Award for safety. Gold Awards are only given to those companies (and locations) which attain a Lost Time and Restricted accident (incident) rate of less than one half of the industry average. Locations receiving awards were:

R.J. Reynolds’ Research and Development – 35 consecutive years of receiving the award;

R.J. Reynolds’ Main Office – 18 consecutive years of receiving the award;

R.J. Reynolds’ Leaf Department – 17 consecutive years of receiving the award;

R.J. Reynolds’ Tobaccoville Manufacturing – 16 consecutive years of receiving the award;

RAI’s Main Office – 8 consecutive years of receiving the award;

R.J. Reynolds’ Shorefair Manufacturing – 6 consecutive years of receiving the award; and

ASC Taylor brothers – 3 consecutive years of receiving the award

Lastly, R.J. Reynolds’ Tobaccoville and research and development facilities received recognition for working more than one million hours each without a lost time incident. The R.J. Reynolds Main Office received recognition for working more than three million hours without a lost time accident.
R.J Reynolds Tobacco Company’s journey to change the culture in its manufacturing operations is paying dividends. The company envisioned a culture of engaged employees, where production associates felt ownership of day-to-day operations and were empowered to act. Since 2014, R.J. Reynolds has enacted this vision through Project BLOOM (Building Leadership, Ownership and Opportunities within Manufacturing).

Project BLOOM began with the creation of Focus Improvement Teams (FITs), which worked to identify, facilitate and accelerate process improvements. Composed of production associates, these teams transitioned tactical decision making from R.J. Reynolds’ management, providing members leadership and team-building experience. Over time, BLOOM evolved into two types of hourly production associate-led teams.

In addition to the creation of Continuous Improvement and Ways of Working Teams, R.J. Reynolds operations transitioned the Make and Pack production floor from manager-led to hourly employee-led. This process included promoting 12 employees to the role of supervisor, providing new career development opportunities for production associates.

The success of Project BLOOM is also evident in these other employee-led success stories:

- Capsule Waste Team – This team investigated and resolved issues related to domestic capsule waste, resulting in the upgrade of software for capsule filter inline inspection. False rejects were reduced by over 1,000,000 per quarter resulting in approximately $60,000 in annual savings to the company.
• Capsule Waste Team – This team successfully reduced capsule kick-outs at startup by investigating and installing a hardware and software modification to sync the inserter wheel with the filter tow process more quickly. This team’s work resulted in a 90% reduction in start-up waste.
• RCC83 Team – This team analyzed Packer reject data and identified solutions to help reduce reject rates associated with these Packers. The team installed auto pack-out kits on 10 complexes resulting in $259,000 per year in savings.

R.J. Reynolds shares these best practices with RAI’s other operating companies through Project ROSE (Realization of Operations Sustainable Excellence).
RON WRIGHT RECEIVES THE HUDLER WORKPLACE SAFETY AWARD

R.J. Reynolds' commitment to training growers and farm workers on safety practices was recently recognized by the N.C. Department of Labor (NCDOL). Ron Wright, R.J. Reynolds' leaf area director, was awarded the 2017 Hudler Safety Training Award.

The honor is given annually to someone who practices exemplary safety training practices in the agricultural community. The NCDOL began presenting the award in 2009 in memory of the late Ron Hudler — a long-time advocate for workplace safety at both the state and national levels. Wright is the first non-grower to receive the award.

Ron Wright is instrumental to R.J. Reynolds' promotion of Good Agricultural Practices (GAP), which include environmental, agronomic and labor best practices. Read more about R.J. Reynolds' promotion of GAP.
ALLIANCE ONE RECEIVES THE RAI SUPPLIER SUSTAINABILITY AWARD

For Constantia Flexibles, an international manufacturer of flexible packaging, sustainability means paying close attention to its business, environment and social responsibilities, not only by its actions but also serving as an example to the industry in which it operates.

That mission, supported by an innovative approach, won Reynolds American Inc.’s 2017 Supplier Leadership Award for Sustainability. Reynolds American and its subsidiaries applaud the efforts of Constantia Flexibles and all supply chain partners who share our commitment to sustainability.

Constantia Flexibles developed a peer-reviewed Meta LCA-Model. This a sophisticated tool provides customers, product development teams and other stakeholders information on the environmental footprint associated with various packaging options that balance environmental impact with other business considerations. The company can flexibly evaluate any combination of production processes, raw material inputs, waste handling possibilities and country-specific settings to a high level of detail. This creates opportunities to reduce greenhouse gas emissions, while supporting the best packaging solutions for its customers.

“Much of our environmental impact is driven by the supply chain, and tools like the one developed by Constantia Flexibles are necessary for companies to drive increased environmental performance.”
Tripp Wilson, vice president, corporate sustainability and commercial equity
At RAI, we strive to give employees the resources they need to be as healthy as they can be. In late 2016, RAI and its subsidiaries launched a new integrated physical well-being program in partnership with Virgin Pulse, which provides a fun, free platform for our employees to take charge of their health and wellness goals.

Since then, we have seen an employee participation rate of 44%. In April 2017, we offered a “National Park” Step Challenge, inviting employees to virtually step their way through our national parks by tracking and logging step activity via the Virgin Pulse platform. The challenge also encouraged individual and team participation, and employees who exceeded 140,000 steps or more were entered into a random drawing for $250 Pulse Cash. At the end of the three-week challenge, we had 85 teams and 361 participants who achieved over 65 million steps.

To introduce the Virgin Pulse program, we invited Shawn Achor, author of “The Happiness Advantage” and renowned speaker, to talk about the importance of health and wellness.

Employees from all RAI companies received a Max™ activity tracker as part of the program. The tracker enables employees to count steps, calories, sleep and other indicators of physical health and wellness. The program also works with other wearable devices, allowing employees to use the device of their choice. By tracking healthy behaviors, employees can earn up to $50 in rewards, including merchandise, gift cards and donations in their name, each quarter.

The Virgin Pulse platform also drives employee engagement by permitting employees to friend and
challenge each other to various health competitions.

Virgin Pulse is about more than physical health — it’s about total well-being. Through the program, employees can tailor their profile to the aspects of health that matter most to them. Employees receive personalized messages about their interests directly from Virgin Pulse, as well as additional communications through the intranet and around RAI and its subsidiaries’ facilities.
EMPOWERING
EMPLOYEES THROUGH
SUSTAINABLE DESIGN

Reynolds American Inc.’s “urban loft” workspace redesign at its Plaza building headquarters in downtown Winston-Salem, N.C., bagged first place in the corporate, large category, of the 2017 International Interior Design Association (IIDA) Carolinas Design Works Awards, which are held annually to honor design excellence and new, innovative solutions for interior spaces.

Following LEED (Leadership in Energy and Environmental Design) practices, the building renovation provides many environmental and social benefits for employees. The renovation introduced new working environments for employees, including informal and formal collaboration areas, designated smoking areas and open floorplans. The new space was designed purposefully to break down communication barriers physically and promote collaboration. Additionally, the renovation included updated features for employees, such as sit-stand desks in each workstation, easy access to walking desks and picturesque views of the Piedmont Triad.

The renovation also incorporated the latest environmental design principles. ENERGY STAR™ equipment, including lighting, refrigerators and microwaves, dramatically reduces energy use. Additionally, the design maximizes natural daylight, and overhead lighting is digitally controlled to ensure employee comfort and conserve energy. New low-flush toilets operate with only half the water use of previously installed models.

Original wooden flooring from R.J. Reynolds Tobacco Company’s manufacturing facilities was incorporated into walls and ceilings throughout the renovation, combining RAI and its subsidiaries’ rich cultural heritage with a modern workspace. Repurposed tobacco hogshead barrels now serve as pantry tables and conference room tables.
Personality within spaces

According to the IIDA Carolinas judges, Little Diversified Architectural Consulting — the Charlotte firm commissioned by RAI to design the project — successfully integrated graphics and architecture with its redesign. The “balance of new elements and exposed ceiling provides personality within spaces”, the judges said.

Cami Calhoun, a senior designer with Little, said “RAI is a bedrock of Winston-Salem and we feel very fortunate to have had the opportunity to be part of their workplace transformation.”

In 2016, the company awarded nearly $3.1 million in diversity spending in construction contracts for the renovation. Approximately 90 percent of construction materials removed during renovation were recycled, and when possible, furniture, products and materials were donated to non-profit organizations, including Habitat for Humanity Winston-Salem.

The redesign marries environmental and social design to create a workplace that brings Transforming Tobacco to life — creating a space where our trailblazers can thrive.

The design of an organization’s workplace has the ability to influence and support important initiatives such as diversity, culture, collaboration, employee retention and brand awareness, Little’s Calhoun said. “The RAI space brings to life a brand grounded in authenticity, while providing an innovative, fresh environment that supports the company’s high performing culture focused on the success of its employees,” she said.

“Our employees love our corporate workspace redesign, and we were delighted to hear that others think so, too,” said Tonika Kottenbrock, senior director, social well-being and work environment. “The redesign was driven by our commitment to employee well-being and our desire to be an employer of choice, and it has transformed the way our employees work and collaborate.”

Planning on the project started in 2014 and work is largely complete. “This was a complex project, and good planning with close coordination between Little and our facilities team was integral to its successful implementation,” she said.
HIGHLIGHT STORIES

EASING THE INCOME TAX BURDEN

Tax season is taxing for most of us, but many lower-income and elderly people find it especially complex and costly. A helping hand can make a big difference.

Each year, as part of the Volunteer Income Tax (VITA) program, qualified volunteer tax preparers in Forsyth County, N.C., fan out across the community, preparing taxes for free for people making $54,000 a year or less. This year, a group of six RAI Services employees — all finance professionals — joined the volunteer effort on behalf of the non-profit Experiment in Self-Reliance (ESR) agency after getting the necessary training and certification.

“It was truly a rewarding experience. The clientele is very grateful for the patience, time and knowledge invested in assisting them with the preparation of their tax returns. I would gladly volunteer going forward and encourage others to participate in the VITA program.”

Edna Bonilla, senior finance manager, RAIS; ESR volunteer

The other volunteers this year were Joshua Hulin, Liqing Carey, Bruce Nix, Jim Carros and Dianise Maldonado. All of them were recently honored for their work with community service certificates from the Internal Revenue Service, and received special thank-you letters from ESR.
“They did an exceptional job, collectively contributing 80 hours this past tax season, and the payback was huge,” said Jerry Romans, vice president of special projects and board chairman of ESR.

The VITA program, which is also supported by the United Way of Forsyth County, focuses on the federal Earned Income Tax Credit (EITC). This represents the largest anti-poverty program in the U.S., lifting nine million people out of poverty by providing low-income working adults with a tax credit based on their income. On average, a qualified Forsyth County taxpayer receives $1,700 in EITC credit, and sometimes the credit can be more than the amount earned during the year. In addition to benefiting working families, the credit brings money directly into the community.

Volunteer tax preparers are educated on tax credits and help people receive every tax credit for which they qualify. For the 2017 tax season, nearly 4,000 returns — generating about $4.9 million in refunds, of which $2.3 million were EITC — were done through Forsyth County’s VITA/ EITC programs.

"This free tax preparation service is very much in line with our philanthropic mission. It has a major economic impact, but it is very volunteer intensive, and we would love for more of our employees to participate next year.”

Jerry Romans, vice president of special projects and board chairman of Experiment in Self-Reliance
Employees at Reynolds American Inc. and its subsidiaries “Rocked for a Reason” in 2017, a new kind of United Way engagement when a rollicking rock ‘n’ roll fest replaced traditional luncheons and Tocqueville socials. It was a year of re-imagining, with three main strategic goals:

- Heighten awareness of United Way agencies
- Educate employees on where the money goes
- Inspire participation by touching hearts and minds

With Winston-Salem’s Millennium Center abuzz, the “Rock for a Reason” event touched and educated 600 rockin’ employees. The crowd warmed up to the percussion ensemble from the Enrichment Center, a United Way agency that empowers adults with disabilities using arts programs. Next, the 12 M Case band, led by RAI campaign chairman Dave Riser, rocked ‘n’ rolled and rocked some more with several employee guest performances. Selfies were taken. Tweets were tweeted.

RAI’s Young Leaders United and Women’s Leadership Circle brought in fortune tellers, temporary tattoos, and a photo booth with glittery wands and feathery masks for zinging up the shots. Reps from United Way agencies-staffed booths to introduce employees to their neighborhood causes. It was all sight, sound, taste and smell. “Rock for a Reason” was like a cross between a rock concert and a county fair … without the cows.

Operating companies outside Winston-Salem had their own celebrations. At American Snuff Company, Santa Fe Natural Tobacco Company and Kentucky BioProcessing, employees pulled their own magic out
of “events in a box,” so that these companies could customize their own United Way re-imaginings too.

**YOUNITED AS CONNECTED CONTRIBUTORS**

“We were pleased to have a chance to heighten awareness of the United Way,” Riser said. “We thank all of the year’s donors — they made our success possible.

“Planning ‘Rock for a Reason’ was a group effort,” he said, “and we also thank the members of this year’s steering committee for their hard work.”

Steering committee member Thais Lewis said, “‘Rock for a Reason’ touched hearts and complemented the year’s campaign theme, ‘YOUnited: Together we can…,’ bringing employees together as connected contributors in their neighborhoods.”

The high visibility of the campaign generated 219 new donors and a 7.7 percent increase in overall donors, all connected in contributing to $2.3 million raised by the companies for the United Way.

**MATCH.COM(MUNITY)**

At a separate event, match.com(munity), United Way agencies set up shop for a day during lunch hours, allowing employees to talk face-to-face with agency reps and — surprise — with colleagues whom they discovered were agency board members. The goal: to help employees find United Way causes close to their hearts and build a community of connected contributors to combat local challenges.

**DAYS OF CARING**

In the United Way’s annual Days of Caring, RAI and its subsidiaries had a record-breaking year, with more than 1,200 employees participating nationally. The year also saw a growth in employees’ use of social media to promote their volunteer work — a win-win for RAI and the agencies that provide vital services across communities where employee work and live.
Hundreds of North Carolinians who live in and around Granville County are leading better lives thanks to the care, compassion and community commitment of the men and women at Santa Fe Natural Tobacco Company’s (SFNTC) manufacturing facility in Oxford, N.C.

And the folks in Oxford are helping neighbors of all ages, whether it’s:

- Providing, preparing and packaging meals for shut-ins through the Penn Avenue Church Soup Kitchen;
- Helping elderly, and mentally and physically disabled adults retain their independence and remain in their homes by supporting the Granville Medical Center’s Harold Sherman Adult Day Care Center;
- Providing nutritious kid-friendly food for low-income children to enjoy during weekends and school holidays; or
- Raising money to fund scholarships for deserving students at Vance Granville Community College.

Meeting with youth groups to present Right Decisions Right Now: Be Tobacco Free, employees used the evidence-based program that teaches ways to avoid tobacco use and other risky behaviors. The company itself also supports a program that helps the hungry and reinforces SFNTC’s long-standing commitment to protecting the planet by promoting and supporting sustainable agriculture.

Since 2013, SFNTC has donated $2,000 of fresh organic vegetables each week to Area Congregations in
Ministry (ACIM), a non-denominational organization that runs The Food Bank in Granville County.

The vegetables are grown by Eastern Carolina Organics (ECO), a local cooperative that produces fresh food using earth-friendly farming practices. Eastern Organics also provides recipes and a chef once a month to teach the clients how to cook the vegetables.

“Neighbors helping neighbors is what it’s all about,” says Oxford employee Ann Squires. “Here in Oxford, we don’t just talk the talk, we also walk the walk.”
SEARCHING FOR MORE VALUE IN RECYCLING

American Snuff Company’s (ASC) Tradeport facility in Memphis, Tenn., met its goal in becoming zero waste to landfill in 2017.

The next goal is to improve the efficiency of its high-volume compost recycling, but there’s a problem.

“We don’t have any recycling companies in our area that are big enough to service our volume of compost,” said Rhonda Rogers, ASC’s senior manager for environmental, health and safety. “It’s frustrating and it’s costing us money because we have to ship the compost four hours away to Nashville for recycling.”

The compost is waste tobacco from the packaging process — about 300 tons of it is generated by Tradeport each year. The company’s Nashville vendor combines it with other types of waste to generate usable organic matter which is then sold at local gardening centers.

REACHING OUT

Not one to throw up its hands and give up on taking things to the next level, ASC reached out to local authorities and told them of its efforts to find a suitable vendor, given that it could provide an assured strong stream of material for recycling.

“There was no traction, but then late 2017 we were asked by the Tennessee Recycling Coalition to host a workshop for our area in the western part of the state to discuss possible partnerships and regional approaches to improving recycling,” said Rogers, who serves as a coalition board member representing industry in the Memphis and Shelby County area.
The workshop — held on America Recycles Day — was attended by a few recycling companies, as well as community leaders representing a range of organizations working to promote sustainability, including Memphis City Beautiful, City of Memphis Solid Waste Management, Shelby County Office of Sustainability, Montgomery County Green Certification Program and the Environmental Commission of Germantown.

Rogers told attendees that ASC was not the only company that could not find higher-volume recycling vendors, and encouraged local municipalities to step up their recruitment efforts.

She also took the opportunity to introduce attendees to ASC itself and highlighted the company’s compost recycling efforts that have been in place since 2012, before giving them a tour of Tradeport. “They said it was the cleanest manufacturing facility they had ever seen,” Rogers said. “They were thoroughly impressed.”

Attendees were “thoroughly impressed” with the manufacturing facility

Rhonda Rogers

NO MAGIC WAND

Of course, Rogers wishes she has more good news than that to report. Despite the heightened attention that the workshop drew to the local recycling issue, there’s been little progress since then. “It was a useful forum,” she said. “Clearly, there’s no magic wand and only so much that we can do, but we continue to network and spread the message, and hopefully, one day something will change and we will have a solution,” Rogers said.

For Tripp Wilson, vice president of corporate sustainability and commercial equity, the takeaway here is that ASC is trying to make that change happen. “The company is already doing a great job with its compost recycling, and kudos go to Rhonda for her commitment to continuous improvement.”
HIGHLIGHT STORIES

BEAUTY AND LIGHT AT KBP

NEW PLANTINGS

Kentucky BioProcessing LLC, a Reynolds American subsidiary, planted 30 trees and more than 130 shrubs and other plants for its beautification project across 3 acres of its 28-acre facility in Owensboro, Ky., in 2017.

Call it an investment: For years to come, the site will be colorful and leafy with maple, gum and birch trees, along with other plants such as hollies, coral bells and goldenrods.

LED LIGHTING

The company also implemented an LED and motion sensor upgrade in its largest building. The facility replaced 120 fixtures/bulbs for normal building lighting, a project that will reduce annual energy consumption in the targeted area by more than 90 percent (33,000KWH to 2,000KWH).
THE VALUE OF SHARING IDEAS — TAGGING LEAKS CUTS ENERGY USE

They say that imitation is the sincerest form of flattery. Anyone within the Reynolds American organization knows how difficult it is to compete with Santa Fe Natural Tobacco Company (SFNTC) on the sustainability stage.

For that reason, anytime SFNTC adopts a best practice from another company within the organization, flattery abounds. And, due to sharing of best practices, American Snuff Company (ASC) is happy to say, SFNTC has repaid the compliment by adopting ASC-Memphis’ leak tag program and implementing it at the SFNTC facility in Oxford, N.C.

HOW LEAK TAGS WORK

In the leak-tag program, employees are trained to identify and tag leaks. This ensures awareness and timely correction, leading to reduced energy costs. In addition to keeping these costs down, tagging leaks keeps continuous improvement top of mind among employees, and that is the sort of focus necessary to meet energy reduction goals at Oxford.

The leak-tag program also illustrates the value of sharing. The Environmental, Health and Safety team shares best practices across all company locations, always leading to improvements. Team members attend energy team meetings at other operating companies to gather information that they could take back to their locations and implement.

In addition to sharing the leak tag program, the development of the environmental management system was also a collaborative effort between locations. Because SFNTC was ISO 14001 certified, the
American Snuff facilities used the SFNTC program as a foundation to develop an environmental management system for each of the American Snuff facilities. Other best practices shared include sharing information about rebates offered by the local utilities to assist with lighting replacements in the manufacturing facilities. When one facility scores a rebate for a project, they tend to share with all of the locations.
SIMPLICITY AND SUSTAINABILITY AT ITS CORE

R.J. Reynolds Tobacco Company made significant progress on many fronts in 2017.

NEW RECYCLING INITIATIVES

The company’s Make-Pack unit at its Tobaccoville, N.C., facility began recycling the cores from the foil wrapping that goes into cigarette packages, but the foil could not be recycled with the cardboard core. So a process using gravity was developed in-house to remove the foil from its core.

Additionally, the site improved workplace organization with the replacement of brown recycling tubs with labeled blue recycling tubs on the Make-Pack floor. The blue tubs help in many ways, but in part, by distinguishing them from the brown trash tubs. In 2017, R.J. Reynolds’ Winston-Salem facilities had an overall recycle rate of 64 percent versus 59 percent from 2016.

MORE ZERO WASTE TO LANDFILL

At the company’s site in Kernersville, a Zero-Waste-to-Landfill Team kicked off in mid-September 2017. The team, consisting of several of the company’s vendors and environmental personnel, inventoried waste streams and prioritized them in terms of weight and frequency.

The team found recyclers for all manufacturing and office waste items, including label-backing and personal protective equipment. Some recyclers required a small processing cost, though overall income from recycling far outweighed cost.

By the end of 2017, more than 70 percent of the site’s manufacturing waste was being eliminated from
the landfill, and that hit 100 percent during the first quarter of 2018. This represents the elimination of approximately 4 tons per month of landfilled waste, plus the elimination of the monthly rental fee for one roll-off container and landfill dumping fees.

REDUCED WATER USE AND WASTEWATER

The Tobaccoville facility also reduced water use and wastewater discharge in 2017 by 23 million gallons. This was accomplished by optimizing control changes associated with air washers and the introduction of a new chemical treatment program for air-washer chilled water.

LED lights the way

Several new projects in R.J. Reynolds’ facilities were completed in 2017 which contributed to electrical energy savings and enhanced lighting requirements, while providing increased lifespan. These included:

- New lighting at the tobacco processing facility at the Whitaker Park plant and in parts of the Tobaccoville facility,
- New lighting with occupancy sensors and daylight harvesting sensors in the utility plant at Whitaker Park, and occupancy sensors at the company’s Rural Hall facility.
TAYLOR BROTHERS’ PATH TO ZERO MANUFACTURING WASTE TO LANDFILL

American Snuff Company’s Taylor Brothers operation in Winston-Salem, N.C., marked a major 2017 milestone in ongoing sustainability efforts — zero manufacturing waste to landfill.

In real terms, the company has eliminated an additional one million pounds of manufacturing waste material from landfills annually, in addition to achieving company cost savings. Waste dumps generate methane which, according to the Environmental Protection Agency, is a potent greenhouse gas. The agency encourages communities to reduce the volume and toxicity of waste by increasing the useful life of manufactured products through recovery, recycling and re-use.

“This is a great example of how desire, persistence and teamwork can solve problems we wouldn’t necessarily have even tackled a few years ago,” said Tripp Wilson, vice president of corporate sustainability and commercial equity. “The team’s efforts reduced the environmental cost of our operations and returned about $85,000 a year to the company’s bottom line.”

THE FIRST STEP

A few years ago prior to this achievement, Taylor Brothers decided to partner with a new composting company, Wallace Farms, in Advance, N.C., to help divert tobacco waste from the landfill — a move very much in line with our corporate goal of reducing landfill waste.

“We seized the opportunity, but it was easier said than done,” recalls Hugh McBride, lead manager EHS at Taylor Brothers. McBride headed up the core project team consisting of Tim Tucker, Chris Stephens and Greg Sawyers, who were in turn supported by the PAs and many others at the company.
The team began its journey by changing the way the company’s tobacco waste was collected, and transported. “We had to change the mindset from ‘everything goes to the landfill’, to separating out the tobacco, collecting it in special containers, and disposing of it in designated compactors to be hauled to the composting vendor,” McBride said.

“A new waste disposal vendor was sourced to consolidate and make our waste haul efforts more efficient. We added designated compactors just for compostable materials, purchased compostable bags and new tubs to collect the tobacco, as well as set up new procedures to efficiently collect tobacco.”

**ONE THING LED TO ANOTHER**

As this initial effort gained steam, the team realized that eliminating all manufacturing waste from the landfill actually might be possible, and began to look at ways to divert other manufacturing waste items.

“We purchased a cardboard baler to make the collection and disposal of cardboard much more efficient and cost effective,” McBride said. “Adding the baler kept some of the cardboard material from finding its way into the landfill waste stream, and also increased our rebates on cardboard from the recycling vendor. The next step was to figure out a way to recycle our fiberboard ingredient barrels. We were generating a dozen empty barrels every day or so, and we had a vendor that would take some of these and repurpose them, but would not take the amount we were generating. So we had to store them in one of our sheds to keep them from going to the landfill, but we were running out of storage space. We were generating more than what was going out and it was a pain to manage.”

Then the team members discovered that this problem could be fixed by using a special machine that could remove the metal rings from the barrels, allowing those rings to go into the company’s waste metal recycling waste stream and the fiber barrels into the cardboard waste stream.

Another waste item — backing label material generated in Taylor Brothers’ can labeling packaging department — had been historically a difficult item to find a recycling vendor to take off the company’s hands. “No one we knew would take it,” said McBride, so he eventually tracked down a local vendor that was willing to take backing label material. “On top of that, the vendor agreed to pay us for it!” he said.

**LAST PIECE TO THE PUZZLE**

By now, everyone at Taylor Brothers was beginning to sense what the possibilities were and began to find ways to collect and dispose of reject materials, segregating the plastic, metal, and paper waste from the production floor so that the waste would not go to the landfill.

With a few items still having to go to the landfill, McBride sought out another new vendor, Triad Recycling — a company based down the road in Yadkinville. Triad was the sole service provider to UNIFI, a certified zero waste to landfill textile manufacturing company.
On Sept. 1, 2017, Taylor Brothers contracted with Triad, clearing the way to meeting the goal of zero manufacturing waste to landfill. “Everyone here should be proud of this accomplishment, because it was truly a team effort,” McBride said. “We continue to monitor the waste streams, and coordinate with our new recycling vendor to find more ways to lessen our impact on the environment.”

Taylor Brothers joins other RAI subsidiaries in successful efforts to reduce their impact on the environment. Santa Fe Natural Tobacco Company’s Oxford, N.C., facility has been zero all-waste to landfill since 2014.
Larry Leon Hamlin was born in a small-town, but had dreams bigger than most. A native of Reidsville, N.C., he went north to college, but decided to make his home in North Carolina. Long a lover of the stage, in 1989, he organized Winston-Salem’s first National Black Theatre Festival with 30 performances and a powerful faith in its success. His vision caught on, and by 2017, the festival had grown to feature more than 140 performances, a colloquium on citizenship and criminal justice, midnight poetry jams and more.

Larry died in 2006, and his wife, Winston-Salem native Sylvia Sprinkle-Hamlin, vowed to continue the biennial festival. Under the executive leadership of Sprinkle-Hamlin—the director of the Forsyth County Public Library and a civic powerhouse herself—and with the support of donors including the Reynolds American Foundation, the future looks promising for Winston-Salem as the continuing home of this outstanding cultural and economic treasure.

When the festival carpets roll out every two years, the National Black Theatre Festival infuses a dynamism and vital international fame into the Winston-Salem arts world. In 2017, the event brought in more than $8 million to the local economy, according to Visit Winston-Salem. It is credited with bringing 60,000 visitors to the city in 2017 and 500,000 since 1989. It was named one of the Top 100 events in North America by the American Business Association.
HIGHLIGHT STORIES

THE AMERICAN SNUFF CHARITABLE TRUST HELPS MAKE WISHES REAL

For the past 10 years, the American Snuff Charitable Trust has included Make-A-Wish Midsouth among its charitable causes, giving more than $72,000 to sponsor the wishes of eight children with life-threatening illnesses. The Make-A-Wish organization grants the wishes of children like these, enriching the human experience with joy, hope and strength.

Make-A-Wish Midsouth, with offices in Memphis, wrote that these experiences have impacted each family more than anyone could imagine. “It gives children, like the ones you sponsored, an emotional escape from their illnesses and re-energizes families for the journey that lies ahead,” the organization wrote in a thank you letter to the trust.

Among the children whose wishes have come true through the trust’s donations are:

- Limberth, 5, who dreamed of toys and clothes, rode in a limousine to Target and made his dream come true.
- Zariah, 12, who visited the set of her favorite TV show, “Bunk’d,” where the cast gave her VIP treatment and special gifts.
- Bethany, 19, who went to Hawaii, attending a traditional luau and jumping into the blue water for a snorkeling tour.
- Joseph, who held his 16th-birthday party on a riverboat, fishing, feasting and celebrating with friends and family.
- Jasmine, 11, who traveled to Atlanta to meet and celebrate Christmas with her favorite TV host, Paula Deen.
Studies show that a wish experience is a powerful tool for reducing stress and instilling hope, Make-A-Wish wrote to the trust. “Because of sponsors like you, we are able to grant these wishes.”
Victoria Trotman of Manufacturing at Santa Fe Natural Tobacco Company saw the lights go on in students’ faces when she explained ways to avoid tobacco use.

“People often tell you what you shouldn’t do and even tell you why you shouldn’t do it,” Trotman said. “But most of the time they don’t tell you how not to. RDRN does that,” she said. “We give students ways to make the right decisions that can help in all aspects of their lives.”

Trotman is happy to be a part of the Right Decisions Right Now: Be Tobacco Free Program (RDRN), developed by R.J. Reynolds Tobacco Company in 1991 to prevent youth tobacco use. Employees, such as Trotman, who present the program can apply for a grant for the group who received the presentation. Trotman’s recent presentation was for fifth-graders near Oxford, N.C., with colleague Donald Jones. The grant helped the class travel to Washington, D.C.

Trotman spoke with Jones’ daughter afterward. She and her friends loved the nice giveaways (such as wristbands and journals), and the educational posters were a hit, Trotman said. “One little girl told me that making the right choices didn’t seem so scary now.”

Trotman said she chose the theme “It’s All About Me” as a way to teach youth to make decisions based on what’s helpful in reaching their goals.

Educators, youth ministers, coaches and others who work with youth can present this free, evidence-based program. Employees are eligible to request the grant money.
A KNOCKOUT YEAR IN 2017

2017 saw a 75 percent increase in employee participation in presenting the RDRN program. In all, 864 employees representing all subsidiaries reached 444 groups across the country.

RDRN was created in the belief that helping youth say “no” to tobacco is the right thing to do. And it’s important to RAI’s strategic goal of transforming the tobacco industry.