



Transforming Tobacco



2014
Sustainability Report



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CEO Letter



Over the last decade, RAI and its operating companies have transformed their businesses and the product categories in which they compete. We’ve also established a very ambitious, but very clear, vision for our companies: we will achieve market leadership by transforming the tobacco industry over the long term.

In our minds, the transformed industry will look very different than the one in which we compete today. For us, market leadership will be defined not only in terms of volume, share and value, but also in terms of influence – in a broader universe of traditional tobacco products, vapor products and nicotine-replacement therapy products.

We organize our transformation strategies into three key pillars: Youth Tobacco Prevention, Tobacco Harm Reduction and Commercial Integrity. You’ll see that structure reflected in this sustainability report.

RAI’s view of sustainability is broad. Our companies work to meet the expectations of adult tobacco consumers; promote the well-being of employees and the communities in which they live; and minimize the environmental impact of operations and products. In doing so, we align our decisions, investments and actions with society’s expectations of how tobacco-products companies should operate today. We believe that sustainable business practices are both good for our businesses and are the right thing to do.

I hope you find this report valuable. If you have any comments and suggestions for improvements in future reports, please email us at: TalkToRAI@RJRT.com.

Sincerely,

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





Transforming Tobacco



Throughout our 140-year history, Reynolds American Inc. (RAI) and its operating companies have developed many of the innovations that defined our industry's evolution. In 2010, we created our Transforming Tobacco vision as a way to describe both our history of innovation and our desire to remain the driving force of change in our industry.

Overview

To achieve our vision of Transforming Tobacco, we make decisions and take action based upon doing the right thing for today and tomorrow. *In other words, our Transforming Tobacco vision is the core of our sustainability vision.*

The Transforming Tobacco vision is the driving force behind each of our commercial strategies. Our vision aligns with evolving consumer and societal expectations. It also helps ensure long-term commercial success and deliver a sustainable economic return to our shareholders. Sustainable business practices are good for our businesses and they are the right thing to do.

WHAT IS TRANSFORMING TOBACCO?





Our effort to lead the transformation of the tobacco industry is built upon three pillars:



Youth Tobacco Prevention (YTP)

RAI and its subsidiaries share society’s belief that minors should never use tobacco products of any kind. Our companies have put programs in place during the past 25 years that have helped drive down the smoking rate among our nation’s youth to historic lows. But the work isn’t done and we continue to engage with diverse stakeholder groups, including legislators, health policy groups and community members to further accelerate the decline in youth tobacco use. YTP is not only the right thing to do, it also contributes to our commercial success and sustainability by supporting reasonable regulation and diminishing business risk.



Tobacco Harm Reduction (THR)

RAI and its subsidiaries are committed to reducing the death and disease caused by cigarettes. There has been a significant decline in the prevalence of cigarette smoking during the past 30 years, but the rate of decline has slowed. A substantial body of scientific research has shown that smokeless tobacco products present significantly less harm than cigarettes. Several of our operating companies are working to innovate and introduce new products that meet the expectations of adult smokers while offering the potential to reduce risk. In addition to smokeless products, we believe that other non-combustible smoke-free products, such as vapor products and other innovations, may reduce harm to smokers who switch to them. RAI’s operating companies have long been recognized as the innovation leaders in the tobacco industry. Emerging product categories that offer the potential to reduce tobacco harm allow us to be growth leaders in expanding markets that also offer potential for higher margins. That’s good for smokers, for our society and for the sustainability of RAI.



Commercial Integrity (CI)

RAI and its subsidiaries have long known that operating as a good corporate citizen has a direct impact on our bottom line and creates a climate for continued success. It’s also important that our companies have the opportunity to compete on a level playing field for the business of adults who choose to use tobacco. Our CI pillar covers a broad range of business, social and environmental issues, from maintaining a responsible supply chain to reducing our environmental footprint, which helps society and our planet.



These three pillars form the bedrock of our vision and represent the material sustainability topics for our businesses. Through our work within these pillars, Transforming Tobacco enhances our long-term economic, social and environmental sustainability. By committing our time, energy and resources to the principles that drive these three pillars, we will continue to transform the tobacco industry and achieve sustainable growth for RAI’s shareholders.



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Reynolds American's Guiding Principles and Beliefs

Our Guiding Principles and Beliefs reflect the interests of shareholders, consumers, employees and other stakeholders. In particular, RAI and its operating companies are committed to addressing the issues regarding the use of and harm associated with tobacco products in an open and objective manner. Here's what we and our operating companies believe:

Tobacco Use and Health

- Cigarette smoking is a leading cause of preventable deaths in the United States. Cigarette smoking significantly increases the risk of developing lung cancer, heart disease, chronic bronchitis, emphysema and other serious diseases and adverse health conditions.
- The risk for serious diseases is significantly affected by the type of tobacco product and the frequency, duration and manner of use.
- No tobacco product has been shown to be safe and without risks. The health risks associated with cigarettes are significantly greater than those associated with the use of smoke-free tobacco and nicotine products.
- Nicotine in tobacco products is addictive but is not considered a significant threat to health.
- It is the smoke inhaled from burning tobacco which poses the most significant risk of serious diseases.
- Quitting cigarette smoking significantly reduces the risk for serious diseases.
- Adult tobacco consumers have a right to be fully and accurately informed about the risks of serious diseases, the significant differences in the comparative risks of different tobacco and nicotine-based products, and the benefits of quitting. This information should be based on sound science.
- Governments, public health officials, tobacco manufacturers and others share a responsibility to provide adult tobacco consumers with accurate information about the various health risks and comparative risks associated with the use of different tobacco and nicotine products.

Tobacco Regulation and Communication

- Tobacco products should be regulated in a manner that is designed to achieve significant and measurable reductions in the risks and adverse health effects associated with cigarette use. Regulations should enhance the information available to adult tobacco consumers to permit them to make informed choices, and encourage the development of tobacco and nicotine products with lower risks than existing cigarettes.
- The degree of regulation should be based on the risks and comparative risks of tobacco and nicotine products and their respective product categories. Preferential treatment (taxation, marketing, consumer communication, labeling, etc.) should be given to tobacco and nicotine products or product categories that are less harmful than cigarettes.
- Communication and interaction with adult tobacco users regarding their brand choices is essential for effective competition.
- Public policy should allow communication of the comparative risks of tobacco products and encourage tobacco users to switch to potentially lower-risk products.



- The regulation of marketing of tobacco products should be consistent with constitutional protections and enhance an adult tobacco consumer's ability to make an informed choice by providing accurate information on the risks and comparative risks of tobacco products.
- The marketing of tobacco products should not be targeted to minors and non-tobacco users.
- The prohibition of tobacco products is neither practical nor desirable.

Tobacco Consumers

- Individuals should consider the conclusions of the U.S. Surgeon General, the Centers for Disease Control and other public health and medical officials when making decisions regarding smoking.
- The best course of action for tobacco users concerned about their health is to quit. Adults who continue to use tobacco products should consider the reductions of risks for serious diseases associated with moving from cigarettes to the use of smoke-free tobacco or nicotine products.
- Minors should never use tobacco products and adults who do not use or have quit using tobacco products should not start.
- Adults who smoke should avoid exposing minors to secondhand smoke, and adult smokers should comply with rules and regulations designed to respect the rights of other adults.

Harm Reduction

- Reducing the diseases and deaths associated with the use of cigarettes serves public health goals and is in the best interest of consumers, manufacturers and society. Harm reduction should be the critical element of any comprehensive public policy surrounding the health consequences of tobacco use.
- Significant reductions in the harm associated with the use of cigarettes can be achieved by providing accurate information regarding the comparative risks of tobacco products to adult tobacco consumers, thereby encouraging smokers to migrate to the use of smoke-free tobacco and nicotine products, and by developing new smoke-free tobacco and nicotine products and other actions.
- Governments, public health officials, manufacturers, tobacco producers and consumers should support the development, production, and commercial introduction of tobacco leaf, and tobacco and nicotine-based products that are scientifically shown to reduce the risks associated with the use of existing tobacco products, particularly cigarettes.
- Adult tobacco consumers should have access to a range of commercially viable tobacco and nicotine-based products.

RAI and its operating companies are committed to addressing the issues regarding the use of and harm associated with tobacco products in an open and objective manner.



About This Report

Our 2014 Corporate Sustainability Report – Transforming Tobacco – highlights our economic, social and environmental performance, and emphasizes our commitment to operating with integrity. The scope of our report covers the 2014 performance of RAI's U.S. operating companies.

The environmental, health and safety data described in this sustainability report are verified by an independent third party. This assurance can be found [here](#).

The RAI reporting process involves a diverse group of internal and external stakeholders with a broad representation across functional areas and operating companies. This group monitors and identifies material sustainability issues affecting our companies and industry.

Environmental, social and economic data are woven into our focus areas of Youth Tobacco Prevention, Tobacco Harm Reduction and Commercial Integrity, since these three areas address the most pressing issues impacting the sustainability of our companies and our industry.

Our report is broken into sections that align with the Transforming Tobacco strategy. Environmental, social and economic data are woven into our focus areas of Youth Tobacco Prevention, Tobacco Harm Reduction and Commercial Integrity, since these three areas address the most pressing issues impacting the sustainability of our companies and our industry. For ease of locating information of interest to our stakeholders, we have mapped the content of this report to both the Global Reporting Initiative (GRI) 3.1 Guidelines and Dow Jones Sustainability Index (DJSI). Visit the [Content Index](#) to learn more about what is reported in this document. For more information on GRI, please visit www.globalreporting.org. For more information on DJSI, please visit www.sustainability-indices.com.

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



Our Businesses

Reynolds American Inc., referred to as RAI (NYSE: 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.



R.J. Reynolds Tobacco Company

R.J. Reynolds Tobacco Company, also referred to as R.J. Reynolds, is the second-largest tobacco company in the United States. R.J. Reynolds primarily conducts business in the highly competitive U.S. cigarette market, making many of the nation's best-selling and most iconic cigarette brands. R.J. Reynolds' diverse portfolio of traditional cigarettes, cigarettes that primarily heat rather than burn tobacco and smoke-free products (snus) provides adult tobacco consumers with high-quality choices that meet their preferences.



American Snuff Company, LLC

American Snuff Company, LLC, also referred to as American Snuff, is the nation's second-largest manufacturer of traditional smokeless tobacco products. The company offers a range of smokeless tobacco products to adult tobacco consumers, including one of the nation's leading moist-snuff brands, several brands of dry snuff, loose-leaf tobacco and chewing tobacco.



Santa Fe Natural Tobacco Company, Inc.

Santa Fe Natural Tobacco Company, Inc., also referred to as Santa Fe or SFNTC, manufactures and markets super-premium tobacco products in its zero-waste-to-landfill manufacturing facility. The tobacco blends in SFNTC's products are 100 percent additive-free and use only two ingredients: whole leaf tobacco and water. SFNTC produces cigarette and roll-your-own styles, including some made with 100 percent U.S. Department of Agriculture (USDA) certified organic tobacco. SFNTC's vision, "that our uncompromising commitment to our natural tobacco products, the earth from which they come, the communities on which we depend and the people who bring our spirit to life is essential to our success," perfectly encapsulates the company's commitment to delivering quality, while being good stewards of the earth.



Niconovum USA, Inc.

Niconovum USA, Inc., also referred to as Niconovum, produces a nicotine replacement therapy gum that is approved by the FDA as a stop-smoking aid and has demonstrated success in helping smokers quit.

R.J. Reynolds Vapor Company

R.J. Reynolds Vapor Company, also referred to as RJR Vapor, markets digital vapor cigarettes, also known as electronic cigarettes or e-cigarettes. RJR Vapor combines more than 100 years of tobacco expertise and innovative technology to provide adult tobacco consumers with game-changing vapor products.

RAI Services Company

RAI Services Company, also referred to as RAI Services, provides a broad range of services including human resources, information management, public affairs, legal, finance and internal audit to other RAI companies under services agreements.



OUR LOCATIONS



★ Offices of RAI, R.J. Reynolds, RJR Vapor, Niconovum USA; R.J. Reynolds and American Snuff manufacturing

■ American Snuff manufacturing
■ Santa Fe executive offices
■ Santa Fe manufacturing





2014 Financial and Marketplace Performance

For RAI and its operating companies, 2014 was a year of strong financial and marketplace performance, as detailed in our [February 10, 2015, press release](#).

In addition, RAI's focus on building long-term financial sustainability as part of the company's Transforming Tobacco strategy gained further momentum in 2014, with promising results from the national roll-out of innovative nicotine-based products.

In July 2014, RAI announced its intention to acquire Lorillard, Inc., the oldest continuously operating tobacco company in the U.S. This transaction will expand R.J. Reynolds' ability to compete in the combustible cigarette category. More importantly, it will advance RAI's Transforming Tobacco strategy by providing the operating companies additional resources to invest in innovation, R&D and their existing brands.

At the time this report was prepared, RAI's securities filings indicated that the Lorillard transaction was expected to close in the first half of 2015. Please see the back cover of this report for forward-looking information, and where updated company filings may be found.

The volume of cigarettes sold in the United States and the percent of the adult population that smokes have both been in decline for decades. According to the U.S. Centers for Disease Control and Prevention (CDC), in 1965, about 42 percent of the adult population smoked, and today that number is about 19 percent. In 2014, cigarette industry volume declined 3.2 percent, which is in line with the historical rate of 3 to 4 percent annual volume decline in the U.S. market.

In contrast, growth continues in smokeless, smoke-free tobacco and nicotine replacement therapy (NRT) categories, which advance tobacco harm reduction and are key to our long-term business growth:

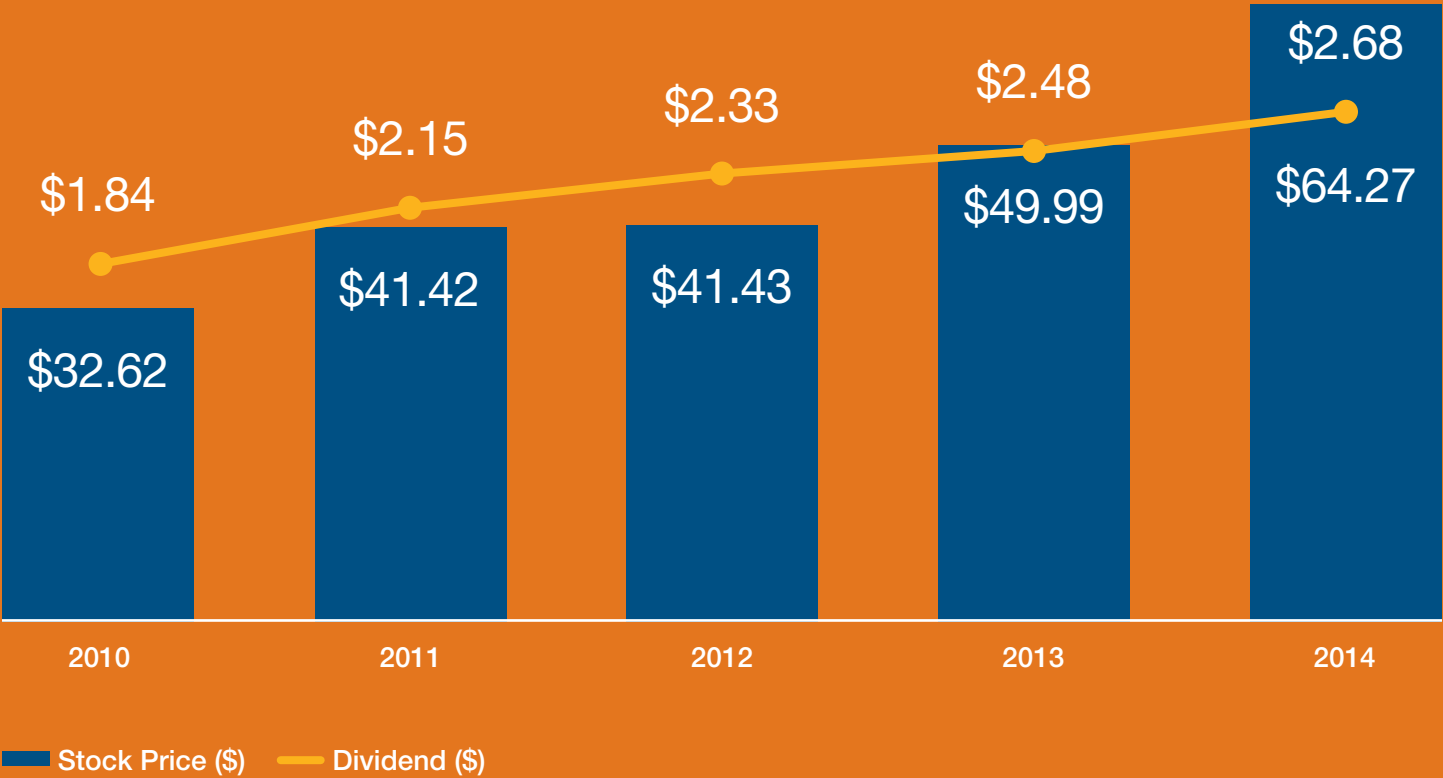
- The moist-snuff industry volume grew 2.3 percent in 2014.
- The growth rate of vapor is hard to measure given the limited data for this emerging category.
- The U.S. NRT market grew 1.6 percent in 2014, with annual sales of about \$1 billion. Nicotine gum represented 56 percent of the category.



“Reynolds American continued to deliver growth momentum, capping a highly successful year for our operating companies’ core operations and key brands. This strong performance contributed to RAI’s excellent total shareholder return of just under 35 percent for 2014.”

Susan M. Cameron, president and chief executive officer of Reynolds American Inc.

STOCK PRICE AND DIVIDEND HISTORY





Governance

Transforming Tobacco Governance

A cross-company team is charged with integrating the Transforming Tobacco strategies across RAI and its operating companies. The team provides regular reports to RAI's leadership team and board of directors. The team provides leadership across functions to ensure that management practices, initiatives and goals throughout the company consistently deliver on our strategy.

Each function within every RAI company has specific goals supporting the Transforming Tobacco pillars. These goals are reflected in employees' individual goals as well. Annual performance for each employee is measured against these goals, creating a line of accountability stretching across companies, and from top to bottom within each company.

Board Governance

The RAI board of directors is responsible for preserving the long-term interests of the company's shareholders by overseeing the management, overall strategy and governance of RAI and its subsidiaries. In 2014, the board was composed of 12 members (nine independent) with a range of business and professional experience and included two women, two African-Americans and three non-U.S. citizens.

The board's three committees and their responsibilities are as follows:

- The [Audit and Finance Committee](#) (also operates as the Qualified Legal Compliance committee) is responsible for financial, legal and risk management oversight.
- The [Compensation and Leadership Development Committee](#) oversees and administers policies, programs, plans and arrangements for compensating the executive management of RAI and its subsidiaries. It also oversees leadership, talent development and succession planning for the top executive leadership positions of RAI and its subsidiaries.
- The [Corporate Governance and Nomination Committee](#) reviews the appropriateness of the long-term strategic plan and initiatives of the company and its subsidiaries, identifying individuals qualified to become members of the board, and overseeing succession planning for the chief executive officer of the company.

To guide our employees in doing the right thing, RAI offers several avenues for reporting known or suspected violations.



Ethics and Compliance

To achieve our vision of Transforming Tobacco, all of our decisions and actions are based upon doing the right thing for today and tomorrow. We expect every employee to conduct business with integrity, in an ethical, lawful and responsible way, as detailed in RAI's [Code of Conduct](#). The Board of Directors and all full-time active employees certify compliance with the Code every year. We have fulfilled this requirement each year since the Code of Conduct was developed in 2004.

Our Office of Ethics and Compliance assists employees in understanding the Code and is available for reporting potential violations and answering questions. In addition, the independent, third-party EthicsLine (a toll-free telephone line) is available 24 hours a day, seven days a week for employees who wish to report known or suspected violations of the Code of Conduct. Employees may anonymously report concerns or complaints via the EthicsLine or through www.rai.myethicsline.com. In addition, the Human Resources department maintains an Employment Practices hotline, which is available to report and handle employment-related questions and concerns. A summary of the Annual Ethics and Compliance Hotlines metrics can be found [here](#).

RAI and its subsidiaries believe in the universal human rights of our stakeholders and the community at large. The [United Nations Universal Declaration of Human Rights](#) serves as a reference point in our efforts. Additionally, we agree with the United Nations Global Compact's Guiding Principles, which declare that businesses should:

- Support and respect the protection of internationally proclaimed human rights within their sphere of influence; and
- Make sure they are not complicit in human rights abuses.



Code of Conduct

All employees are required to certify compliance with the Code every year. We have fulfilled this requirement each year since the Code of Conduct was developed in 2004.



Stakeholder Engagement Processes

Stakeholder engagements are an important tool in identifying, prioritizing and managing material sustainability issues. As such, we regularly interact with a variety of stakeholders. Key components of our engagement processes include:

- **Legislative and Regulatory Engagement:** RAI Services staff and representatives regularly meet with legislators and regulatory agencies with oversight of our industry to keep lines of communication open. We believe it's important that we share with them significant commercial events that support our Transforming Tobacco agenda and we want to understand their positions on key issues. We annually report recipient names and amounts of corporate political contributions in the [Governance](#) section of RAI's website.
- **Stakeholder Dialogues:** Our dialogue process is central to how we do business. To date, RAI companies have conducted 55 formal, third-party facilitated stakeholder engagements, including four in 2014. RAI companies' focus on YTP, THR and CI results from these engagements. The conversations are focused on gaining insights and building strategic partnerships. Our Transforming Tobacco guiding principles and beliefs are a direct outcome of this process.
- **Association Engagement:** Through our association memberships, we participate in discussions about industry and scientific issues, provide education and work together toward mutual goals. Currently, RAI and its subsidiaries play an active role in the following organizations, along with many other national, state and regional groups.
 - National Conference of State Legislatures (NCSL)
 - Carolina Farm Stewardship Association (CFSA) (life member)
 - National Association of Tobacco Outlets (NATO)
 - Farm Labor Practices Group (FLPG) (founding member)
 - National Association of Convenience Stores (NACS)
 - National Foundation for Women Legislators (NFWL)
 - Cooperation Centre for Scientific Research Relative to Tobacco (CORESTA)

OUR STAKEHOLDERS

- | | | |
|---------------------------------|--|----------------------|
| ■ Community groups | ■ Legislators and other government offices | ■ Trade customers |
| ■ Environmental advocacy groups | ■ Investors | ■ Educational groups |
| ■ Health policy groups | ■ Adult tobacco consumers | ■ Tobacco growers |
| ■ Public health officials | | ■ Suppliers |
| | | ■ Employees |



Awards and Recognition

- RAI was again selected in 2014 as a member of the Dow Jones Sustainability North America Index. This independent recognition of our companies' wide-ranging sustainability efforts demonstrates our commitment to sustainability across all aspects of our businesses.
- RAI received the Industry Mover, Bronze Class distinction for inclusion in RobecoSAM's 2015 Sustainability Yearbook.
- RAI was recognized by Newsweek magazine in its 2014 Green Rankings.
- For the second year in a row, the Forsyth County Environmental Assistance and Protection Board honored R.J. Reynolds for its achievements in environmental sustainability.
- R.J. Reynolds' Tobaccoville facility received a One Million Employee Hours Award, which recognizes companies that achieve 1 million man-hours with no lost-time workplace accidents.
- American Snuff's manufacturing facilities in Clarksville and Memphis, Tenn., were awarded the Tennessee Department of Environment and Conservation's highest award for sustainable business practices, the Tennessee Green Star Partnership Three-Star Certification.
- In 2014, SFNTC's Oxford, N.C., facility became the first tobacco manufacturing facility to be awarded the highest level of recognition in North Carolina's Environmental Stewardship Initiative, which is led by the state's Department of Environment and Natural Resources.
- Since 2010, SFNTC has been the only tobacco company that is a member of the EPA's Green Power Leadership Club. The company has been 100 percent wind-powered since 2009.
- In 2014, SFNTC was certified as "carbon neutral" for the third year in a row, based on the international standards in ISO 14064-1, which spells out how to report greenhouse gas emissions and removals.
- In 2014, SFNTC's Energy Management System was certified under ISO 50001, which supports the efficient use of energy.
- RAI and R.J. Reynolds again received North Carolina's highest safety award, the N.C. Department of Labor's Certificate of Safety Achievement.
 - R.J. Reynolds' Tobaccoville facility: Gold Award 13 consecutive years;
 - R.J. Reynolds' Research and Development: Gold Award 32 consecutive years; and
 - RAI's main office: Gold Award 15 consecutive years.



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). Preventing the use of tobacco products by minors is a core component of our sustainability strategy.

Our Commitment

Youth tobacco use hurts youth, 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 allow for youth access to tobacco.

Our Actions

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 over the past 24 years.

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

- CDC research shows the U.S. high school smoking rate at 15.7 percent in 2013, down from its peak of 36.4 percent in 1997 (source: CDC Youth Risk Behavior Survey).
- A University of Michigan study similarly noted that the smoking rate among 8th to 12th graders has dropped by two-thirds from its peak in 1997 to 8 percent, the lowest rate since the survey began in 1975 (source: 2014 Monitoring the Future).
- The U.S. Substance Abuse and Mental Health Services Administration (SAMHSA) reported in 2014 that the rate of tobacco sales to minors was 9.6 percent in 2013, compared to a violation rate of 40.1 percent in 1997, making it significantly more difficult for teens to buy tobacco.
- The FDA completed more than 170,000 retail compliance checks involving minors since 2011, with an 88 percent success rate in 2014.

"We Card is one of, if not the most successful corporate social responsibility efforts ever."

Lyle Beckwith, senior vice president of government relations for the National Association of Convenience Stores



We Card Program

In 1995, R.J. Reynolds was a founding supporter of the We Card program, recognized by its yellow and red retail sign stating "Under 18, No Tobacco: We Card." The program offers retailers materials and training to help them stop the sale of tobacco products to minors. With increased regulation of the tobacco industry by the FDA, as well as the emergence of new tobacco products such as e-cigarettes, programs like We Card are more important than ever.

Today, 20 years later, the We Card program is widely accepted across the country as the premier tobacco sales training and education program for retailers, and R.J. Reynolds continues to be a strong supporter of that program. Other supporters of the program include Altria Client Services, Ballantyne Brands, Commonwealth Altadis, Lorillard Tobacco Company, NJOY Electronic Cigarettes and VMR Products. To date:

- We Card has held more than 2,100 classroom training sessions, in all 50 states in the U.S. and its territories.
- Over 296,000 owners, managers and frontline employees have been trained by We Card.
- 44 state coalitions have been assembled to support state-level training and education.
- 237 regional, state and local trade associations support the We Card program.
- More than 1 million We Card kits have been distributed to retailers nationwide.
- State government agencies in 25 states have supported the We Card program and at various times over the years; governors and state attorneys general have either endorsed or expressed support for the We Card program.

As impressive as these numbers may be, the most important achievement of We Card and other programs and efforts like it, is the fact that FDA audits show that the illegal sale of tobacco products to minors has been reduced dramatically.



While these statistics and trends are encouraging, RAI and its operating companies remain steadfast in their commitment to Youth Tobacco Prevention (YTP) by continuing to support YTP programs and engaging with legislators and other stakeholders working to keep tobacco out of the hands of minors.

RAI Services' public affairs department advocates for legislation that strengthens youth tobacco prevention laws across the United States. We believe all states should have laws covering a broad spectrum of youth tobacco prevention mechanisms. Our current legislative priorities include:

- **Tobacco product possession ban:** RAI and its operating companies are against youth possession of tobacco. As of December 2014, some states still do not ban minors from possessing tobacco products.
- **Youth purchase or possession of vapor products ban:** In 2014, 14 states acted either legislatively or administratively to keep vapor products out of the hands of minors. We support legislation to enact age restrictions and strengthen prohibitions on purchase, possession and use of vapor products by youth. We believe all 50 states should have regulations prohibiting minors' purchase, possession and use of all tobacco products, including vapor products.
- **Penalties for complicit adults:** According to the CDC, minors get their tobacco products from social sources such as complicit adults, rather than retail outlets, 82 percent of the time. Many states have laws penalizing complicit adults, but they can and should go further. RAI advocates for legislation on par with or more stringent than states' Social Host laws for furnishing alcohol to minors.
- **Tobacco possession ban on school grounds:** RAI and its operating companies support the complete ban on the use and possession of tobacco products and vapor products on school grounds, including by adults. We support legislation to keep tobacco products out of our children's schools, such as the language adopted by Arizona in which "tobacco products are prohibited on school grounds, inside school buildings, in school parking lots or playing fields, in school buses or vehicles or at off-campus school sponsored events."

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



Right Decisions, Right Now: Be Tobacco Free (RDRN)



We are proud of the success of We Card and the point-of-purchase compliance it has driven, but the fact is that some minors still find ways to get tobacco products – primarily from complicit adults and other social sources. It is important to complement retail compliance efforts with training and education designed to make young people less prone to accept or try cigarettes or other tobacco products from social sources.

Started in 1991, RDRN is a free and easily accessed youth tobacco prevention program for use by educators, parents and community groups. Funded by R.J. Reynolds, the evidence-based program was independently developed and tested, and helps to equip youth with the skills they need to handle peer pressure and to make healthy lifestyle decisions. In 2014, several enhancements were made to the RightDecisionRightNow.com website, including:

- The updating of several materials, including posters and videos
- The addition of resources in Spanish
- Information on why teens should not use e-cigarettes or other nicotine products

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

RAI and its operating companies also have an RDRN employee participation program. In 2014, about 300 employees presented RDRN to outside groups in the communities where they live and work. These groups received about \$150,000 in grants from R.J. Reynolds for participating in the program.

For more information and to obtain free materials, visit www.RightDecisionsRightNow.com.

Boy Scouts of America

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

In total, this successful partnership has resulted in more than 1.7 million Boy Scouts participating in Right Decisions, Right Now.



Tobacco Harm Reduction



RAI and its operating companies are working to reduce the harm caused by smoking. We share the belief of many researchers that smoke-free tobacco products may present significantly less risk of disease than cigarettes. The varying health risks presented by these products can be viewed as a risk continuum.

Our Commitment

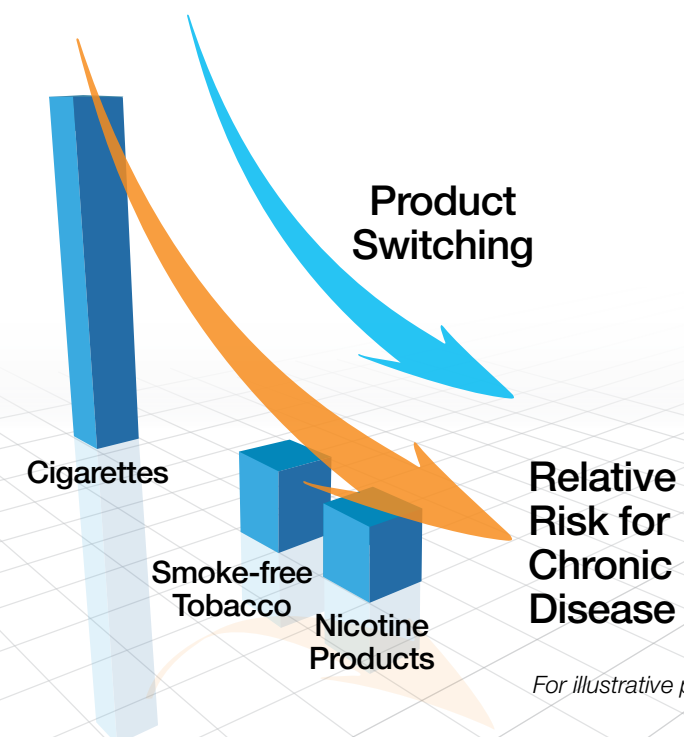


RAI and its operating companies are working to reduce the harm caused by smoking. For more than 50 years, a range of efforts and strategies have been deployed to encourage smokers to quit and to discourage smoking initiation. As a result of those efforts, smoking rates have reached historic lows. Specifically, adult smoking has declined significantly from 42.4 percent at its peak to 17.8 percent (1965–2013). However, despite near-universal awareness of the health risks associated with cigarettes, some 42 million American adults continue to smoke.

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

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

Research indicates that the combustion of tobacco (i.e., cigarette smoking) rather than the nicotine is what exposes tobacco consumers to the most risk. There is a growing body of scientific evidence that the use of smoke-free tobacco products may present less risk than cigarette smoking. Encouraging smokers to switch to products that have the potential to reduce risk can play a valuable role in public health.



For illustrative purposes only.



TEN YEARS OF
TRANSFORMATION

2004

RAI formed, owning primarily cigarette-only businesses.

2006

Entered the moist-snuff category with the acquisition of American Snuff. R.J. Reynolds entered the snus category.

2011

Entered the NRT category with the acquisition of Nicovum AB.

2012

Niconovum USA launched an NRT gum.

2013

RJR Vapor entered U.S. vapor category.

2014

R.J. Reynolds announced plans to expand brands offering heat-not-burn technology.

Our Actions

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

RAI’s operating companies have long been regarded as the innovation leaders in the tobacco industry. However, our companies are not interested in innovation for its own sake. Rather, they are working to address industry trends and emerging consumer preferences. For the past decade, we have been focusing research and development efforts, as well as acquisitions, to create a broad portfolio that includes tobacco products that may present less risk, aligned with changing consumer preferences.

RESEARCH AND DEVELOPMENT SPENDING

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

As RAI’s operating companies expand their presence in new product categories, they will continue to engage with legislators and regulators to support appropriate legislation and regulation of their products. We believe there needs to be greater awareness of the relative risks of different tobacco product categories. We believe that states considering taxing vapor products should set the tax rate commensurate with vapor’s risk profile, so that taxation is not an impediment to adult smokers who might consider switching from combustible tobacco to vapor products. In 2014, much of our legislative activity was focused on raising awareness of the risk profile of vapor products as compared to cigarettes.

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

Brice O’Brien, R.J. Reynolds’ executive vice president of consumer marketing





Commercial Integrity



RAI and its subsidiaries are committed to being good corporate citizens not only because it's the right thing to do, but also because it has a direct impact on our bottom line and creates a climate for continued success. It's also important to our long-term success that we work to ensure a level playing field within which our operating companies can effectively compete for the business of adult tobacco consumers.

Our Commercial Integrity pillar covers a broad range of business, social and environmental issues – from maintaining a responsible supply chain to reducing our environmental footprint.

Environmental Sustainability

Our Commitment

We recognize our companies' manufacturing operations rely on resources and produce waste streams that may impact the environment. We also understand that properly managing these impacts is the right thing to do for the environment and for our bottom line. Our operating companies are committed to continually driving their environmental, health and safety (EHS) programs in accordance with the guiding principles set out in RAI's Environmental, Health and Safety Policy.

While our operating companies share common metrics and principles, each company's efforts are led by a senior EHS manager who is responsible for managing that company's environmental, health and safety programs, and establishing improvement priorities, performance goals and metrics.

EHS managers meet regularly as a group to work toward common RAI goals, fostering innovation through sharing of best practices and providing tools to the operating companies. A good example is the EHS Roadmap, a self-assessment tool for RAI's operating companies and their manufacturing sites, that guides continuous improvements in environmental, health and safety programs.

By regularly facilitating conversations across operating companies, we share learnings and can readily adopt improvements. For the past six years, RAI's operating companies have held an annual EHS Symposium, bringing together all EHS representatives, as well as other stakeholders from within and outside the companies. The active participation of senior management and employees at various levels reinforces the importance of EHS and creates an avenue for recognition of innovative efforts. This symposium showcases key improvements in EHS processes, and has led to a cultural shift in understanding and managing environmental, health and safety issues.

For the past six years, RAI's operating companies have held an annual EHS Symposium, bringing together all EHS representatives, as well as other stakeholders from within and outside the companies.

RAI's EHS Guiding Principles

- Conducting business operations in a responsible manner that protects the occupational health and safety of employees, ensures compliance with applicable government regulations, and continuously explores ways to improve workplace safety and environmental performance.
- Ensuring employees in all operating companies are knowledgeable about and properly trained on workplace occupational hazards and their role in impacting the environment.
- Actively engaging our supply chain partners to benchmark, share best practices, and identify, reduce, and eliminate environmental and safety impacts through cost-effective measures.





In 2014, the Memphis facility achieved a 41 percent reduction in waste-to-landfill, an increase of more than 170 percent.

ASC Dumpster Dive

Empowering our employees to innovate generates great results. Across our operating companies, employee teams are working together to lessen our environmental impacts and accelerate our progress toward environmental goals. Groups of production employees at R.J. Reynolds, American Snuff and Santa Fe meet regularly to tackle environmental challenges such as recycling, reducing energy or water usage, and raising awareness of the environment among their teams. Sharing of best practices (for instance, at the EHS Symposium) has drummed up some healthy competition that is producing results.

In 2014, the sustainability team at American Snuff's Memphis facility conducted two dumpster dives to educate employees on the American Snuff solid-waste reduction program. During the first dive in April, employees sorted through over 2,400 pounds of trash, including over 1,000 pounds of tobacco and over 700 pounds of recyclable material. The event helped staff learn the differences between what can be recycled and composted, and what had to be sent to a landfill. By providing hands-on education, the event gave employees first-hand experience with the American Snuff recycling process. In 2014, the Memphis facility achieved a 41 percent reduction in waste-to-landfill, an increase of more than 170 percent. They are well on their way to their goal of becoming a zero-waste-to-landfill site.

Our Actions

Environmental Management Systems

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

- Santa Fe is ISO 14001 certified at both its North Carolina manufacturing facility and at its New Mexico headquarters. ISO 14001 is the framework for developing an effective environmental management system.
- Santa Fe's North Carolina manufacturing facility is also ISO 50001 certified. This is ISO's Energy Management System, which improves energy efficiency and conservation, and drives reductions in greenhouse gas emissions.
- American Snuff's Clarksville and Memphis, Tenn., facilities launched new environmental management systems based on the ISO 14001 format in January 2014.
- R.J. Reynolds and Santa Fe 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 an a manner that goes above and beyond compliance with environmental regulations. RAI's operating companies continue to excel in environmental compliance and we are proud to report zero environmental violations in 2014.

RAI's operating companies continue to excel in environmental compliance and we are proud to report zero environmental violations in 2014.

EHS Audit Procedures

Audits play an important role in our continuous improvement process. RAI companies have commissioned regular, independent EHS compliance audits of most facilities for many years. In August 2013, the companies adopted a risk-based approach that uses specific risk factors to establish when facilities should be audited. Facilities must be audited at least every four years, and management has the discretion to accelerate audit frequency.





RAI's subsidiaries manage environmental performance by measuring, monitoring and reporting key environmental metrics such as greenhouse gas emissions, energy efficiency, water consumption and waste disposal. The data they report are verified by an independent third party. This assurance can be found [here](#).

In 2014, we launched a third-party Scope 3 assessment of the environmental impacts within our companies' supply chains. The results of this assessment will identify material environmental issues. These results will guide the management of these issues going forward and may affect changes in our reporting in future periods.

Greenhouse Gas and Energy

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

In 2009, RAI and its operating companies established a five-year plan to stabilize and maintain GHG emissions at their 2009 levels. We have more than met that goal. Our 2014 emissions were almost 62,000 metric tons lower than our 2009 actuals, an 18.6 percent reduction. We have also continued to achieve year-over-year reductions in total energy consumption. The 2014 total energy levels are 17.3 percent below 2009 levels. We are proud of our progress so far and the overall reduction in emissions.

For multiple years, the company has reported our progress on reducing greenhouse gas and energy use to CDP Climate Change (formerly known as the Carbon Disclosure Project Investor Response).

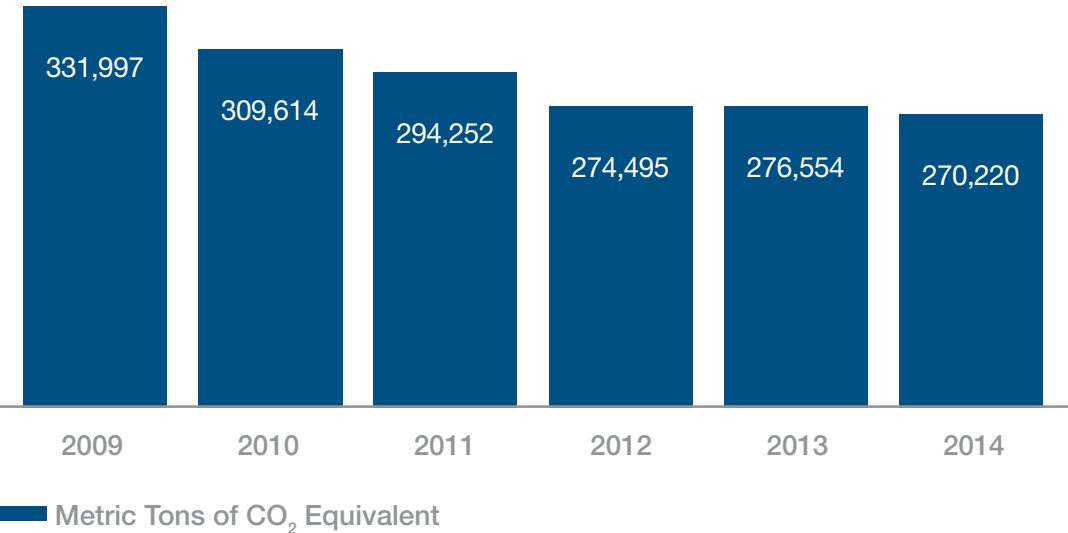


Energy Use at Santa Fe

Santa Fe operates in a manner that protects the interests of its communities and the environment. Since 2009, SFNTC has purchased wind power for 100 percent of its facilities, making it the only tobacco company to be awarded membership in the U.S. EPA's Green Power Leadership Club. As a demonstration of SFNTC's commitment to energy reduction, its operations were certified ISO 14064-1 as Carbon Neutral for the years 2011, 2012, 2013 and are in the process of an audit for 2014 certification. In addition, in 2014, Santa Fe's manufacturing facility's Energy Management System was certified under the ISO 50001 standard.



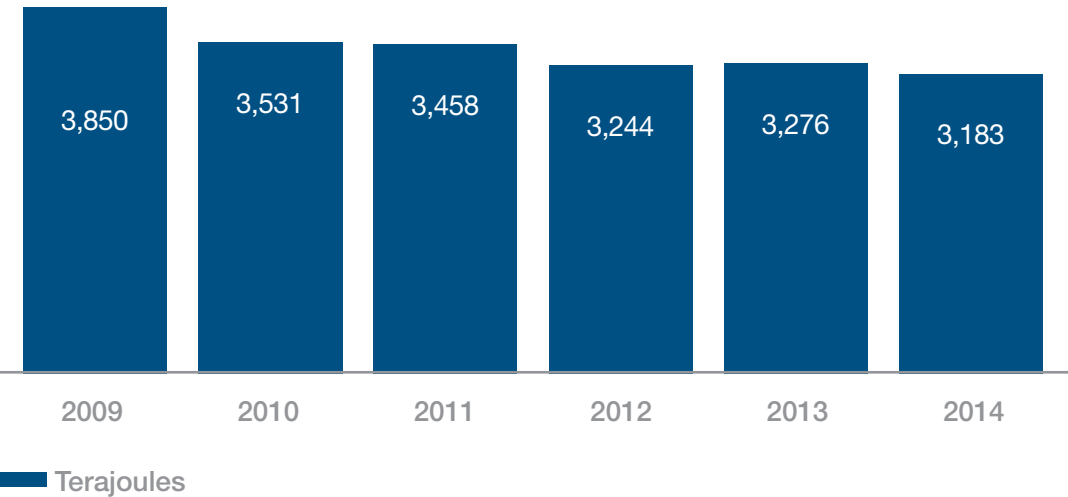
GREENHOUSE GAS EMISSIONS



18.6% ↓
since 2009

In 2009, RAI and its operating companies established a five-year plan to stabilize and maintain GHG emissions at their 2009 levels. We have more than met that goal.

TOTAL ENERGY USE



17.3% ↓
since 2009



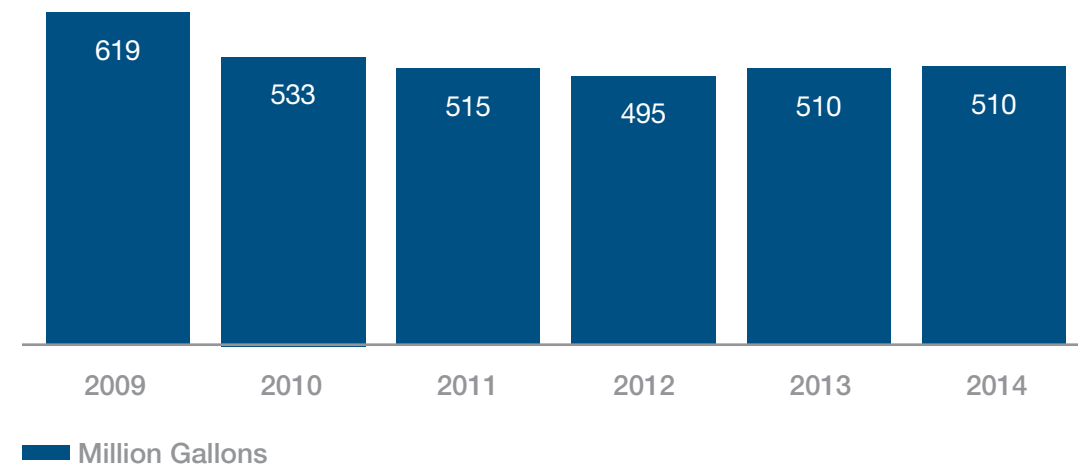
Water

Clean, plentiful water is an important resource for our companies and communities. We are proud to have maintained water consumption from our companies' manufacturing facilities at similar levels over the last three years.

Our operating companies also recognize the importance of their suppliers adopting good water-management practices, and suppliers of tobacco receive water-management training in the Good Agricultural Practices (GAP) training.

TOTAL WATER WITHDRAWAL

17.6% ↓
since 2009

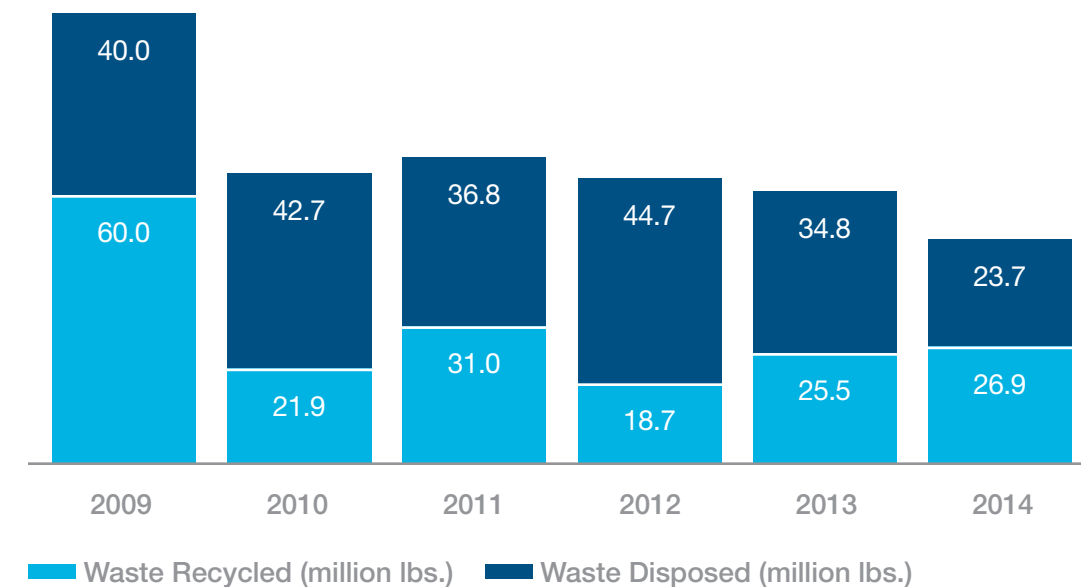


Waste and Recycling

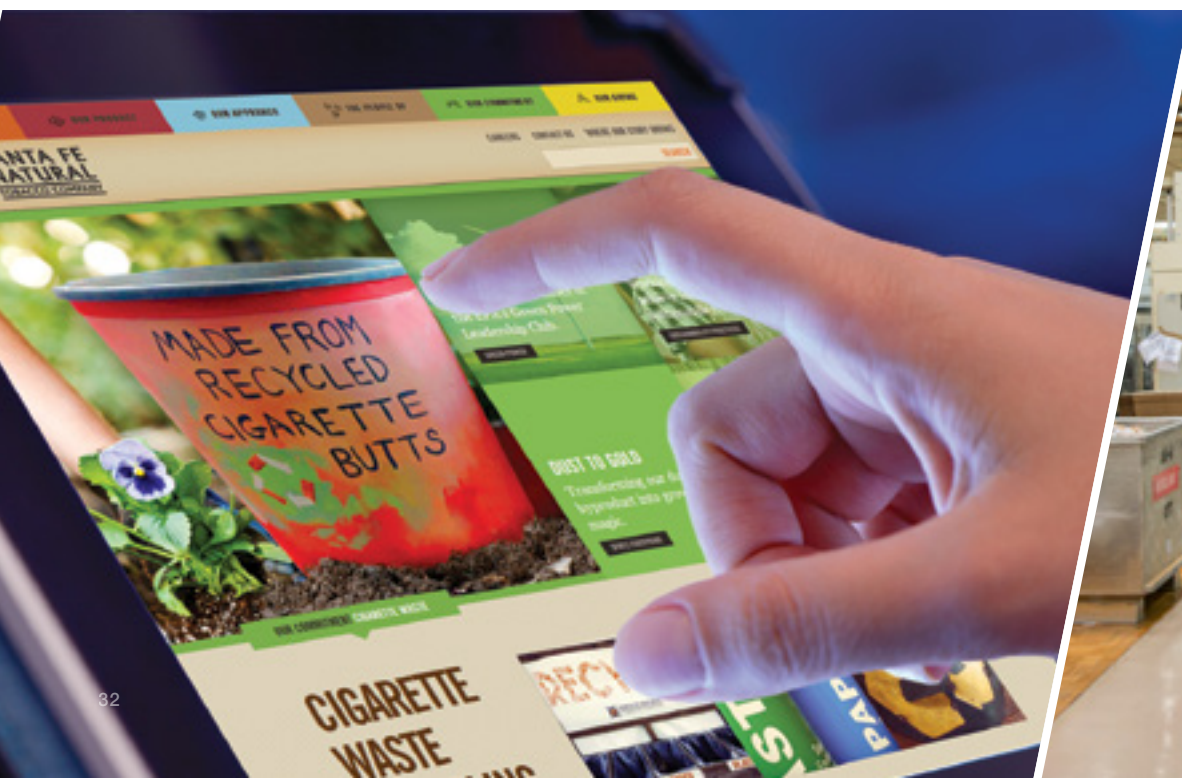
RAI's operating companies continually look for additional ways to recycle and limit waste from their products and production processes. They work with internal and external stakeholders to reduce material inputs, create innovative partnerships for the reuse of certain waste streams and prevent waste from entering landfills.

In 2014, total waste generated from our operations decreased 16 percent from the previous year. In addition, operating companies recycled 53 percent of total waste.

WASTE GENERATED



total waste
↓ 49.4%
since 2009





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

- For the second year in a row, R.J. Reynolds has received the Special Environmental Award from the Forsyth County Board of Commissioners and the county's Environmental Assistance and Protection Board. This award is given for the implementation of significant waste reduction projects and innovative programs that improve the environment in Forsyth County. Every month, RJRT sends its packaging waste (about 100 tons) from the manufacturing process to a domestic paper mill for recycling. RJRT also ships 100% of its fine tobacco leaf waste to a company that uses it to solidify liquid waste. Not only does this allow RJRT to keep about 80 tons per month of waste out of the landfill, but it also enables our recycling partner to improve its environmental footprint. The recycling partner now uses this waste in its process instead of a wood by-product material, which can be more beneficially used.
- All of American Snuff's Tennessee operations were recognized as Three-Star Partners in the Tennessee Department of Environment & Conservation's Tennessee Green Star Partnership, joining just 14 other facilities in the state to receive this distinction. This honor resulted from American Snuff's implementation of numerous initiatives to reduce waste at their sites, including sending leaf waste to a supplier who uses it for compost, and partnering with recycling vendors to create improvements that generate more than \$35,000 in annual savings. Since 2012, American Snuff has reduced waste-to-landfill by more than 85 percent at all of its Tennessee facilities, putting them well on their way to becoming landfill-free.
- Santa Fe's long-standing commitment to the environment is demonstrated by its manufacturing operation becoming a zero-waste-to-landfill facility in 2014. The last step in this achievement resulted when SFNTC began sending office waste it couldn't recycle to the U.S. Navy's Norfolk Naval Shipyard in Portsmouth, Va., for waste-to-energy conversion. The waste is converted into steam and electricity to supply power to the shipyard and surrounding community, and the ash from the process is used for compost and as a concrete filler material. The company also replaced its U.S. cigarette-pack foil inner-liners with paper liners made from trees grown in North America under certified sustainable forestry programs. Paper liners do not compromise product integrity and are easily recycled.
- In launching the VUSE Digital Vapor Cigarette, RJR Vapor established a program to recycle used cartridges and power units avoiding sending post-consumer waste to a landfill. Adult consumers of VUSE and other e-cigarettes are encouraged to use the free VUSE Recycling Program. Learn more and sign up for this simple and convenient program [here](#).



Cigarette Waste Brigade Program®

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

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



In 2014, more than 6,000 waste brigades across the nation collected and recycled more than 12 million cigarette butts.



Employee Responsibility

Our Commitment

The personal and professional well-being of our employees is critical to their ongoing development and our commercial success. When our people thrive, so do our businesses. Our Human Resources' policies and programs are designed to support employee growth and achievement.

The employees of Reynolds American Inc. and its subsidiaries are the backbone of our sustainability strategy and are essential to achieving our vision of Transforming Tobacco. Our employees drive innovation, and ignite the thought leadership that is transforming an entire industry. At the same time, executing our commercial strategy requires strong performance from each of our employees.

We 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 in 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 more than 5,000 employees in the U.S. The largest of the RAI subsidiaries is R.J. Reynolds Tobacco Company. In aggregate, RAI's subsidiaries' workforce was 29 percent female and 26 percent minority in 2014. Within the ranks of management, 29 percent were female and 17 percent were minority.

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

Lisa Caldwell, executive vice president and chief human resources officer



Our Actions

RAI's employee engagement has grown steadily over the last six years as the culture continues to evolve. In 2009, RAI began conducting quantitative employee surveys through IBM-Kenexa, in which employees provide feedback on multiple aspects of their employee experience. The results are then used to develop action plans to address opportunities. Excitement about RAI's transformation vision and the focus on overall well-being has helped drive employee satisfaction, pride, advocacy and loyalty.

The employees feel valued and rewarded and part of a culture that is open and respectful. Over the past several years, RAI's employee engagement score has ranked among the top 25 percent of companies based on IBM-Kenexa engagement norms, and in the February 2015 survey, the engagement level rose to the top 10th percentile of companies.

We also believe in maintaining a strong focus on the total well-being of our employees, including career, physical, financial and social well-being. Our programs focus on these four aspects.

Sustaining a High-Performing Culture

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





Career Well-Being

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

To assist employees in meeting their goals and in their personal growth, we offer many training programs throughout the year. In 2014, 388,091 hours of training were conducted for an average of 73 hours per full-time employee, an investment of more than \$2,600 per employee.

"My Talent," RAI's online talent-management system, is a comprehensive tool for employee goal setting, performance evaluations, succession planning and individual development planning. During annual reviews, each employee receives an assessment of their readiness to take on additional responsibilities, which guides their individual development plan.

Managers hold performance panels (calibration meetings) where performance reviews are discussed for all employees. These discussions ensure each employee is held to the same standards and is offered an equal opportunity to advance. Our succession-planning process builds a pipeline of talent that not only benefits employees, but also maintains a sustainable, high-performing and innovative talent base for our companies.

A key indicator of our success is the ability to fill vacated roles with qualified employees. In 2014, 62 percent of open positions at RAI and its subsidiaries were filled by internal candidates, including 578 promotions.

Physical Well-Being

RAI and its subsidiaries believe the physical well-being of their employees drives a high-performance culture. We strive to provide employees with [comprehensive benefits](#), as well as supplemental programs and tools they need to remain healthy, motivated and safe.

In early 2014, R.J. Reynolds was again awarded the N.C. Department of Labor's Certificate of Safety Achievement for 2013. [Read More](#)

A safe working environment is critical to employee welfare. [Management's commitment to safety](#) has been important in driving a culture of safety throughout our companies. Zero incidents is our goal, period. In 2010, RAI's operating companies began surveying employees on their perceptions of workplace safety and to set goals for improvement. These surveys helped drive changes in the workplace and serve as company benchmarks in continuous improvement efforts. We have been pleased to see an increase in the year-over-year survey results.

A new program, launched in 2014, reinforcing the safety culture is the employee ownership program. Employees are challenged to act to advance the safety of our facilities. Activities include attending training, providing feedback to co-workers and more. These actions are tracked through a centralized site and there were almost 900 activities logged in 2014.

As a result of all these actions, employee injury rates are lower than that of other tobacco companies. According to the U.S. Department of Labor's Occupational Safety & Health Administration (OSHA), RAI's operating companies' OSHA recordable accident rate is lower than the accident rate for the U.S. tobacco manufacturing industry as a whole.



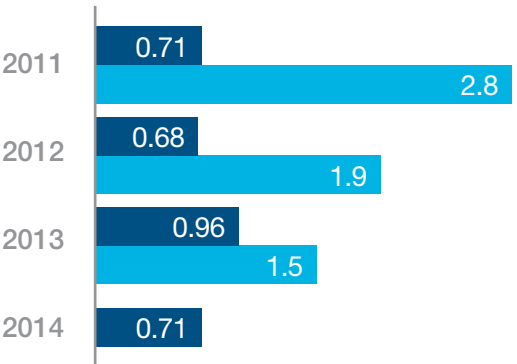
A Spotlight on Training

Foundations of Leading Others

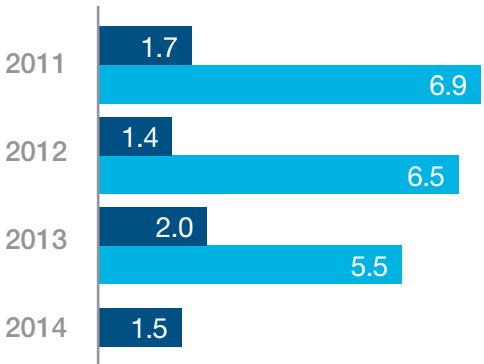
A program designed for new managers providing leadership training on how to train, coach, and manage priorities and performance of staff. A total of 1,034 employees have attended the training since it was launched in 2011.



LOST TIME INCIDENT RATE¹



OSHA INCIDENT RATE²



RAI Companies

U.S. Beverage and Tobacco Product Manufacturing Industry

¹accidents where an employee cannot immediately return to work

²accidents where medical treatment is required beyond first aid

Source of data: USDOL Bureau of Labor Statistics; 2014 industry data not available





Physical well-being is far more than just a matter of safety. RAI and its subsidiaries are focused on a more holistic view of employee physical well-being.

- Employees have access to on-site fitness centers and health clinics at no cost.
- RAI and its subsidiaries work closely with vendors to improve wellness services at our clinics and provide healthy food options in employee cafeterias.
- In 2014, we selected a new health insurance provider with minimal disruption to our employees, reducing healthcare costs by 6 percent.
- We announced a new tobacco use policy for our facilities, which became effective January 1, 2015.

Contributing to the health and well-being of employees helps them to achieve personal goals at home and in the workplace.



Tobacco Use Policy

In 2014, RAI announced a revision to its tobacco-use policy for its headquarters and subsidiary facilities, effective January 1, 2015. The policy begins by prohibiting traditional combustible product use in conference rooms and elevators, and upon full implementation, will restrict the use of these products to designated smoking areas.

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

Designated smoking areas, being constructed in 2015–2016, will provide spaces where employees can collaborate. We hope to create a bright, enriching and innovative environment in which employees can enjoy our companies' diverse products.

Financial Well-Being

The financial health of our employees is crucial to their overall well-being. We go beyond offering competitive compensation and benefits by providing supplemental programs to help employees leverage their benefits, achieve their personal goals and enhance their overall well-being.

- To support retirement readiness, we offer all full-time employees of RAI and its subsidiaries financial planning, education and counseling, at no cost to employees.
- We implemented mandatory training on personal budgeting, debt management and cash flow, along with training on how to best leverage the extensive company benefits programs.
- We introduced a health-care advocacy service to help employees navigate the complex and expensive health care world.
- Employees have access to personal financial counselors and many other tools and resources to effectively manage their personal financial life.

We implemented an online total-rewards tool that allows employees to see all of the rewards that are offered by the company, and to model certain retirement and savings scenarios.



Social Well-Being

To help foster employees' social well-being, we work hard to acknowledge the value of their contributions. To this end, we strive to ensure that all employees fully understand the goals of our businesses, and how their individual assignments and efforts help move our companies toward their goals.

In addition to our pay-for-performance and annual-bonus programs, frequent recognition plays an important role. We have the WOW ("We Own Winning") program that gives employees the opportunity to recognize the efforts of their peers by giving cash awards for outstanding achievements at any time of the year.

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

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.

We strive to ensure that all employees fully understand the goals of our businesses, and how their individual assignments and efforts help move our companies toward their goals.





Supplier Responsibility

Our Commitment

Transforming Tobacco involves not just RAI and its subsidiaries’ internal operations, but also supplier relationships. We work closely with suppliers, from the tobacco farmers with whom we contract to providers of paper and other goods, to ensure the delivery of high-quality products to adult consumers. RAI’s operating companies partner with suppliers who share the commitment to doing what’s right for their employees, the environment and society at large.

Our Actions

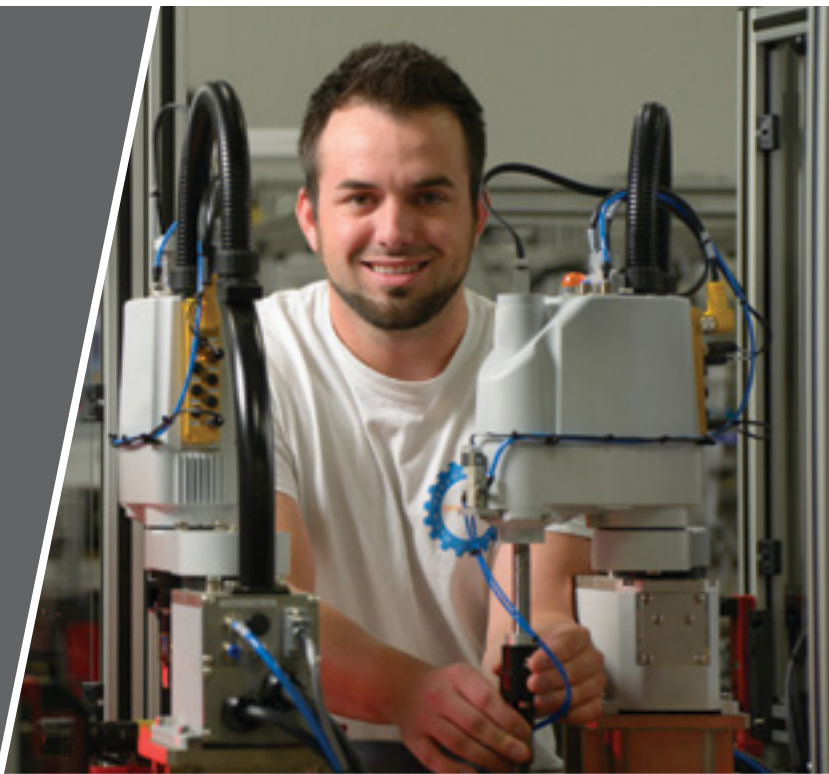
Supply Chain Management

RAI and its subsidiaries hold their suppliers to the same high standards to which we hold ourselves. Suppliers are required not only to comply with all applicable laws and regulations, but to go above and beyond what is required in their environmental and social practices. We are committed to working with suppliers to encourage responsible and sustainable practices through a variety of mechanisms.

Suppliers are truly our partners – working with us to identify improvement opportunities within our companies and sharing best practices and policies.

Designed and Assembled in the U.S.

The majority of electronic cigarettes sold in the U.S. are manufactured overseas, where assuring quality control can pose challenges. In developing the VUSE Digital Vapor Cigarette, R.J. Reynolds Vapor Company made a conscious decision to offer a high-quality product with as many components as possible manufactured in the United States. RAI companies are committed to supporting local businesses, and with the help of our suppliers, VUSE is the only electronic cigarette designed and assembled in the U.S.



Supplier Awards

Suppliers are truly our partners – working with us to identify improvement opportunities within our companies and sharing best practices and policies. To show our appreciation, each year we reward selected suppliers the Most Valuable Partner, or MVP award. We also acknowledge suppliers through three additional awards: diversity, sustainability and innovation. Nominations come from RAI and its subsidiaries’ employees and suppliers themselves, who are encouraged to self-nominate. By recognizing the efforts of suppliers, we collectively learn from and share their successes and best practices. In 2014, we recognized the following suppliers for their 2013 performance.

Most Valuable Partner (MVP) Award 2013 Recipients

Supplier	Operating Company
Amcor Tobacco Packaging	RJRT, SFNTC
C.A.P.S. Inc.	ASC
Carson Industries	RJRT
Debbie’s Staffing Services	RJRT, SFNTC
Delfort Group	RJRT, SFNTC
Eastman Chemical Company	RJRT
Eurofins Lancaster Laboratories, Inc.	RJRT
J.L. Clark	ASC
Motion Services	RJRT
Mundet Inc.	RJRT
SWM International	RJRT, SFNTC
Treofan	RJRT, SFNTC
U.S. Tape & Label Corporation	ASC
Walter B. Drew & Associates	RJRT
Leggett Farming Partnership	RJRT, SFNTC
Tyler Durham	ASC, RJRT, SFNTC
J.B. Rose & Sons Inc.	SFNTC

Supplier Diversity Award 2013 Recipient

Supplier	Operating Company
HP Enterprise Services, LLC	RJRT

Sustainability Award 2013 Recipient

Supplier	Operating Company
Dominion Packaging Inc.	RJRT

Innovation Award 2013 Recipient

Supplier	Operating Company
Device Solutions Inc.	RJRT, RJRV

By recognizing the efforts of our suppliers, we collectively learn from and share their successes and best practices.



Telamon Housing Partnership

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

Since 2013, RAI has donated \$590,000 to fund a matching-grant program to improve the condition of housing on North Carolina tobacco farms and labor contractor housing facilities. The program, administered by Telamon, is modeled after a U.S. Department of Labor Program designed to help improve the nation's farm labor housing. Housing for more than 1,500 farmworkers has been improved through this program to date.



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

This year, RAI's operating companies added language to grower contracts to include a minimum age of 16 for farm workers. While the Fair Labor Standards Act generally prohibits the employment of individuals under the age of 16, in agriculture, minors as young as 12 can be employed outside of school hours with written parental consent. Beginning in 2015, our operating companies' contracts with farmers will include a requirement that no workers younger than 16 be permitted to work on tobacco crops, except for family members. Several other domestic and international members of the Farm Labor Practices Group made similar revisions to their grower contracts. This policy will be covered thoroughly in training with growers throughout 2015 and future years.

Additionally, R.J. Reynolds works closely with government agencies and nonprofits to promote good working conditions at its suppliers' farms. For the past several years, the company has worked with the North Carolina Department of Labor (NCDOL) and U.S. Department of Labor (USDOL) to have education programs for growers and migrant workers in English and Spanish. Since the pilot in North Carolina, R.J. Reynolds has worked with NCDOL, USDOL and other state Departments of Labor to expand the program to Kentucky, South Carolina and Tennessee. The company is proud to be the only company to partner with USDOL and the state Departments of Labor to ensure training is available in Spanish.

R.J. Reynolds works closely with government agencies and nonprofits to promote good working conditions at its suppliers' farms.

RAI is proud of the efforts to promote responsibility in its operating companies' supply chains – including a commitment to supporting training and efforts to help farmers and farm labor contractors upgrade worker housing and living conditions through contributions to a matching-grants program. RAI and its operating companies have consistently made information about these efforts publicly available to interested stakeholders and will continue to do so in the future.



Commitment to Good Agricultural Practices

Sourcing high-quality tobacco leaf is integral to delivering quality tobacco products. Since RAI's operating companies do not employ farm workers or grow tobacco, we are committed to contracting with leaf suppliers who have the education, experience and resources they need to farm responsibly. Because farm workers are not our employees, we have no direct control over their hiring, training, pay rates, or their housing and access to human services. But we can, and do, put significant effort into ensuring that our contract 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.

R.J. Reynolds has long supported training and provided materials for farmers and their employees on key issues related to workplace safety, agrochemicals and the use of personal protective equipment. In recent years, the company has hosted and facilitated meetings and training events that have provided contract growers a more structured and intensive training program; participation in the program is a condition for contracting with R.J. Reynolds.

The company has provided forums where labor and agriculture specialists offer much more structured and intensive training through participation in the Good Agricultural Practices (GAP) program. In 2013, we founded [GAP Connections](#) in partnership with Cooperative Extension Services and other tobacco companies to standardize and simplify the GAP program. GAP Connections provides an online portal for growers and their employees to access training manuals and the Dashboard GAP Record Book – which enables growers to gather, maintain and share with purchasers documentation related to their compliance with Good Agricultural Practices. In 2015, GAP Connections will contract with an independent auditing firm to conduct farm audits throughout the Southeast. The audits will gather information on farms with several tobacco-products manufacturers contract. RAI's operating companies anticipate that about 300 farms with which they contract will be included in the GAP Connections audits.

R.J. Reynolds takes steps to ensure growers it contracts with provide their workers on farms access to information and equipment for necessary safety training, including:

- Requiring contracted growers to participate in the U.S. Tobacco Good Agricultural Practices Program or the Cooperative Extension Services' Good Agricultural Practice training, both of which include training on how to avoid green tobacco sickness (GTS).
- Working with the N.C. Department of Labor, the U.S. Department of Labor and county health departments to pioneer on-site farm safety training programs, bringing training directly to farmers and their employees since 2011.
- Providing contracted farmers with record books and other materials to document and track a range of requirements, including worker safety training.
- Funding, for more than a decade, safety training DVDs and other materials in both English and Spanish and making them available to farmers and their employees free of charge.

To assess the effectiveness of these training programs, R.J. Reynolds audited every grower with whom it contracts in North Carolina during 2011 and 2012. Underwriters Laboratories' Responsible Sourcing, Inc., a respected outside auditor with experience in workplace and agronomic practices, examined general labor conditions and the use of Good Agricultural Practices on farms that contract with R.J. Reynolds. Some of the auditor's findings included:

- 95 percent of the growers audited provided a safe environment for tobacco workers
- 90 percent of growers audited made personal protective equipment available to workers and in most cases where they did not, the workers had their own equipment
- 73 percent of the growers provided and documented health and safety training to workers.

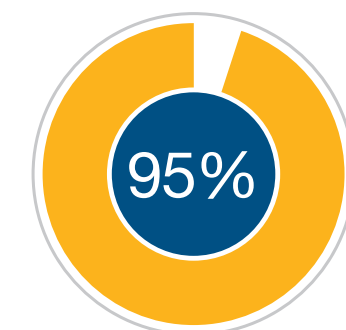
A summary of the [full audit](#) is available on R.J. Reynolds Tobacco Company's website. Our companies' contracts with farmers require them to abide by all local, state and federal laws. Through audits and regular farm visits, RAI's operating companies hold suppliers responsible and non-compliance with applicable laws is grounds for termination of the contract.

In addition, R.J. Reynolds uses A.B. Sustain, an international auditing organization, to evaluate all domestic and international leaf suppliers that sell tobacco to R.J. Reynolds, American Snuff and Santa Fe. R.J. Reynolds and its leaf suppliers are assessed on the Sustainable Tobacco Program, which includes policies, processing, agronomy (field management and natural resources management) and social development.

As growers age and are faced with succession challenges, RAI's operating companies need to protect their access to raw materials and a diverse supplier base, and support the economic viability of contracted farmers. To reward contracted growers for good agricultural practices, R.J. Reynolds created the Pride in Tobacco Award, and it has been expanded to include SFNTC and American Snuff contracted growers. RAI's operating companies are committed to helping contract growers utilize the best agricultural practices and it is incumbent upon us to remain the customer of choice for growers.



AUDIT FINDINGS



95%
of the growers
audited provided a
safe environment
for tobacco workers





Promoting Sustainable Agriculture

Sourcing tobacco from growers who use sustainable agricultural practices is a key market differentiator for Santa Fe Natural Tobacco Company. SFNTC has both organic and Purity Residue Clean (PRC) programs. PRC is an environmental program developed by SFNTC requiring farmers to grow tobacco using a specific protocol allowing only for minimal use of chemicals that have a low impact on the environment. In 2014 alone, the PRC program eliminated a million pounds of chemicals compared to conventional practices. Both the organic and the PRC programs have significant environmental benefit over traditional tobacco farming and earn the farmers premium prices for their leaf.

SFNTC is a Life Member of the Carolina Farm Stewardship Association (CFSA), which promotes organic farming. In 2009, SFNTC announced its sponsorship of the association's efforts to help establish a market for organic wheat in the Carolinas. Growing wheat in rotation with tobacco helps to sustain the land and replenish the soil, is good for the organic tobacco supply and is good for farmers. In 2014, nearly all of SFNTC contracted farmers followed their tobacco crops with wheat. Additionally, the use of wheat as a cover crop has sparked a market for North Carolina-branded organic bread flour and other wheat products from which growers are benefiting. SFNTC continues to support this and other organic agronomic programs, and has provided more than \$1.6 million in funding to the CFSA Organic Carolinas Initiative through 2014.

Community Engagement

Our Commitment

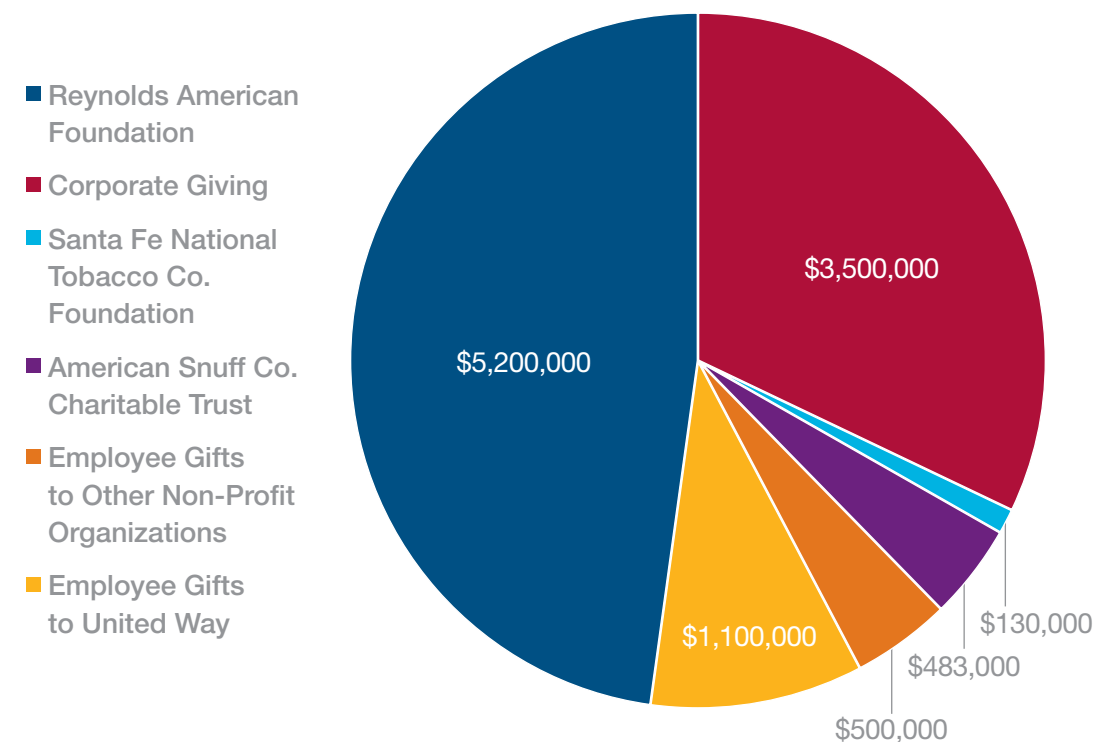
For more than a century, RAI and its subsidiaries have been guided by the principle that our companies' success is tied to our communities – where we live, work and play, and actively participate as involved neighbors. This is not just the right thing to do; it is part of who we are.

Philanthropy and volunteerism have been core commitments of our business since Richard Joshua Reynolds founded R.J. Reynolds in 1875. Corporate giving includes sponsorships, nonprofit donations and economic development in the communities in which we operate. In addition to our corporate giving, RAI and its operating companies have three foundations: the Reynolds American Foundation, American Snuff Company Charitable Trust and Santa Fe Natural Tobacco Company Foundation. The foundations support hundreds of national and local organizations that benefit our communities.

Our Actions

Our companies, foundations and employees provide their time, talent and resources to the community not only to further our economic success, but also because it's the right thing to do. Our companies, along with their foundations and employees, donated approximately \$10.4 million to a wide range of non-profit organizations in 2014.

2014 GIVING AT A GLANCE



\$10.4M
in Total
RAI and
Affiliated
Giving



Foundation Giving

Giving is strategically focused around Transforming Tobacco, as well as each company's vision.

The Reynolds American Foundation

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

- Public-school and community programs that prepare children (birth through grade 12) to enter school ready to learn, and programs that focus on improving academic performance of low-performing and economically disadvantaged students.
- Local community campaigns including support for United Way and Arts Council campaigns.
- Programs to encourage employee community support through the Foundation's Matching-Grants Program.
- National Merit Scholarship Program for children of employees and retirees.

In 2014, the Reynolds American Foundation donated a total of \$5.2 million, including employee matching-grants. Major donations included the United Way of Forsyth County, Winston-Salem State University, Wake Forest University and Reynolda House Museum of Art.

The American Snuff Company Charitable Trust

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

The Santa Fe Natural Tobacco Company Foundation

The Santa Fe Natural Tobacco Company Foundation is dedicated to help 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
- Preservation of Native American languages

Winston-Salem State University

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



Photo by Garrett Garms, WSSU

American Indian College Fund

The Santa Fe Natural Tobacco Company Foundation has focused its charitable giving to groups that support Native Americans since 1997. One area the Santa Fe Foundation supports is higher-education scholarships for Native American students through the American Indian College Fund (AICF). This year, the Foundation awarded \$60,000 to AICF.

The American Indian College Fund has noted that SFNTC's "values are in perfect alignment with those of the nation's tribal colleges and universities, many of which have programs that focus on sustainable business and environmental practices. The American Indian College Fund is honored to call the Santa Fe Natural Tobacco Company its longtime friend."





Stewardship of Land and Buildings

R.J. Reynolds has been committed to economic development in Winston-Salem, N.C., and surrounding communities since its founding more than a century ago. The company's giving heritage began with Richard Joshua Reynolds and his family's donations of land and buildings to organizations such as Wake Forest University. The company is committed to ensuring that facilities it no longer uses continue to play a vital role in economic development. Some highlights in 2014 include:

- Wake Forest Baptist Medical Center announced plans to develop an additional 283,000 square feet of laboratory and office space at the former Plant 60 facilities, donated by R.J. Reynolds. The renovated buildings in the Wake Forest Innovation Quarter of downtown Winston-Salem will be used primarily as medical education space for Wake Forest University School of Medicine. Altogether, R. J. Reynolds has gifted approximately 38 acres of downtown property to help establish the Wake Forest Innovation Quarter.

- R.J. Reynolds sold its former headquarters, the iconic and historic Reynolds Building, to a partnership of PMC Property Group and Kimpton Hotels & Restaurants. The Reynolds Building, completed in 1929, was designed by the highly acclaimed New York architectural firm of Shreve and Lamb and served as a model for the Empire State Building. The 22-story art-deco style building will be converted into a boutique hotel, restaurant and upscale apartments, honoring its history in the community and continuing its role as a centerpiece of Winston-Salem. [Click here for details.](#)

- R.J. Reynolds has agreed to donate a significant portion of its Whitaker Park campus to Whitaker Park Development Authority Inc. (WPDA), a nonprofit corporation created by Winston-Salem Business Inc., the Winston-Salem Alliance and Wake Forest University. The donation, which will occur gradually over a one- to two-year period, will include about 120 acres of land and 1.7 million square feet of laboratory and building space for economic redevelopment purposes. [Click here for details.](#)

“This is an incredible gift by R.J. Reynolds to WPDA. Whitaker Park has been such a strong presence in our community for decades, and I look forward to working with the WPDA Board to repurpose the property to expand the tax base and create new jobs for the citizens of our community.”

Don Flow, WPDA board chairman

Corporate Giving

For more than a century, RAI and its subsidiaries have helped sustain the social and economic well-being of the communities in which we operate. Enriching our communities is not just the right thing to do; it also helps our companies create an attractive environment for recruiting and retaining a high-performing talent base.

Employee Giving

In 2014, employees of RAI and its subsidiaries demonstrated their personal commitment to our communities through donations of their time, talent and resources. Employees gave more than \$1.6 million to organizations including the United Way and other non-profit community organizations. Employees also helped transform tobacco through their active involvement in the Right Decisions, Right Now youth tobacco prevention program. About 300 employees presented the program to 156 youth groups, earning those groups about \$150,000 in grant money. In 2014, employee participation in the program increased 30 percent over the prior year. Giving time and talent to their community not only makes our employees proud to work for RAI companies, it engages them in a way that strengthens their sense of purpose around Transforming Tobacco, deepens relationships with their communities and strengthens bonds with colleagues.

In 2014, employees gave more than \$1.6 million to organizations including the United Way and other non-profit community organizations.

The Reynolds American Foundation matching-grant program matches employee gifts from \$25 up to a total match of \$7,000. In 2014, the Foundation matched more than 1,300 employee gifts totaling \$577,000 to 501(c)(3) organizations supported by employees. Additionally, we will continue to encourage participation in employee-driven programs such as R.J. Reynolds' Right Decisions, Right Now Grants program, United Way volunteer activities and others, including the Young Leaders United group.





Marketing Responsibility

Our Commitment

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

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

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

R. J. Reynolds also holds itself to additional voluntary advertising restrictions set forth in the Voluntary Cigarette and Promotion Code, including:

- No one depicted in cigarette advertising shall be or appear to be under 25 years of age
- Cigarette advertising shall not suggest that smoking is essential to social prominence, distinction, success or sexual attraction, nor shall it picture a person smoking in an exaggerated manner
- Cigarette advertising may picture attractive, healthy looking persons provided there is no suggestion that their attractiveness and good health is 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
- No sports or celebrity testimonials shall be used or those of others who would have special appeal to persons under 21 years of age



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

Our Actions

Marketing Safeguards

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

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



Strict Advertising Standards

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

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

E-cigarettes are not subject to the same federal regulations as combustible cigarettes. Nevertheless, RJR Vapor works to ensure VUSE advertising is in line with RAI and its subsidiaries' commitment to reducing youth exposure to tobacco-related messages. VUSE brand television advertising is only placed during programming viewed primarily by adults, according to Nielsen data or other reliable third-party sources. All consumer advertising for VUSE includes the following consumer disclosure: "VUSE contains nicotine extracted from the tobacco plant. Nicotine is addictive and no tobacco product has been shown to be safe." All TV spots end with the message: "NOT FOR SALE TO MINORS," and no product use or celebrity product endorsers are shown in VUSE TV ads presently on air.

Training Our Employees

Every employee who interacts with adult tobacco consumers is trained to ensure that marketing safeguards and standards are in place for every interaction. Through comprehensive computer-based training, they learn how to follow policies, rules and procedures, as well as what constitutes an appropriate, successful engagement. Consumer-facing employees must successfully complete this training, as well as classroom training and complete 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.

Our Brand Marketing Strategy

RAI's tobacco operating companies use a process called Fast Forward to ensure that they are responsibly marketing and merchandizing a high-quality, sustainable product portfolio to adult tobacco consumers. Fast Forward is a formal process that brings together cross-functional teams each month to review program execution, total portfolio performance, consumer insights and new initiatives, including product development. Representatives from across our operating companies play a role in the process, allowing them to integrate portfolio strategies into corporate strategies, supply chain and product development.

Product Integrity

Our Commitment

Our product integrity framework focuses on product stewardship and regulatory compliance. RAI's operating companies manufacture and market products that have inherent health risks. We are committed to driving the transformation of the tobacco industry, including through the development, sale and [responsible marketing](#) of products that have the potential to [reduce health risks](#).

Our Actions

Product Stewardship

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

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

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

Regulatory Compliance

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

Tobacco Product Integrity Plan enables our companies to better align their strategies to our Transforming Tobacco vision and do the right thing for our companies, shareholders and society.





Although the FDA is prohibited from banning or eliminating nicotine from all 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
- Regulation of tar, nicotine and "other harmful or potentially harmful components"
- Disclosure of ingredient information

RAI's tobacco operating companies created their "Tobacco Product Integrity Plan" (TPIP) to align existing programs, develop new programs and control activities for FDA compliance efforts. These actions not only ensure our compliance under the Family Smoking Prevention and Tobacco Control Act but also work in tandem with our [Tobacco Harm Reduction](#) strategy. TPIP enables our companies to better align their strategies to our Transforming Tobacco vision and do the right thing for our companies, shareholders and society. Under TPIP, a cross-company team is responsible for creating and documenting our approach across all facets of the Act.

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

- Paying user fees in the amount of \$600,414,127
- Registering domestic tobacco product establishments
- Submitting thousands of pages of product lists and reporting any changes for domestic establishments
- Submitting documents relating to health effects of tobacco products
- Submitting a list of all ingredients by brand/sub-brand/quantity
- Submitting required substantial equivalence documentation
- Complying with advertising and marketing restrictions in the Final Rule
- Removing "light," "mild," "low" and similar descriptors from all products
- Placing required warning statements and additional mandated information on advertisements and labels of smokeless tobacco products

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

Tobacco Excise Taxes

Our Commitment

RAI and its subsidiaries oppose additional increases in tobacco excise taxes not only because they are harmful to our business, but also because they are regressive and have negative, unintended societal consequences, such as escalating the amount of illicit trade. In fiscal year 2014, more than \$16 billion in tobacco excise taxes were paid to federal, state and local governments. In 2014 alone, RAI companies paid about \$3.6 billion in federal cigarette excise taxes.

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

Even so, policymakers support cigarette excise taxes as a way to raise revenue while providing an incentive for people to quit smoking. State and local governments increasingly rely on such taxes to fund vital government services, often earmarking taxes to fund education, health services, or other programs that grow in cost over time due to inflation, population growth and other factors. However, over the past decade, the number of cigarettes sold has fallen approximately four 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 funding needs, causing legislators to look for other taxes or sources of revenue to fill the gap. In addition, 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.

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





“Cigarette taxes are about ten times more burdensome for low-income taxpayers than for the wealthy.”

Institute on Taxation and Economic Policy, 2009 brief

Tobacco excise tax increases often have unintended consequences:

- **Taxes help to drive illicit trade.** As states continue to increase tobacco excise taxes, criminal groups are increasingly smuggling cigarettes across state and county lines. According to the Tax Foundation, smuggled cigarettes account for more than 25 percent of consumption in 12 states, with smuggled cigarettes accounting for almost 60 percent of consumption in New York. Read more about illicit trade [here](#).
- **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 2013, tobacco products generated more than 36 percent of in-store sales. Cigarettes are the number one in-store category of products sold in convenience stores, generating an average of more than \$523,000 in revenue per store in 2013. With tobacco excise taxes leading to increased illicit trade, honest businesses are losing out to criminals that may use the profit to finance dangerous crime and even terrorism.

Our Actions

RAI and its subsidiaries engage with diverse stakeholders, including retailers, consumers and government agencies, to address tobacco excise tax issues. Our dedicated website, www.TransformTobacco.com, provides information on tobacco excise taxes and other tobacco-related issues, as well as providing information on how to contact elected officials. RAI Services' government relations department also works to educate federal, state and local legislators on the negative impact that excessive tobacco excise taxes have on individuals, businesses and society.





Illicit Trade

Our Commitment

RAI and its subsidiaries believe that the illicit trade of tobacco products has a far-reaching effect on our society, and that legislators and the public need to be better educated about the serious consequences of this crime. We believe legislators should pass stringent laws and impose significant fines and penalties to serve as deterrents to activities such as selling cigarettes without a license, purchasing or selling unstamped cigarettes and refusing to produce business records pertaining to the purchase, sale or transportation of cigarettes.

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

U.S. Government Accountability Office (GAO), 2011 report

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

According to the latest [survey by the Mackinac Center for Public Policy](#), the higher excise taxes on tobacco have substantial unintended consequences, including smuggling; increased violence against people, police and property; product and tax stamp counterfeiting; and even the financing of terrorist groups. Policymakers can combat this illicit trade by adopting and funding more effective enforcement mechanisms.

As state and local governments pass additional [tobacco excise taxes](#) to increase revenue, illicit trade is growing.

- Smuggling is increasingly a commercial and criminal endeavor involving larger, typically long-haul efforts, such as transporting cigarettes from a low-tax jurisdiction to one where taxes are higher. Of additional concern is the outright counterfeiting of cigarettes overseas to be imported illegally and sold in the United States.
- Law enforcement officials and members of Congress are concerned about the connection between cigarette smuggling and terrorism. A 2009 report from efforts led by U.S. Representative Peter T. King (R-NY), now chairman of the U.S. House’s Homeland Security Committee, cites law enforcement investigations that find a direct link between cigarette smuggling and groups such as Hezbollah, Hamas and al-Qaida. The report states “in total, law enforcement officials in New York estimate that well-organized cigarette smuggling networks generate \$200,000–\$300,000 per week. A large percentage of that money is believed to be sent back to the Middle East.”
- The illegal resale of cheaper cigarettes by criminals on the street, who don’t care about stringent age-verification policies found in retail stores, compromises [Youth Tobacco Prevention efforts](#).

Our Actions

RAI and its subsidiaries work closely with law enforcement officials to combat illicit trade, actively assisting in investigations into alleged counterfeiting operations and working to ensure an intact chain of custody on all our product shipments. We also support the need for increased law enforcement resources and funding. To combat the issue, our companies engage with diverse stakeholder groups including law enforcement, community groups, neighborhoods, legislators and others. By convening such groups, illicit trade is addressed from multiple angles and feedback is solicited. For example, our companies are helping to unite government agencies across state lines to collaboratively develop and implement effective, multi-state and multi-pronged efforts to combat illicit trade. We also support states’ efforts to strengthen legislation designed to reduce smuggling.



TheNewTobaccoRoad.com

Illicit trade of tobacco products is a material concern for RAI, its operating companies and our Transforming Tobacco vision. Revenue from smuggling and illicit trade of tobacco products is often used to finance criminal activity, robs our retail partners of a leading source of income, and contributes to lost tax revenue for the communities in which we operate. Furthermore, illicit trade undermines Youth Tobacco Prevention efforts.

In 2014, RAI Services launched a new website, www.thenewtobaccoroad.com, which shows how Interstate 95 has become a key transit route for cigarette smuggling from southern states to the Northeast. The website provides important information of interest to lawmakers, law enforcement officials and concerned citizens on how serious the problem of cigarette smuggling really is, and what federal and state governments can do.





GRI Data Table



The Global Reporting Initiative (GRI) is a comprehensive Sustainability Reporting Framework (the Framework) that sets out the Principles and Standard Disclosures organizations can use to report their economic, environmental, and social performance and impacts. The data submitted to GRI covers RAI and all operations of each of its operating companies, and is externally assured by an independent third party.

Source (Units)	2009	2010	2011	2012	2013	2014
EN16: Total Direct and Indirect Greenhouse Gas Emissions						
CO2 Equivalent (Metric Tons)	331,997	309,614	294,252	274,495	276,554	270,220
EN20: Total Emissions by Type*						
NOx (Tons)	97	86	76	80	83	81
SOx (Tons)	28	6	2	4	4	9
CO (Tons)	80	72	64	68	71	66
VOC (Tons)	247	184	190	195	199	203
Ammonia (Tons)	23	18	17	20	20	26
PM (Tons)	40	31	16	17	21	18
HCl (Tons)	0	0	0	0	0	0
Refrigerant (Tons)	1	2	3	1	3	1
Total (Tons)	516	399	368	385	401	404
EN3: Energy Consumption by Source						
Electricity (GJ)	1,402,244	1,349,356	1,272,615	1,180,423	1,179,896	1,164,270
Natural Gas (GJ)	1,921,929	1,752,024	1,818,811	1,697,981	1,717,218	1,618,977
Propane (GJ)	12,466	12,783	9,666	7,898	8,933	7,602
#2 Fuel Oil (GJ)	98,854	22,329	865	404	0	29,886
Diesel Fuel (GJ)	10,350	2,460	4,412	2,375	4,577	4,032
Gasoline (GJ)	387,591	373,086	347,567	354,484	365,510	358,486
Jet Fuel (GJ)	16,974	19,310	4,521	0	0	0
Total (GJ)	3,850,408	3,531,349	3,458,457	3,243,564	3,276,133	3,183,253
Energy from Renewable Sources						
Wind Energy (kWh)	5,255,087	5,827,000	5,827,000	5,865,000	6,455,000	7,800,000
Carbon Offsets (Tonnes CO ₂ e)	0	3,108	3,330	3,524	3,877	4,188
EN8: Total Water Withdrawal						
Water Consumed (Gallons)	619,141,092	533,490,819	514,523,004	495,430,306	509,976,491	509,840,538

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



Source (Units)	2009	2010	2011	2012	2013	2014
EN21: Total Wastewater Generated						
Untreated to Municipal Sewer (Gallons)	307,089,360	299,855,853	273,023,170	348,012,914	387,583,848	375,491,878
Pre-Treated to Municipal Sewer (Gallons)	0	0	0	0	720,850	1,379,317
Treated to Surface Water (Gallons)	0	717,345	0	0	0	0
Treated to Land Application (Gallons)	174,720	224,640	174,992	486,400	353,600	264,300
Total (Gallons)	307,264,080	300,797,838	273,198,162	348,499,314	388,658,298	377,135,495

EN22: Total Waste by Type and Disposal Method						
Non-Hazardous Waste (lbs.)						
Sent to Landfill	39,986,764	42,642,010	36,757,645	44,660,124	34,577,688	23,161,879
Incinerated	17,150	18,006	8,192	22,811	198,907	481,193
Recycled ¹	59,948,179	21,839,295	30,846,548	18,390,185	25,537,242	26,920,767
Composted ¹	0	73,160	162,580	343,580	0	0
Total (lbs.)	99,952,093	64,572,471	67,774,965	63,416,700	60,313,837	50,563,840
Hazardous Waste (lbs.)						
Sent to Approved Landfill	108	481	260	1,010	18,025	11,785
Incinerated	16,131	18,952	40,357	42,153	39,033	35,212
Recycled ¹	2,603	0	2	5,139	4,049	451
Energy Recovery ¹	16,719	18,983	1,675	0	0	0
Other	0	0	0	0	0	12,455
Total (lbs.)	35,561	38,416	42,294	48,302	61,107	59,903
Total Waste (lbs.)	99,987,654	64,610,887	67,817,259	63,465,002	60,374,944	50,623,742
% Recycled ¹	60%	34%	46%	30%	42%	53%
% Disposed	40%	66%	54%	70%	58%	47%

¹Recycled total includes wastes composted and sent for energy recovery (fuel blended).





Content Index



For ease of locating information of interest to our stakeholders, we have mapped the content of this report to both the Global Reporting Initiative (GRI) 3.1 Guidelines and Dow Jones Sustainability Index (DJSI). For more information on GRI, please visit www.globalreporting.org. For more information on DJSI, please visit www.sustainability-indices.com.

Indicator	GRI	DJSI	Report Section
Statement from the most senior decision-maker of the organization	1.1		CEO Letter (p.1)
Name of the organization	2.1		Our Businesses (pp. 10–11)
Primary brands, products and/or services	2.2		Our Businesses (pp. 10–11)
Operational structure	2.3		Our Businesses (pp. 10–11)
Headquarters location	2.4		Our Businesses (pp. 10–11)
Countries of operation	2.5		Our Businesses (pp. 10–11)
Nature of ownership	2.6		Our Businesses (pp. 10–11)
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Reporting period	3.1		About This Report (p. 9)
Contact information	3.4		About This Report (p. 9)
Process for defining report content	3.5		About This Report (p. 9)
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External assurance	3.13	2.1	About This Report (p. 9)
Governance structure	4.1	1.1	Governance (pp. 14–15)
Board makeup	4.3	1.1	Governance (pp. 14–15)
Mechanisms for shareholders and employees to communicate with the Board	4.4		Governance (pp. 14–15)
Linkage between compensation of the highest governance body and organizational performance	4.5	1.1	Governance (pp. 14–15)
Processes in place for the highest governance body to ensure conflicts of interest are avoided	4.6	1.1	Governance (pp. 14–15)
Process for determining the composition of the highest governance body	4.7	1.1	Governance (pp. 14–15)
Mission and values statements, codes of conduct, and principles relevant to economic, environmental and social performance	4.8	1.3	Governance (pp. 14–15)
Externally developed economic, environmental and social charters, principles or other initiatives to which the organization subscribes or endorses.	4.12	3.2	Governance (pp. 14–15)
Association memberships	4.13		Stakeholder Engagement Processes (p. 16)





Indicator	GRI	DJSI	Report Section
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Basis for identifying stakeholders	4.15		Stakeholder Engagement Processes (p. 16)
Approach to stakeholder engagement	4.16		Stakeholder Engagement Processes (p. 16)
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Water	DMA	2.3	Environmental Sustainability (pp. 27–35)
Emissions, effluents and waste	DMA	2.3	Environmental Sustainability (pp. 27–35)
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Transport	DMA		Environmental Sustainability (pp. 27–35)
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Occupational health and safety	DMA	3.6	Employee Responsibility (pp. 36–41)
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Diversity and equal opportunity	DMA	3.2	Employee Responsibility (pp. 36–41)
Investment and procurement practices	DMA		Supplier Responsibility (pp. 42–48)
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Corruption	DMA	1.3	Stakeholder Engagement Processes (p. 16)
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Indicator	GRI	DJSI	Report Section
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Indicator	GRI	DJSI	Report Section
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The report contains “forward-looking statements,” which are not historical in nature and include, without limitation, statements regarding forecasts and projections, and RAI and its subsidiaries’ expectations, beliefs, intentions or future strategies that of signified by the words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “may,” “objective,” “outlook,” “plan,” project,” possible,” “potential,” “should” and similar expressions. Forward-looking statements speak only as of the date they are made and are not guarantees of future performance. These statements regarding future events or the future performance or results of RAI and its subsidiaries inherently are subject to a variety of risks, contingencies and other uncertainties that could cause actual results, performance or achievements to differ materially from those described in or implied by the forward-looking statements. More on forward-looking statements can be found in our [Form 10-K](#) for the fiscal year ended December 31, 2014.

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