



## Related Person Transaction Approval Policy

### A. Introduction

Certain related person transactions may raise questions among shareholders as to whether those transactions are consistent with the best interests of Reynolds American Inc. (the "Company"). Such transactions have the potential to create an impermissible conflict of interest in which the interests of a related person are elevated above the best interests of the Company and its shareholders. To guard against such occurrences, and to ensure that the Company satisfies its disclosure obligations under applicable securities laws, the Board of Directors, upon the recommendation of the Audit and Finance Committee, has adopted this Related Person Transaction Approval Policy. This Policy, which supplements certain existing measures of the Company, is designed to ensure that the Company enters into any Related Person Transaction only after careful consideration has been given to the relevant facts and circumstances relating to such transaction and a conclusion has been reached that such transaction is not inconsistent with the best interests of the Company and its shareholders.

### B. Definitions

For purposes of this Policy, the following terms shall have the following meanings:

The term "Affiliate" of a specified person means any person that directly, or indirectly through one or more intermediaries, Controls, is Controlled by or is under common Control with, the person specified.

The term "Arbiter" shall have the meaning given to it in paragraph 4 of Part C.

The term "Audit Committee" means the Audit and Finance Committee of the Board of Directors of Reynolds American Inc.

The term "BAT" shall have the meaning given to it in paragraph 2 of Part C.

The term "Beneficial Owner" or "Beneficial Ownership" shall have the meaning given to it pursuant to Rule 13d-3 (or any successor rule), promulgated under the Securities Exchange Act of 1934, as amended (the "1934 Act").

The term "Board" means the Board of Directors of Reynolds American Inc.

The term "Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a person, whether through the ownership of voting securities, by contract or otherwise.

The term "Covered Person" shall have the meaning given to it in paragraph 1 of Part C.

The term "Executive Officer" shall have the meaning given to it pursuant to Rule 3b-7 (or any successor rule), promulgated under the 1934 Act.

The term "Existing Contract" shall have the meaning given to it in paragraph 1 of Part C.

The term "Immediate Family Member" of a person means any child, stepchild, parent, stepparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law of such person, and any other individual (other than a tenant or employee) sharing the household of such person.

The term "Other Directors" shall have the meaning given to it in the Governance Agreement, dated as of July 30, 2004, among British American Tobacco p.l.c., Brown & Williamson Tobacco Corporation (n/k/a Brown & Williamson Holdings, Inc.) and Reynolds American Inc., as amended.

The term "Related Person" means: (i) any person who is, or at any time since the beginning of the Company's last fiscal year was, a director, director nominee or Executive Officer of the Company; (ii) any person who is known to be the beneficial owner of more than 5% of any class of the Company's voting securities; or (iii) any Immediate Family Member of any of the foregoing persons.

The term "Related Person Transaction" means a Transaction in which (i) the Company (or any of its Subsidiaries) was or is to be a participant and (ii) any Related Person has a direct or indirect interest.

The term "Subsidiary" of any person means (i) any corporation more than 50% of whose stock of any class or classes having by the terms thereof ordinary voting power to elect a majority of the directors of such corporation (irrespective of whether or not at the time stock of any class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time owned by such person directly or indirectly through Subsidiaries and (ii) any partnership, association, joint venture or other entity in which such person directly or indirectly through Subsidiaries has more than a 50% equity interest at the time.

The term "Transaction" includes, but is not limited to, any financial transaction, arrangement or relationship (including any indebtedness or guarantee of indebtedness) or any series of similar transactions, arrangements or relationships, but excludes any charitable contribution or donation.

### **C. Approval Policy and Procedures**

1. Any proposed Related Person Transaction in which the Related Person involved includes any director or director nominee of the Company, Executive Officer of the Company or Immediate Family Member of any of the foregoing (collectively, a "Covered Person"), shall not be entered into without the prior approval of the Audit Committee. Notwithstanding the foregoing, no (i) compensation, benefit or indemnification arrangement, involving a Covered Person, which is approved by the Board or another Board committee, (ii) Related Person Transaction, involving a Covered Person, entered into in the ordinary course of business of the Company or of any of its Subsidiaries and the aggregate amount of which is less than or equal to \$25,000 during each fiscal year of the Company or Subsidiary, as the case may be, or (iii) contract or arrangement in effect on the date this Policy is adopted (an "Existing Contract"), involving a Covered Person, shall require any such Audit Committee approval, *provided, however*, that any material amendment or modification of any Existing Contract involving a Covered Person shall require such Audit Committee approval. Any Related Person Transaction of the type described in clause (ii) of the preceding sentence shall not be entered into without the prior approval of the Company's Chief Executive Officer or Chief Financial Officer, except if such Related Person Transaction involves (a) the Company's Chief Executive Officer, then such transaction shall not be entered into without the prior approval of the Audit Committee, or (b) the Company's Chief Financial Officer, then such transaction shall not be entered into without the prior approval of the Company's Chief Executive Officer or the Audit Committee.

2. Any proposed Related Person Transaction in which (i) the Related Person involved includes British American Tobacco p.l.c. or an Affiliate thereof (collectively, "BAT"), and (ii) the amount involved:

- (a) would be less than \$1 million, shall not be entered into without the prior approval of the Company's Chief Executive Officer, Chief Financial Officer or General Counsel;
- (b) would be equal to or greater than \$1 million and less than \$20 million, shall not be entered into without the prior approval of the Audit Committee; and
- (c) would be equal to or greater than \$20 million, shall not be entered into without the prior approval of the Other Directors.

Notwithstanding the foregoing, no Existing Contract involving BAT shall require any approval as set forth in the preceding clauses (a), (b) and (c), provided, however, that any material amendment or modification of any Existing Contract involving BAT shall require such approval.

3. Any proposed Related Person Transaction (i) which does not fall within the scope of either paragraph 1 or 2 of this Part C and (ii) in which the amount involved:

- (a) would be less than \$1 million, shall not be entered into without the prior approval of the Company's Chief Executive Officer, Chief Financial Officer or General Counsel;
- (b) would be equal to or greater than \$1 million and less than \$20 million, shall not be entered into without the prior approval of the Audit Committee; and
- (c) would be equal to or greater than \$20 million, shall not be entered into without the approval of the Board.

Notwithstanding the foregoing, no Existing Contract shall require any approval as set forth in the preceding clauses (a), (b) and (c), provided, however, that any material amendment or modification of any Existing Contract shall require such approval.

4. Before a proposed Related Person Transaction that is subject to the prior approval requirements of paragraph 1, 2, or 3 of this Part C is entered into, either the Related Person involved in, or the function or department manager responsible for, such Transaction shall provide to the individual(s) designated in such paragraphs with the authority to approve the Transaction (the

individual(s) so designated, collectively referred to as the "Arbiter") a written description of the facts and circumstances of the proposed Related Person Transaction including, without limitation, the nature of the Related Person's interest in the proposed Transaction, the value of the proposed Transaction, the costs and benefits to the Company of the proposed Transaction, and whether any goods or services to be provided to the Company in the proposed Transaction are available from sources other than the Related Person and, if so, the terms upon which such other source would provide the goods or services. The Related Person shall provide the Arbiter with any other information regarding the proposed Related Person Transaction as the Arbiter may request. Notwithstanding anything to the contrary contained herein, the Audit Committee may, in its discretion and upon such terms and conditions as it determines (so long as such terms and conditions are consistent with this Policy), delegate its authority hereunder as an Arbiter to the Chair of the Audit Committee. The Chair of the Audit Committee shall report to such Committee at its next meeting any determination which the Chair has made pursuant to delegated authority.

5. In evaluating whether to approve a proposed Related Person Transaction, the Arbiter shall consider:

(i) the material terms of the proposed Transaction;

(ii) whether the terms of the proposed Transaction are any less favorable to the Company than would be obtainable in a comparable arm's-length transaction with a party who is not a Related Person;

(iii) if the Related Person is a director or director nominee, whether the proposed Transaction would impact such person's independence within the meaning of the Company's Corporate Governance Guidelines, such person's status as an "outside director" within the meaning of the regulations promulgated under Section 162(m) of the Internal Revenue Code of 1986, as amended, or such person's status as a "Non-Employee Director" within the meaning of Rule 16b-3 under the 1934 Act; and

(iv) such other facts as the Arbiter deems appropriate under the circumstances.

The Arbiter shall approve a proposed Related Person Transaction only if it has determined in good faith that such proposed Transaction is in, or not inconsistent with, the best interests of the Company and its shareholders. If (a) (in the event the Arbiter is a person) the Arbiter (or any Immediate Family Member of such Arbiter) or (b) (in the event the Arbiter is the Board, Audit Committee or Other Directors) any person who is a member of the Board or the Audit Committee, or falls within the category of Other Directors (or any Immediate Family Member of any such person) has any direct or indirect interest in the proposed Related Person Transaction, then such Arbiter or person, as the case may be, shall not participate in any review, consideration or approval of such proposed Transaction. The Arbiter shall convey its decision whether to approve the proposed Related Person Transaction to the Related Person as soon as practical after it has made such determination and, if the Arbiter is other than the Audit Committee or the Chair of such Committee, to the Chair of the Audit Committee on or before the next regularly scheduled meeting of the Audit Committee.

6. The Audit Committee shall be responsible for causing to be maintained appropriate records relating to the approval or disapproval determinations made pursuant to this Policy. The Audit Committee shall review on at least a quarterly basis the determinations made pursuant to this Policy, and shall adopt such rules and interpretations as are necessary to ensure that this Policy is applied consistently and in accordance with its terms.

## **D. Creation and Dissemination of Related Person Lists**

1. To facilitate compliance with the approval requirements set forth in Part C of this Policy, the following procedures have been adopted:

(i) Each Related Person who is a Covered Person shall provide to the Company's Secretary as soon as practical after his or her appointment, election or designation as a director, director nominee or Executive Officer (and thereafter on an annual basis): (a) a list of his or her Immediate Family Members; (b) for each person listed (and in the case of a director or director nominee, for the director or director nominee), the person's employer, job title and brief job description; and (c) for each person listed (and in the case of a Covered Person, for the Covered Person), each firm, corporation or other entity (other than the Company or its Subsidiaries) in which such person is a partner, director, officer or holder of a similar position, or in which such person (either alone or in the aggregate with such person's Immediate Family Members) has a 10% or greater Beneficial Ownership interest and each charitable or non-profit organization for which the person is actively involved in fundraising or otherwise serves as a director, trustee, officer or in a similar capacity. Each Covered Person shall notify the Company's Secretary promptly of any changes to his or her list most recently furnished pursuant to the foregoing sentence.

(ii) At the time the Company becomes aware of a person's status as a Beneficial Owner of more than 5% of any class of the Company's voting securities, the office of the Company's Secretary shall create a list (based on information publicly available): (a) if the person is an individual, of the same information as is requested of Covered Persons pursuant to preceding paragraph 1(i); and (b) if the person is a firm, corporation or other entity, of the Subsidiaries and Affiliates of the firm, corporation or other entity. Thereafter, the office of the Company's Secretary shall update such list on a quarterly basis.

(iii) The Company's Secretary shall distribute the Related Person lists described above in paragraph 1(i) and (ii) (and the updates thereof) to: the Company's Executive Officers; the function or department managers responsible for purchasing goods or services for the Company and its Subsidiaries; the director of accounts payable and director of accounts receivable for the Company and its Subsidiaries; and any other persons (including, without limitation, officers of the Company's Subsidiaries) whom the Audit Committee, the Company's Secretary or General Auditor may from time to time designate. In addition, the Company's Secretary shall distribute the portion of the lists containing the names of charitable and non-profit organizations to the person(s) primarily responsible for overseeing any charitable donations made by the Company, its Subsidiaries and any foundations established by the Company or its Subsidiaries. The recipients of the lists shall utilize the information contained therein, in connection with carrying out their respective duties and responsibilities, to effectuate this Policy.

2. If, as a result of reviewing the Related Person lists described above in paragraph 1(i) and (ii) or otherwise, it is determined that a Related Person Transaction has been entered into without having been approved in accordance with this Policy, then the Arbiter who would have had responsibility hereunder for deciding whether to approve the Transaction shall evaluate such Transaction based upon the same factors as if it had considered the Transaction prior to its consummation. Based on such evaluation, the Arbiter shall determine whether it would have approved such Transaction if the Transaction had been submitted to the Arbiter in advance. If the Arbiter determines that it would have approved the Transaction if the Transaction had been submitted in advance, and after considering all relevant facts and circumstances (including whether the failure to submit a Transaction for pre-approval was due to inadvertence or unawareness of a Related Person's interest in the Transaction), then the Arbiter may, in its discretion, ratify such Transaction. Such ratification shall have the same force and effect as an approval given by the Arbiter before the consummation of the Transaction, and any Transaction so ratified shall not be deemed to be a violation of this Policy. If the Arbiter determines that it would not have approved the Transaction, then the Arbiter may authorize such action as it deems feasible and appropriate under the circumstances, including a rescission, amendment or termination of such Transaction. Also, notwithstanding anything to the contrary contained herein, if it deems appropriate, the Arbiter may authorize appropriate disciplinary action against the persons involved in the consummation of any Related Person Transaction which has not been pre-approved in accordance with this Policy, irrespective of whether such Transaction has been ratified by the Arbiter in accordance with this paragraph. If any Related Person Transaction is consummated without having been approved in accordance with this Policy, the Company's General Counsel and General Auditor shall evaluate the Company's controls and procedures to determine why such Transaction was not properly submitted for approval, and recommend any necessary changes to such controls and procedures, including any necessary amendments to this Policy.

## **E. Charitable Contributions**

If the Company or any of its Subsidiaries, or any foundation established by the Company or any of its Subsidiaries, makes (or agrees or commits to make) a contribution or donation (or a series of contributions or donations) to a charitable or non-profit organization or entity for which a Covered Person, or an Immediate Family Member of a Covered Person, is actively involved in fundraising or otherwise serves as a director, trustee, officer or in a similar capacity and the aggregate amount of such contributions or donations is greater than \$120,000 during any calendar year, then the Company, Subsidiary or foundation, as the case may be, shall notify the Audit Committee in writing of such contribution or donation on or before the next regularly scheduled meeting of the Audit Committee.

## **F. Miscellaneous Provisions**

1. All Related Person Transactions that are required to be disclosed in the Company's filings with the Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended, and the 1934 Act and the rules and regulations promulgated under each such act, together with the material terms of this Policy, shall be so disclosed in accordance with such laws, rules and regulations.
2. This Policy does not alter or replace, but is in addition to, the Company's Code of Conduct and any contractual provision to which the Company is, or may become, subject.
3. The Board shall have the sole power and authority to amend, modify or terminate this Policy.
4. The Company shall post this Policy, as the same may be amended from time to time, on the Company's web site.

Effective Date: Feb. 6, 2007  
Amended Effective: April 29, 2008

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