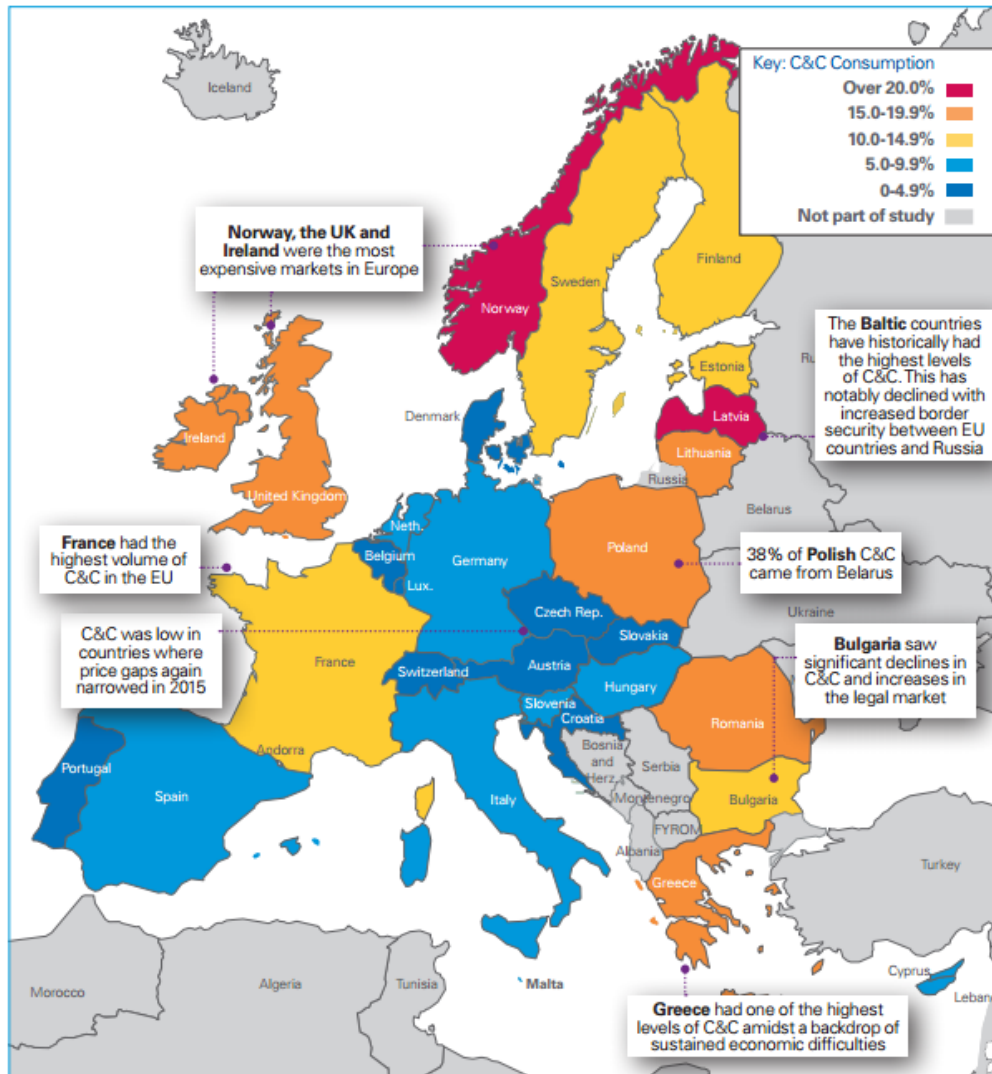


How to tackle the illicit inflows of cigarettes from Belarus

**How Belarus excise system costs the EU
€1 Bn a year.**

53bn illicit cigarettes consumed in the EU cost €11.3bn in lost tax revenues

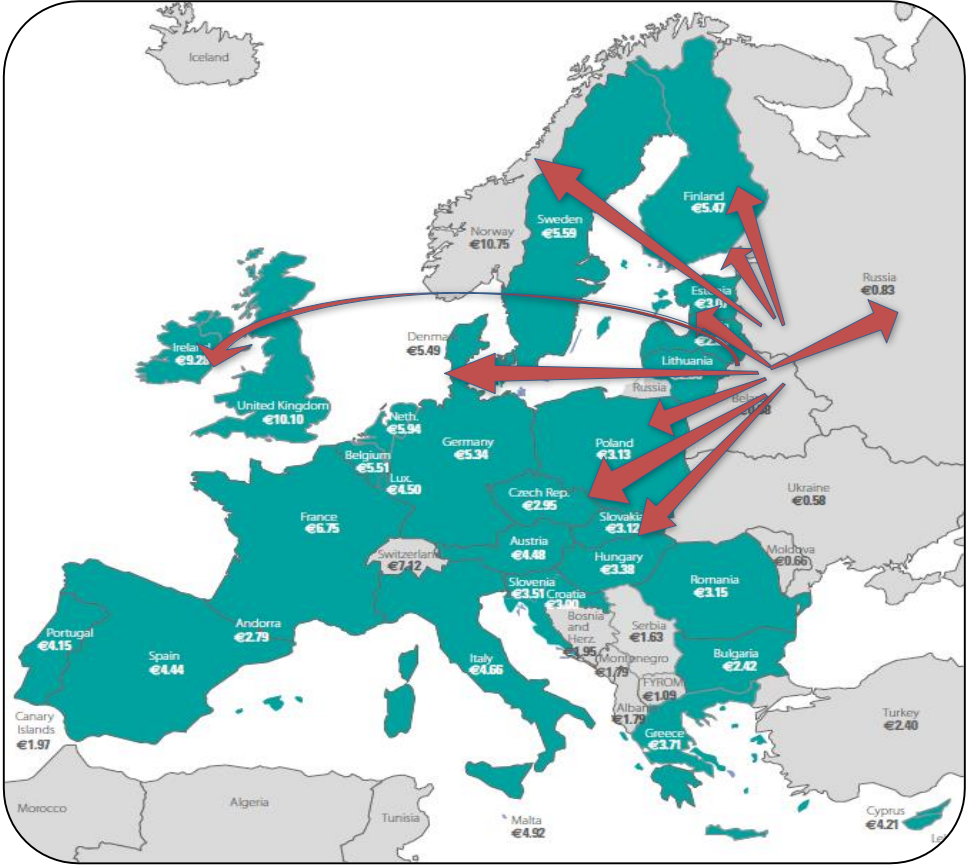
Counterfeit and contraband consumption as a percentage of overall consumption – 2015⁽¹⁾



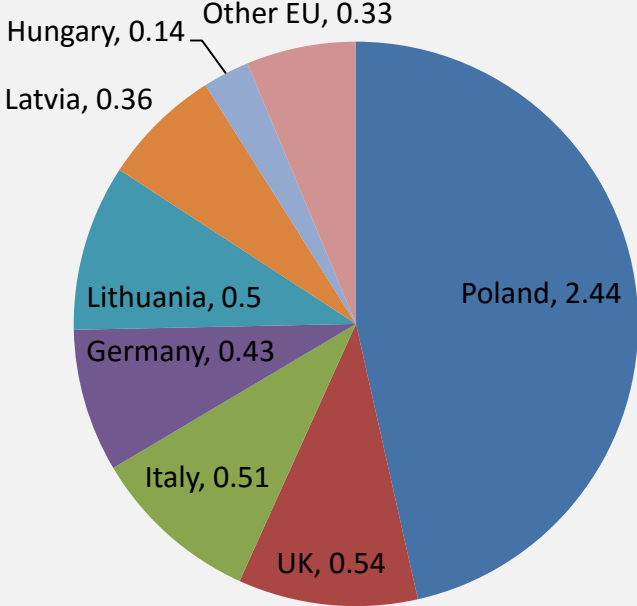
- France and Poland recorded the highest volumes of illegal cigarettes
- 88% of illegal cigarettes were coming from non-EU contraband & counterfeit
- A third of illicit cigarettes were illicit whites* representing 18.8bn cigarettes

*Cigarettes that are usually manufactured legally in one country/market but which the evidence suggests have been smuggled across borders during their transit to the destination market under review where they have limited or no legal distribution and are sold without payment of tax.

Approximately 5.3 billion illicit white cigarettes were smuggled into the EU from Belarus in 2015...



Destination for Illicit Whites from Belarus (in billion cigarettes)

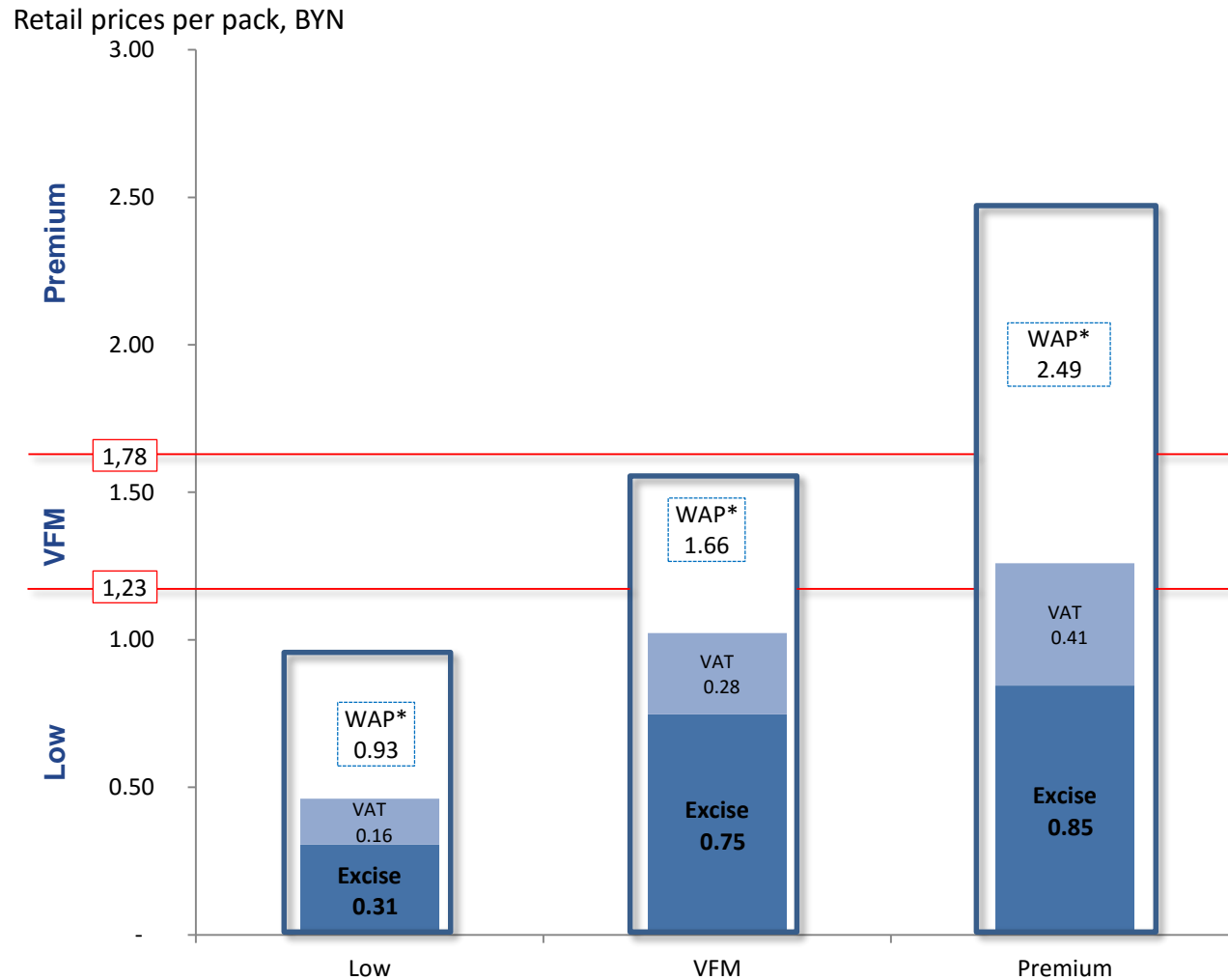


...resulting in an estimated ca. 1 billion EURO loss in tax revenue for EU member states.

Source: EPS studies in EU (all 2015) and Excise tables as of 1 January 2016, EU, DG TAXUD

Belarus has 3-tier specific excise structure

Low priced cigarettes receive a favorable tax treatment

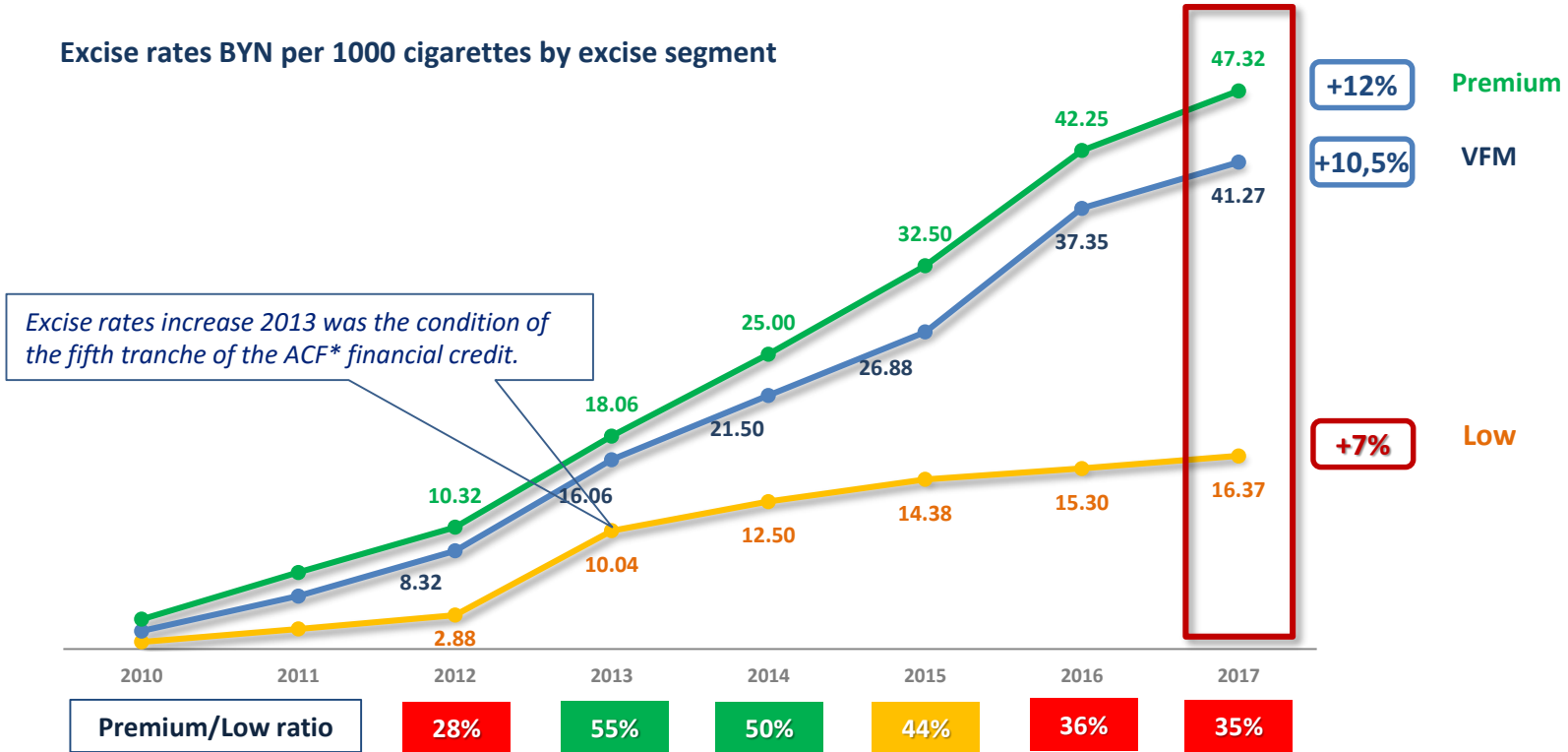


* Weighted average retail price in segments (Nielsen Survey Belarus, Dec 2016).
Excise rates are actual as Dec, 2016

Low priced cigarettes excise contribution has been declining

Low priced cigarettes excise rate has not kept up with inflation

Excise rates BYN per 1000 cigarettes by excise segment



- Premium/VFM excise growth in line with cumulative CPI, Low excise protected by Government and grew significantly below CPI
- Multinational companies are not allowed to sell low priced cigarettes since 2015

* ACF – Anticrisis Fund has been renamed Eurasian Fund for Stabilization and Development
 Source: website of EFSD (<http://efsd.eabr.org/e/>)

Belarus Excise Tax Reform:

An opportunity to generate additional revenue AND address structural issues

Current Structure	Proposed reform
Suboptimal Revenue Generation	Increases government revenues
Discriminatory	Mitigates effects of discrimination
Inconsistent with neighboring markets	Aligns more closely with neighbors
Enables illicit trade	Reduces incentives for illicit trade