



STAKEHOLDER REPORT

2013–2014

This document is a Stakeholder Report by BAT Russia as part of British American Tobacco’s sustainability reporting process. It reports on activities of British American Tobacco Russia and covers the calendar year 2013-2014. References to «BAT Russia», «the Company», «we», «us» and «our» when denoting opinion refer to British American Tobacco Russia. References to «British American Tobacco» or «the Group» refer to British American Tobacco p.l.c. and when denoting tobacco business activity refer to Group operating companies, collectively or individually as the case may be.

All images of tobacco products in this Report are used for informational purposes only and are included to illustrate the events and facts described herein. None of the materials included in this Report shall be viewed as understatement of health risks related to tobacco smoking. Please note that cigarette smoking is associated with real health risks. Detailed information on this subject is available on the website www.batrussia.ru.

Forward-looking statements

This Report contains a range of statements by the Company pertaining to its intentions and future plans. If it is indicated in the text that the Company «considers», «assumes», «expects», «evaluates», «intends» or «plans», in each case this is a prediction. Forward-looking statements are subject to risk factors associated with, among other things, the economic and business circumstances occurring in the country. We believe that the expectations reflected in these statements are reasonable, but they may be affected by a range of variables which could cause actual results to differ from those currently anticipated.

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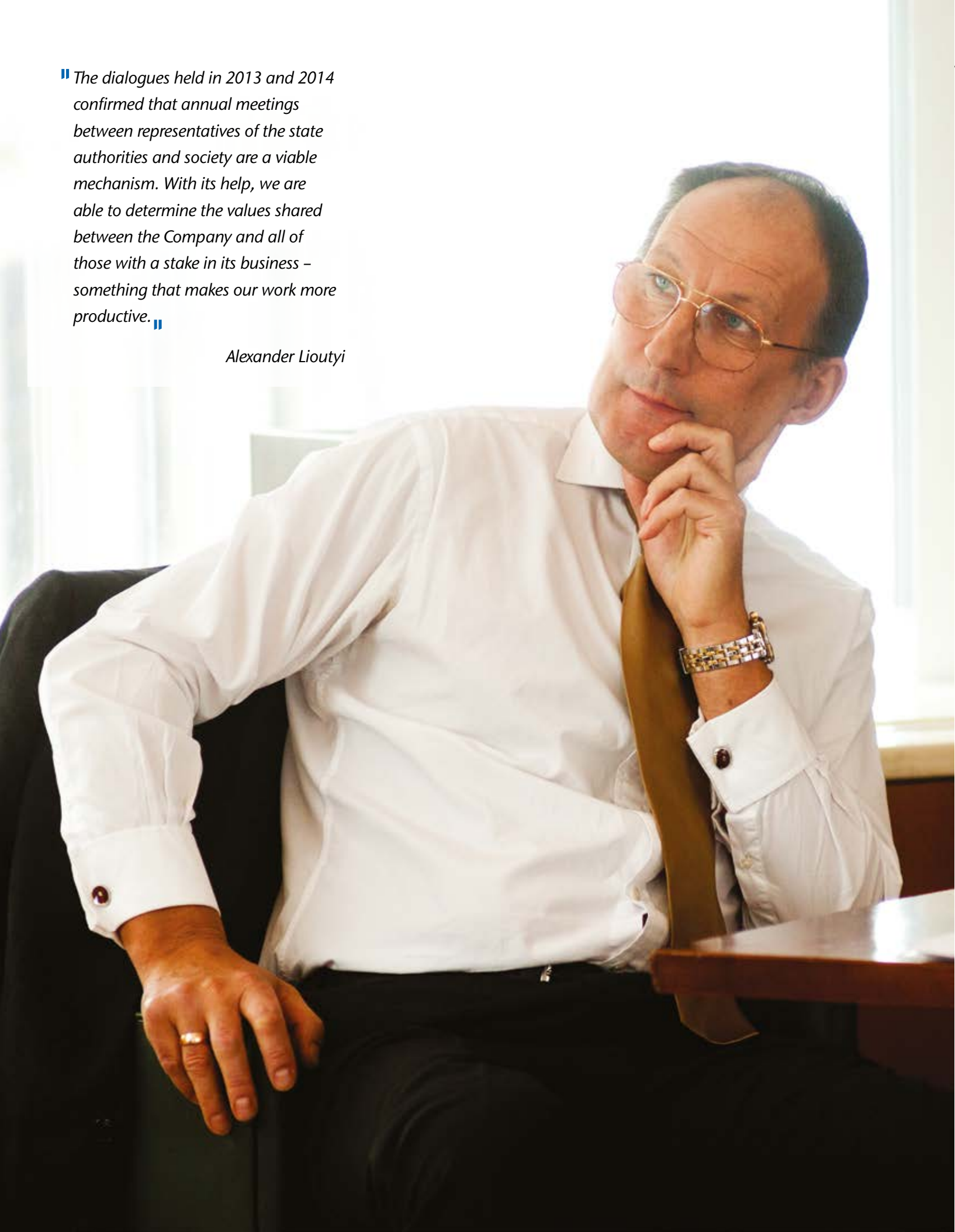


The following symbols are used in this report:

-  information published on www.batrussia.ru, www.bat.com or other organizations’ websites;
-  question from a stakeholder at a dialogue;
-  projects discussed by participants of the last dialogue.

“The dialogues held in 2013 and 2014 confirmed that annual meetings between representatives of the state authorities and society are a viable mechanism. With its help, we are able to determine the values shared between the Company and all of those with a stake in its business – something that makes our work more productive.”

Alexander Lioutyi



FOREWORD

Dear Readers,

I am happy to present to you the eighth Stakeholder Report of British American Tobacco Russia. It is based on the results of the stakeholder dialogues held in 2013–2014.

In our rapidly-changing world, BAT Russia believes it is imperative to understand the expectations of people whose lives or professional endeavours relate to our business. We are engaged in a constant search for the right balance between these expectations and the sustainable growth of our Company.

The Russian tobacco market is experiencing dramatic change. The new law that entered into force in 2013 has placed certain restrictions on, among other things, sponsorship activities and charity work of tobacco companies. We had to fundamentally reconsider not only our approaches to product marketing and sales, but also our approach to community involvement. Our partners in social projects were worried that tobacco manufacturers would completely withdraw from investing in social development. But, even in the new environment, BAT Russia, remaining committed to the philosophy of creating shared value both for the community and the business, never wavered in its support for socially-important initiatives and even introduced some new ones. Together with our retail partners across Russia, we organised more than 20 events in support of war veterans, the elderly and the disabled, as well as projects aimed at the landscaping and beautification of specially selected sites.

Even in a market environment where the new restrictions prevent us from broadly publicising our community work, the Company has not shirked from participating in social development, and its contribution toward that end has become no less effective.

Guided by the principles of openness and good governance, for more than 10 years now, we have pursued open dialogue with representatives of the society in which we operate. As discussion topics, we select issues that are of pressing concern to all interested parties. In this report, you will find information on the two dialogues held in 2013 and 2014.

The first meeting took place in St. Petersburg in November of 2013. The dialogue was devoted to resource saving, safety and productivity of manufacturing processes at our factory. Representatives of government agencies, local communities and business associations discussed ways of improving work safety and environmental protection.

The topic of the second meeting, which took place in Moscow in April of 2014, was the issue of illegal tobacco sales, which causes serious economic and social damage to the state, business and society at large. Participants in the dialogue had the opportunity to exchange opinions and discuss approaches to combatting the continued expansion of the “black” market.

We hope that this report will help you better understand the position of our Company on these socially important issues.

We would be most grateful if you would share your opinion on any and all aspects of the Company’s social responsibility. For this purpose you can fill in the feedback form which you will find at the end of this report and forward it to us.

Sincerely,
Alexander Lioutyi
Corporate and Regulatory
Affairs Director

ABOUT BAT RUSSIA AND ITS REPORTING PROCESS



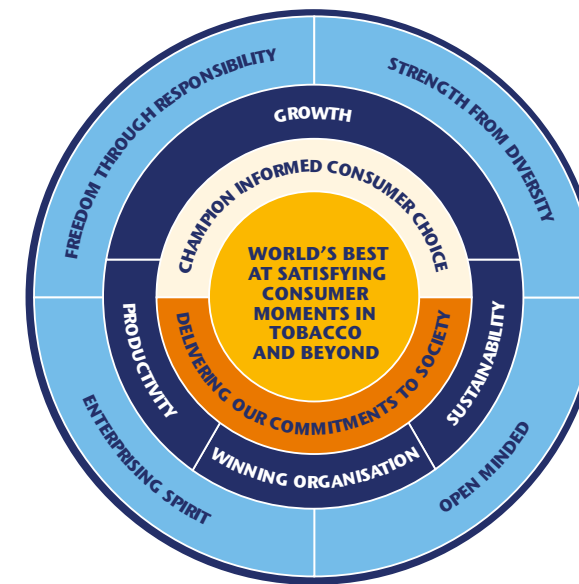
British American Tobacco Group opened its first representative office in Russia in 1991, and in 1994 it launched its production facilities in the country. Over the past 23 years British American Tobacco Russia (hereinafter – BAT Russia) has established itself as one of the major players in the Russian tobacco market.

BAT Russia comprises factories in St. Petersburg and in Saratov, as well as CJSC International Tobacco Marketing Services (CJSC ITMS), which consolidates the Company's commercial departments. British American Tobacco products are distributed in Russia by the SNS Group of Companies.

In 2013, the Company increased its investment in upgrading its factories by more than 40% to RUB 1.6 bln. Today, the factory in St. Petersburg is one of the leaders in the Northwest region of Russia in terms of labour efficiency, personnel qualification level and degree of production automation. The factory in Saratov is one of the Group's most advanced production facilities in Eastern Europe.

Responsible business conduct

For many years now, the British American Tobacco Group has maintained the reputation as being a responsible business upholding high standards of corporate behaviour and being open and transparent with its stakeholders. Sustainability is a pillar of the Group's strategy – demonstrating our commitment to building shared value for our shareholders and society.



British American Tobacco has made significant progress in environmental protection:

89%

of our waste
recycled

52%

reduction in waste to landfill
(compared with 2007)

45%

reduction in carbon footprint
(compared with the "baseline level"
of 2000)

25%

reduction in water consumption
(compared with 2007)

14%

reduction in energy consumption (compared
with 2007)



for more information please visit
www.bat.com

BAT Russia in 2013: facts and figures



1.1
bln
USD

the Company invested
more than **USD 1.1 bln**
into the Russian economy¹



the Company controls
21.2% of the tobacco
market; in the premium
segment – **45%**²



10
cigarette
brands

10 popular local and
international cigarette
brands



315
bln
RUB

RUB 315 bln tax
payments to budgets
at all levels over the last
10 years



more than **900**
cities have DSD
operations



73.9
bln
sticks

more than **73.9 bln**
sticks of cigarettes were
manufactured at the
Company's factories



more than **3,000**
employees work in
Russian subdivisions of the
Company



for additional information please visit
www.batrussia.ru and **www.bat.com**

The Group's approach to sustainability focuses on the issues identified as most important to our stakeholders, and that have the greatest potential to impact the business. The key areas are:

Harm reduction

British American Tobacco invests some GBP 160 mln a year into the research and development of innovative less risky tobacco and nicotine products. In 2013, the Company launched Vype electronic cigarettes in the UK.

Sustainable agriculture

Tobacco growing is one of the most significant parts of our supply chain, so British American Tobacco places particular emphasis helping farmers to farm sustainably. Our expert local leaf technicians work directly with over 100,000 farmers agreeing contracts, supplying seed and providing advice and support on sustainable farming practices.

¹ For all years of operation in Russia.

² Volume shares.

Corporate behaviour

British American Tobacco is committed to exemplary corporate conduct and transparency across the whole business. Engaging openly on regulatory issues and supporting evidence-based regulation, marketing our products responsibly, fighting tobacco trafficking and reducing our environmental impact help us to be a successful, global business while also raising standards across the industry, benefiting governments and consumers. For example:

Environmental protection

The Group sets its own, ambitious targets in terms of reducing its environmental impact and annually assesses its progress in minimising energy consumption, reducing carbon footprint and enhancing the efficient use of the resources.

Occupational health and safety

Occupational health and safety of employees is a definite

The Group's annual Sustainability Summary Report, published in March each year, covers performance for the year in each of these key areas. This is complemented by an online Sustainability Data Centre with performance charts and reporting against the Global Reporting Initiative (GRI) indicators, as well as regular Focus Reports on specific topics

top-priority for our Company. British American Tobacco directs its efforts towards improving the safety of production processes, as well as towards bolstering the motivation and interest of employees in observing the requirements of labour-safety requirements.

Anti-illicit trade

Sales of illegal tobacco products in Russia and worldwide have been growing for the past several years. Illicit trade slows down the economic development of states around the world, causing losses in unpaid tobacco taxes, triggers crime growth and undermines the governments' efforts aimed at achieving healthcare objectives. In 2013, British American Tobacco invested more than GBP 50 mln in the fight against this dangerous phenomenon.

to provide stakeholders with more in-depth information on the topics that interest them most.

British American Tobacco has been honoured with a number of prestigious awards and impressive industry rankings for its efforts in the field of sustainable development.

**The Sustainability
Yearbook 2014**

In the investment company RobecoSAM's 2014 Sustainability Yearbook we were named industry leader and placed in the highest Gold Class category.



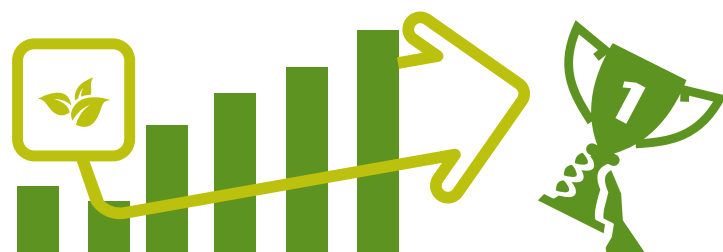
In 2013, the Group was included in the Dow Jones Sustainability Index for the 12th year running with an overall score of 87% - maintaining its position as industry leader.



In 2013, the Good Company Ranking (prominent ranking compiled by the Kirchhoff Agency for Global Finance and Corporate Communications) acknowledged British American Tobacco with a high placement among 70 public companies whose shares are traded on the European stock markets.



the Sustainability Summary Report and Focus Reports by British American Tobacco are available on the Company's corporate website www.bat.com

**Dialogues with stakeholders**

Dialogues with stakeholders constitute an integral part of BAT Russia's activities in the area of corporate responsibility. These dialogues represent the primary mechanism for the implementation of responsible-business practices, thanks to which the Company continues to improve its performance and enhance operational efficiencies. Meetings with stakeholders are held on an annual basis. The Company invites representatives of government authorities, business associations and NGOs to attend these meetings.

The main objective of these meetings is to foster productive dialogue in order to find universally acceptable solutions to highlighted problems, as well as to identify potential opportunities for cooperation. The procedure for holding such dialogues is defined by the principles of international standard AA1000SES³.

Materiality

The topics of these dialogues stem from the priorities of British American Tobacco in the field of sustainable development, in due consideration of regional specifics and key events in the tobacco industry, and based on the findings of research into the relevance of a given topic to the expert community and the public at large.

Inclusivity

The format of these meetings allows participants to express their point of view and offer suggestions to the Company. BAT Russia tries to consider the entire spectrum of opinions from all stakeholders in order to formulate an objective understanding of public expectations. The Company also endeavours to broaden the composition of dialogue participants, to which end it adds new organisations, including those recommended by the participants of past meetings, to the list of invited representatives.

Responsiveness

BAT Russia responds to stakeholder expectations with specific actions. However, not all issues can be solved by one company acting alone. Moreover, not all proposals from the stakeholders can be adopted by BAT Russia by virtue of objective or subjective considerations. In such cases, whether at the dialogue venue or through our report we explain, why the Company is not in a position to meet expectations.

BAT Russia constantly strives to improve the format and content of the meetings, using participant feedback for this purpose.

All dialogue participants have the opportunity to familiarise themselves with the materials compiled on the basis of past discussions and assure themselves that they have been properly drafted. Voiced suggestions are carefully analysed by the Company and used as the basis for the adoption of decisions on future activities in the area of sustainable development.

This report was prepared on the basis of dialogue sessions, held in St. Petersburg (November 2013) and in Moscow (April 2014). This report has been assessed and verified by the dialogue facilitator.



³ AA1000SES Stakeholder Engagement Standard is a manual developed by the Institute for Social and Ethical Accountability (the UK), 2005.

Independent Facilitator's Summary



British American Tobacco Russia annually holds dialogues with stakeholders in Russian cities where its factories operate and publishes reports on sustainable development reflecting the achievements gained through its efforts.

Representatives of LLC ASI Consulting, an independent facilitator, took part in preparing this report on BAT Russia stakeholder dialogues held in 2013 – 2014. Our role was:

- to monitor compliance of the chosen topics and dialogue procedures with BAT Russia's internal guidelines and recommendations established by the AA1000 Standard;
- to maintain open and fair exchange of opinions between dialogue participants and Company representatives;
- to monitor this report's compliance with participants' positions and statements, as well as with the spirit of the dialogues;

- to ensure that the final document (the Stakeholder Report) includes all vital information.

We undertook the following measures to prepare this summary:

- examined the internal documents used in the process of selecting the dialogue topics and the main participating stakeholder groups;
- participated in the St. Petersburg dialogue titled "Modern production: safe, efficient, environmentally-friendly", held on 27 November 2013, and in the Moscow dialogue titled, "Illicit trade in tobacco products", held on 16 April 2014;
- participated in the process of harmonising the documents that were drawn up based on the dialogue results together with the participants;
- analysed the Stakeholder Report to verify that it includes all vital information and that the content is appropriate, with due consideration of the suggestions made at the dialogues.

Our responsibilities did not include verifying the authenticity of the facts of BAT Russia's activity cited in the report (besides those directly concerning the dialogues' organisation and execution), as well as the numerical data presented in the report. BAT Russia shall be held responsible for this information. We reached the following conclusions based on the work conducted:

Selection of the topics and dialogue participants, as well as the dialogue execution procedures are in line with the AA1000APS (2008) Standard (inclusivity, materiality, responsiveness) and the AA1000SES (2011) Standard.

BAT Russia has made efforts to ensure that the dialogues are attended by representatives of all stakeholders whose interests or area of expertise are relevant to the dialogue topics. The invited stakeholders represented organisations recommended by participants of prior dialogues. The stakeholders' actual attendance at the dialogues was stipulated by circumstances beyond BAT Russia's influence.

Based on our experience, we confirm that the topics selected for the dialogues are sufficiently important for Russian stakeholders.

Three topics were discussed at the St. Petersburg dialogue, "Modern production: safe, efficient, environmentally-friendly": labour safety, conservation of resources and environmental protection. We observed that usually it is primarily subject matter specialists who discuss the topics of labour safety and conservation of resources. At the same time, many stakeholders from different Russian cities consistently express great interest in the topic of environmental protection, especially with regard to the activity of industrial companies.

The topic of illicit trade in tobacco products was discussed at the Moscow dialogue. Considering the ongoing reforms in the legislation regulating the consumption of tobacco products in Russia, all aspects of this topic continue to be of great interest to stakeholders because there is no public consensus on most issues and the consequences of previously made decisions are just starting to become apparent.

Ensuring open and fair exchange of opinions

The dialogues were conducted in line with BAT Russia's

internal procedures. We ascertain that dialogue participants had the opportunity to express their opinions and views freely, and the Company did not have any influence on the dialogue participants' opinions and behaviour. We observed that dialogue participants actively voiced their opinions on the proposed topics and were open to communicating with Company representatives and each other.

The Report's compliance with the content and spirit of the dialogues

We ascertain that the Stakeholder Report objectively reflects the course of the discussions and the dialogue participants' mood, and that it includes all critical remarks made by the participants. All of the voiced suggestions and statements are reflected in the report.

I hereby certify that I personally and LLC ASI Consulting do not have any commercial interest related to BAT Russia's activity, besides rendering the above-mentioned services.

Lyubov Alenicheva,
LLC ASI Consulting



"BAT-SPb is a perfect factory. This status is reflected in its attitude towards people, the environment, and all other aspects of its operations.

The recruitment of staff - responsible individuals who care about the work that they do and the impact that it has on those around them - creates a highly-favourable impression."

Public organisation
representative

"One of the underlying principles of sustainable development involves working with staff, pursuing the training and professional development of employees. The Company places tremendous emphasis on this aspect, making outpacing progress in this regard, simply because its corporate standards are so high. The Company is always thinking about the younger generation. Many Russian companies would do well to adopt these standards themselves."

Business association
representative



ЗАО «БРИТИШ АМЕРИКАН ТОБАККО-СПб»

MODERN PRODUCTION: SAFE, EFFICIENT, ENVIRONMENTALLY-FRIENDLY

About the factory

CJSC British American Tobacco-SPb in St. Petersburg (hereinafter, BAT-SPb) is one of Russia's most modern tobacco factories. The Russian subsidiary of Rothmans International began constructing the factory in 1996, and 14 months later, in September 1997, it produced its first run of tobacco products. At the time, the surface area occupied by production facilities spanned some 9.6 hectares, with built-up areas covering a total of 12,000 m². The factory featured several production lines, combining to produce fewer than 2 billion cigarettes per year.

Following the merger of British American Tobacco and Rothmans International in 1999, the enterprise became part of BAT Russia⁴. It was at that point that the period of active investments in the factory's economic growth began. In the intervening 15 years, production volume has multiplied by a factor of 17.

5.8
bln RUB

Over the past five years, investments in BAT-SPb have exceeded **RUB 5.8 bln, or USD 180 mln.**

In 2005, BAT Russia significantly expanded the warehousing capacity of the St. Petersburg factory, building a major logistics centre. Investments in that ambitious project topped USD 20 mln. The factory's total territory soared to 22 hectares.

Two years later, in 2007, the factory built a new production department spanning some 8,000 m², which was fitted out with the most advanced equipment for the production of cigarettes and filters. That same year, BAT-SPb launched the production of Kent Nanotek cigarettes, introducing the Russian marketplace to the new Compact King Size. The factory became one of the first production facilities of British American Tobacco worldwide capable of manufacturing products in that format.

In 2012, the factory saw the construction and operational commissioning of a new primary manufacturing department, as well as a specialised zone for the automated palletisation of finished products. With the expansion of its production capacities, the factory proceeded with reconstruction of part of the logistics complex.

⁴ In 2002, CJSC Rothmans-Nevo was renamed British American Tobacco-St. Petersburg.

British American Tobacco has approximately **45 factories** around the world. Only five of these production facilities manufacture **innovative** products – **BAT-SPb is one of them.**



Today, BAT-SPb is one of the leaders in the Russian northwest in terms of labour productivity, personnel qualification level, and degree of production automation. It provides for the stable employment of some 600 people.

In 2013, BAT-SPb produced more than 34 bln cigarettes, including 6.7 bln cigarettes destined for export. According to the RF Federal Customs Service, the factory is one of the leading cigarette exporters in Russia.

BAT-SPb is one of the city's biggest taxpayers. In 2013, it contributed approximately RUB 56.8 bln in tax receipts to the federal budget of the Russian Federation and over RUB 900 mln to the municipal budget of St. Petersburg.



Labour safety

Our approach

Labour safety is a top priority for British American Tobacco. The Group places particular emphasis on the safety of its employees, both at the global level, as well as in all end markets where it operates. The Company's Environment, Health and Safety (EHS) Policy represents a uniform code of rules and principles governing corporate conduct that is binding on all of its production sites.



BAT Russia's EHS Policy is available on the Company's corporate website: www.batrussia.ru.

Pursuant to this document, all Group companies are mandated not only to abide by all international and local requirements governing organisation of the production process, but also to constantly strive for improvements in terms of production safety and efficiency. Thanks to its unwavering commitment to the principles of the Policy, BAT-SPb has managed to achieve impressive results among other production sites of British American Tobacco and other St. Petersburg-based enterprises.

OUR MOST IMPORTANT RESULT IS



with zero lost workday case incident rate.

49.3
mln RUB

In 2013, the factory invested **RUB 49.3 mln** in various labour-safety initiatives.

The factory cares for its employees, exerting maximum effort to safeguarding their life and good health. British American Tobacco's Health & Safety strategy incorporates three main areas:



Stop – stop unacceptable,



Avoid – avoid risks that are capable of being averted,



Mitigate – mitigate the consequences of risks that cannot be stopped or avoided.

The factory makes a concerted effort to completely eliminate risks in the first group (Stop) that are capable of resulting in employee injury: falling from heights and being caught in the moving parts of machinery.

In order to minimise the risk of falling from heights, BAT-SPb endeavours to eliminate the causes of potential incidents. The enterprise strives to ensure that most operations can be performed standing on the floor without use of ladders. In the case of operations at elevated heights that cannot be avoided, mobile platforms with handrails and safety enclosures are used. Attachable mobile platforms are even used for the servicing of equipment mounted at a height of just 0.5-0.8 metres.

Similar requirements are imposed on contractors: they are prohibited from using non-code ladders or ladders not equipped with the proper handrails.

Being caught in the moving parts of machinery is a frequent cause of workplace injury in a number of industries. The main approach used to address this problem is to distance the employee from the mechanism with the help of protective enclosures and blocking systems.

Factory specialists analyse the potential hazards of production equipment even before it is installed. In fact, even if the manufacturer hasn't provided for protective mechanisms, BAT-SPb corrects the oversight. All of the factory's production lines have been installed with additional safety covers, and there's also an automated system for the blocking and shutoff of equipment. These systems have been designed to prevent workers from operating equipment in hazardous situations. For instance, the mechanism can't be started without checking first to ensure that there are no people in danger zones. In the factory's production areas it is prohibited to wear any jewellery or wrist watches of any sort, insofar as they can become the cause of injury.

The second group of risks (Avoid) at BAT Russia factories encompasses risks associated with the use of manual labour,

as well as with worker slip-and-falls. In order to avoid worker contact with the cutting and puncturing elements of machinery, the Company engages in the purchase of modern implements. For example, the operation to replace the blades that cut the cigarettes used to be performed manually by a worker wearing gloves. Today, a special instrument is used to change the blades, thereby eliminating the need for the worker to touch them and potentially getting cut.

So as to prevent workers from slipping and falling, all sectors housing production facilities and equipment that must be walked along utilise special anti-slip coatings (platforms with a textured surface and non-slip mats, for instance). Workers are also issued special protective footwear with non-slip treads.

The third area involves mitigation of the consequences of risk (Mitigate). As global practice demonstrates, the possibility of accidents and emergencies cannot be entirely eliminated. There always remains an element of chance that cannot be fully anticipated. The factory does a great deal of work to, on the one hand, shrink this zone of uncertainty, while on the other – mitigate the consequences of an accident if one does occur.

BAT-SPb uses a lot of forklifts and other moving equipment: they service the logistics centre and production zone.

Workstations located in the immediate vicinity of traffic routes are protected by enclosures and barriers to prevent forklifts from entering the zone unhindered. In order to ensure that pedestrian- and forklift-traffic routes are kept separate, the enterprise employs warning signs and barricade tapes. Forklifts are installed with spherical mirrors to broaden the drivers' field of vision.

One of the most recent developments in this area involves the installation of traffic lights at busy intersections throughout enterprise grounds. The approaching employee presses the button and is given a 10-second green light to cross. In the meantime, forklift operators wait at a red light.

In order to reduce the risk of accidental injury by being hit by heavy metal doors, solid (windowless) inter-shop fire-doors have been equipped with cameras and monitors, allowing people approaching the door from either side to see one another. Some solid doors have also been replaced with doors featuring peepholes.

Since 2011, the factory has been collecting feedback from employees, contractors and visitors on the potential hazards and risks that exist on enterprise grounds. The labour safety department reviews these comments and suggestions and uses them to eliminate potential dangers.



Safety enclosure at BAT-SPb

"I've conducted the expert assessment of many enterprises in our city, and I was simply amazed by what I saw and heard from BAT Russia – the Company is a prime example of the proper organisation of production processes and implementation of labour-safety measures within the territory of the Russian Federation."

Business association representative

Environment, Health and Safety (EHS) Management System

At all enterprises within British American Tobacco Group, including the BAT-SPb factory, the Company has implemented the Integrated Management System, designed according to the international ISO standards in quality management, environmental protection, occupational health and safety. Compliance of the EHS System with the requirements of standards ISO 14001 and OHSAS 18001 has been confirmed by auditors from the international certification company BVQI in 2007, 2010 and 2013.

In 2011, the State Labour Inspectorate for St. Petersburg presented the factory with a Certificate of Employer Confidence. It signifies that the enterprise is conscientious in observing the labour rights of its employees: pays wages on time, indexes salaries, diligently makes contributions to extra-budgetary funds, implements cutting-edge occupational-safety technologies, and so on.

Management tools

The Company uses different tools to improve and refine its EHS Management System:

- special assessment of workplace risks and labour conditions pursuant to applicable Russian law;
- “roadmap” on evaluating the status of the EHS System;
- corporate system of international audits.

All of the aforementioned tools, aside from the special assessment of labour conditions, are employed by British American Tobacco at its own initiative, above and beyond legislative requirements.

A special assessment of labour conditions is carried out each time a new piece of equipment is installed or a new workstation (job) is created. In each case, specialists thoroughly analyse the factors of the workplace environment, the safety of workstations, proper equipping with personal protection gear, and actual on-the-job conditions. Based on the results of certification, the appropriate measures are taken to eliminate or minimise the respective risk factors. Working groups tasked

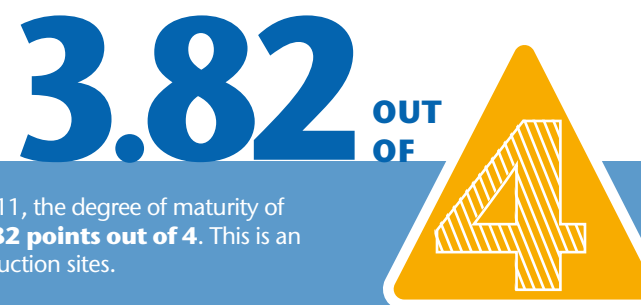
with performing risk assessments undergo training on a regular basis.

All factory employees are given training on the fundamentals of labour safety and environmental protection. The study matrix helps identify employees in need of further training, track the status of organised seminars, and control recertification deadlines. In 2013, a video was shot and is now used to supplement introductory training on labour safety for new employees and during the process of staff follow-up training.

Since 1999, British American Tobacco Group has followed a “Roadmap” on evaluating the status of the EHS System. The document establishes common requirements and standards for the entire EHS Management System. It was developed to help production companies evaluate and improve upon the existing EHS management system. The “Roadmap” helps bring the management systems in place at production enterprises into alignment against common standards and identify opportunities for further refining production processes and measuring performance indicators. The degree of maturity exhibited by management-system elements is evaluated using a four-point scale.

British American Tobacco has introduced a system of international audits in terms of EHS. An international team of auditors conducts the audits once every three years. The team includes employees from British American Tobacco who are specialists in the particular field being audited, as well as experts from independent expert organisations.

In 2012, such an audit was conducted at BAT-SPb. The team of auditors, encompassing representatives from different countries, was headed by a British American Tobacco employee from Australia. The audit process featured a detailed investigation of all managerial processes in place at the factory. Based on the findings of the audit, the enterprise received only a handful of recommendations.



Promoting a culture of safe production

Yet, Company efforts are not enough to make the work process safe and accident-free. Each and every employee must strive towards that goal as well. It is for precisely that reason that the enterprise does a great deal of work to foster a culture of safe production.

Every year, the factory holds the Environment, Health and Safety Week. Employees participate in quizzes and contests – for the best safety slogan, for example. The most interesting suggestions are used in visual materials on labour safety, as well as on safety-awareness posters hung in the factory’s production departments and staff areas.

Communication campaign “Work safely!”



Environmental protection

Our approach

Responsible environmental management is another top priority of British American Tobacco. An integral part of the

Company’s responsible approach to doing business is strict compliance with the requirements of local legislation and best international practices.

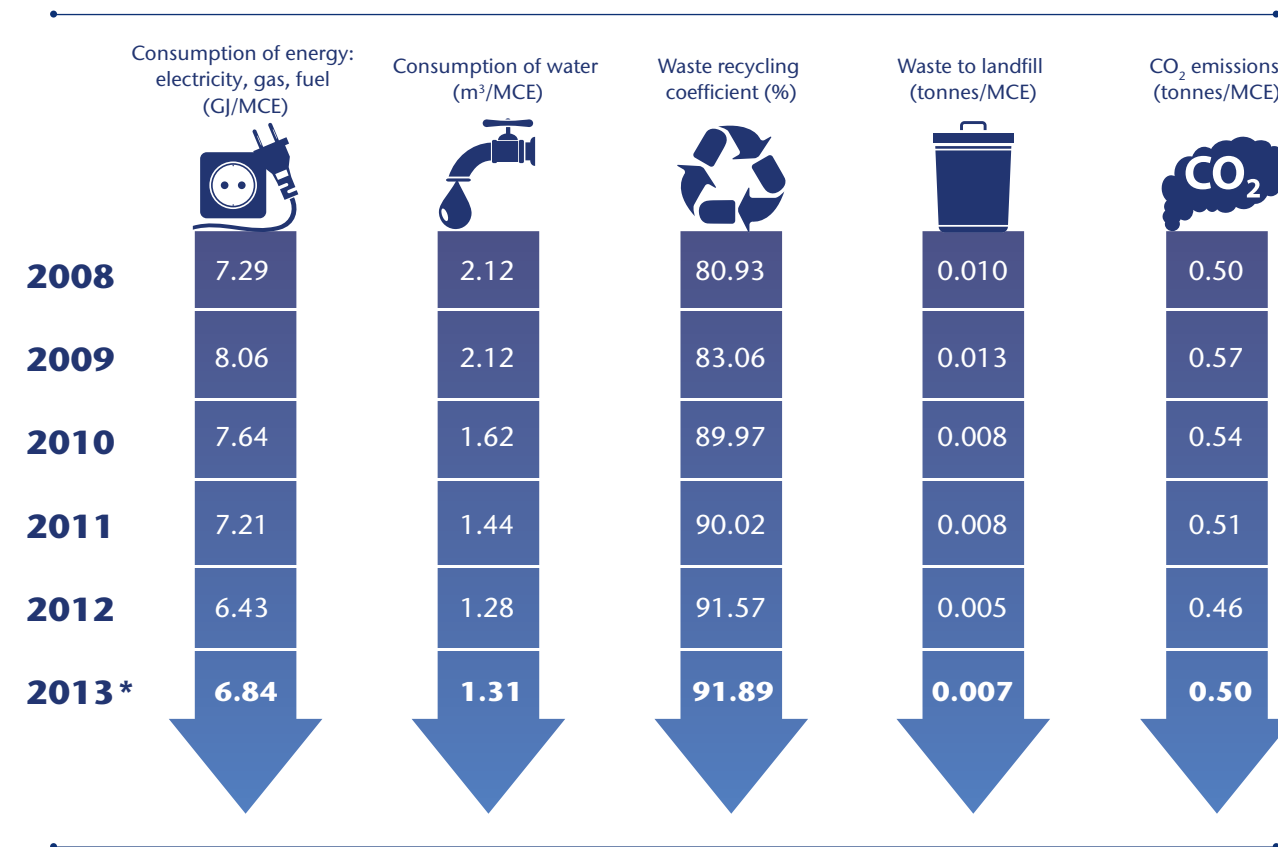
Global objectives of British American Tobacco in the field of environmental protection



Key indicators of the environmental impact of BAT-SPb are below. They demonstrate the factory's results in terms

of reducing the consumption of resources and the level of emissions as well as in terms of waste-recycling.

Key Indicators of Environmental Protection Management



Note: The CO₂ emission figure includes emissions (exhaust) from vehicles operating on factory grounds.

*Deteriorating indicator in 2013 associated with the commissioning of a new production area and a reduction in production volumes

Emissions to atmosphere

In 2009, a 300-metre sanitary-protection zone was established and approved for the factory. That same year, following investments of approximately RUB 20 mln, the factory installed advanced particulate abatement systems for the treatment of production emissions for dust particles. On a quarterly basis, the factory carries out production control for compliance with the established norms of maximum-allowable emissions of pollutants into the atmosphere. The enterprise also monitors environmental conditions around the factory: quality of the atmospheric air and noise factor at the edge of the sanitary-protection zone.

24.8 tonnes In 2013, the actual volume of emissions totalled 24.8 tonnes – more than a third less than the permissible emission of pollutants into the atmosphere – 40.4 tonnes.



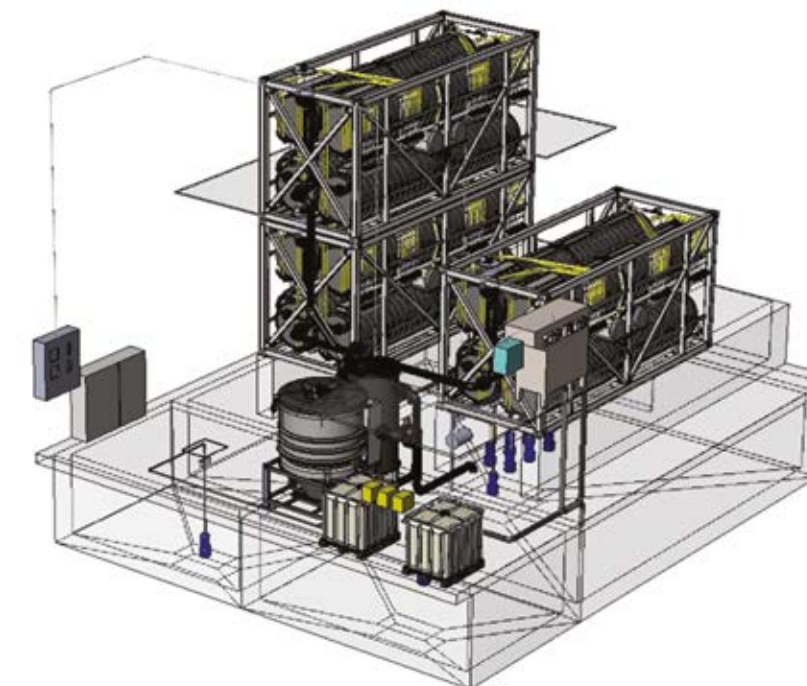
Wastewater

From 2011 to 2013, BAT-SPb invested RUB 43 mln in the design and construction of modern installations for the treatment of waste and sewage water.

The project includes the construction of treatment facilities on factory grounds, as well as a sewage collector stretching roughly 3 kilometres.

Effluent arriving from the factory passes several levels of treatment. First, the wastewater passes through a stage filter, in which coarse fraction is captured. The effluent then proceeds to the primary settling tank, where the sedimentation of suspended particulate occurs. From there, the tank effluent advances to the balancing reservoir, from which it is delivered by pump to the bioreactors. Here, live bacteria (aerobic microorganisms) recycle any pollutants present, using oxygen. Following biological treatment, the water then passes to the secondary settling tank, where excess biomass settles to the bottom. The accumulated sediment is periodically pumped out and dehydrated using special equipment. Following treatment, the water passes through an additional flotation-filter and is diverted to the municipal sewage system.

At the time of report preparation, the system was turned over for operations.



New units for the treatment of waste and sewage water at BAT-SPb

Waste recycling

One of the key areas of BAT Russia's environmental protection policy involves reducing volumes of production waste and ensuring its recycling to the greatest extent possible.

BAT-SPb makes a concerted effort to improve these indicators, and regularly seeks partners with the technical capabilities and sufficient production capacities to undertake the fine sorting and recycling of production waste.

The bulk of the production waste generated at the factory falls into hazard class 4 or 5, signifying a low or virtually non-existent level of hazard. Generally, this waste consists of cellulose fibre, paper and cardboard, solid domestic waste, items made of natural wood, plastic and polyethylene packing materials, etc. The factory collects, sorts and hauls waste away in interchangeable containers.

Most of the waste (2,902 tonnes out of 3,288 in 2013) is transferred to specialised organisations for recycling, further use and detoxification, with a small fraction sent to licensed landfills for dumping. The factory is working

to ensure that the amount of material sent to landfills steadily declines. The factory also transfers waste such as burnt-out fluorescent tubes, batteries and spent oils to specialised organisations for decontamination. The bulbs undergo demercurization (in which the mercury is removed and used again in the production of more tubes or thermometers, with the remaining glass processed by the glass industry). Batteries are depleted of electrolyte, with the battery casing itself collected as scrap metal.

Sent for recycling are packaging materials, wood scrap, paper, cardboard, plastic, scrap metal and acetate fibre. Heterogeneous, dry non-tobacco waste and consumption waste, accounting for roughly 7-10% of all of the waste generated by the factory, is collected in compactors and transferred to a company that produces fuel for the cement industry, industrial fill and compost. The Company also carries out the fine sorting of waste, sorting out fractions suitable for further use such as plastic (polyethylene and polypropylene) and paper waste (newspaper-magazine mix).

British American Tobacco employs a special technology that enables the recycling of fine tobacco particulate.

91.83%

In 2013, the waste-recycling coefficient stood at 91.83% – 3% higher than in 2010.

Given the high level of waste recycling that currently exists, further improvement of this indicator will largely depend on the capabilities of contractors in the field.

Production operations at BAT-SPb exert virtually no load on the city's industrial landfills and help small recycling businesses grow and expand.

In 2010, BAT Russia launched a new project involving the separated collection of commercial waste at the office. All of the collected waste initially undergoes fine sorting to separate out the fractions that are suitable for secondary utilisation. Then, at the pre-recycling stage, metals (such as aluminium cans), polymers and plastics (disposable cups, plastic bags), and paper and cardboard (office rubbish) are sorted out for further processing.

Landscaping and beautification of natural sites

Since 1999, BAT-SPb has partnered with the Administration of Primorsky District in St. Petersburg to implement a long-term programme aimed at its greening, landscaping and beautification. This action, undertaken voluntarily, is designed to improve the lives of the people living in the vicinity of the enterprise.

Participating in the greening and beautification of Primorsky District are factory employees, local residents and partner companies. In the autumn of 2012, BAT-SPb organised a special Saturday clean-up on the grounds of Komendantsky Aerodrome Municipal District on Polikarpova street. The Saturday clean-up was organised in cooperation with the Leningrad Regional Public Organisation "Preserving Our Natural Environment and Cultural Heritage." Grounds surrounding buildings were landscaped, trees and shrubs were planted.

In the spring of 2013, the vacant lot on Solunskaya street was beautified: pour-in footpaths were laid, a grassy area measuring 2,000 m² was seeded, and bushes and flowerbeds were planted.

In 2012-2013, the BAT-SPb factory continued investing in the landscaping and beautification of Primorsky District. The district witnessed the planting of **110 new trees and 330 new shrubs and bushes. Investments totalled some RUB 1.5 mln.**

In the autumn of 2013, factory employees and local residents joined forces to clear the square fronting local buildings on Serebristy boulevard of fallen leaves and litter.

"I am shocked and pleasantly surprised by your impressive labour-safety and environmental-protection indicators – and simply dazzled by your outstanding waste-recycling results. It must be one of the highest indicators among all foreign companies operating here. These represent timely advancements – particularly in light of recent legislative changes."

Business association representative

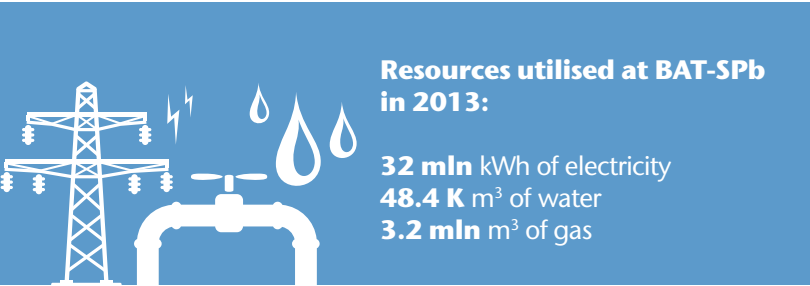
"The contribution of BAT Russia to improvement of the natural surroundings in Primorsky District and environmental protection is huge. We've been cooperating for more than 10 years now. No enterprise in the district responds to our requests with the speed and enthusiasm of this Company. Over the period of our partnership, an entire garden and 400 new trees have been planted. If every enterprise were to do just a fraction of this amount of work, the situation in our district would be dramatically different."

Representative of a legislative body



Resource conservation

In late 2011, BAT-SPb developed and approved an energy policy that describes and systematises the processes involved in energy conservation, and establishes long-range goals in terms of energy consumption.



According to internal estimates, the enterprise’s energy efficiency is currently rather high – moving forward, the factory plans to study opportunities to further reduce energy consumption in the smaller elements of the overall system – up to and including individual pieces of equipment and production-process elements.

The programme for expanding the energy-consumption metering network in 2010-2013 included:

- 2010 – measurement of energy consumption by production equipment;
- 2011 – measurement of compressed-air consumption by equipment in the cigarette-production shop;
- 2012 – measurement of steam consumption by equipment in the tobacco-production shop;
- 2013 – measurement of steam consumption by engineering equipment.

Over 4 years, programme investments totalled RUB 5 mln.

Assessment of energy losses under the operation of various equipment and systems (for example, insufficient thermal

insulation of pipes and plumbing carrying steam and hot water; losses in the compressed-air system, etc.) opens new opportunities for the improvement of energy conservation at the enterprise.

The factory undertakes the constant monitoring of various indicators (metering of the consumption of water, gas and electricity), which helps determine priorities in terms of energy efficiency and resource conservation. Aside from commercial energy-resource metering units, the enterprise has created an entire network for technical metering – the consumption of water, steam, compressed air and electricity. This multitude of measuring devices makes it possible to precisely determine the amount of energy being consumed by each installation, in each shop, in each production process. Measurement precision helps identify opportunities for the optimisation and reduction of energy consumption. The energy-efficiency indicator is definitely taken into consideration during the selection of new equipment.

In 2012, pursuant to the RF Federal Law “On Energy Conservation and Improving Energy Efficiency,” the factory underwent an energy-efficiency audit. Its results were used to compile the “Energy Passport on the Consumption of Fuel-and-Energy Resources” and the Programme on Energy Conservation and Improving Energy Efficiency.

Aside from its mandatory energy-efficiency audit, the factory regularly conducts similar internal audits to assess the efficiency of energy-resource utilisation. In 2011, the internal audit involved the engagement of an outside contractor – Cendid (Germany). Much like the roadmap for labour safety, there is also a roadmap for energy conservation – an internal document of British American Tobacco used to evaluate and compare all of the Company’s factories.

Based on the findings of the audit, BAT-SPb was assigned the rating “under control,” meaning that all of its processes are in compliance with the requirements of the roadmap and well controlled by factory specialists and management. An action plan has been compiled to address areas in need of further improvement, and a project plan, energy-conservation programme and plan for future internal audits have all been developed.

The factory views fostering a culture of responsible energy consumption among its employees as a task no less vital than improving the energy efficiency of production operations. Towards that end, since 2009, the factory has hosted Energy

Week every year in December with contests and quizzes for employees and other events designed to raise awareness of the issue (seminars on energy conservation at work and at home, publication of the “Guide to Energy Conservation” brochure).

Each and every factory employee can make a personal contribution to energy conservation at the enterprise. Every production sector has been furnished with signs indicating target energy consumption per unit of finished product. In order to achieve these targets, programmes to improve energy efficiency and plans for energy-conservation projects have been introduced.

BAT-SPb plans for 2014–2015

The factory constantly strives to improve upon its performance indicators and looks for new ways and opportunities to reach its stated objectives.

Energy efficiency and resource conservation

2014	Localisation of lighting and energy-resource delivery for each production line
	Installation of metering devices for the consumption of compressed air at the filter-making department
	Replacement of vacuum pumps with more energy-efficient alternatives

Labour safety

2014 – 2015	Identification and minimisation of work-related risks and further implementation of measures to improve the labour conditions of employees
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Environmental protection

2014	Reconstruction of local treatment facilities for the treatment of storm wastewater
2014 – 2015	Maintenance of the waste-recycling coefficient at a high level
	Investments in the greening and beautification of Primorsky District

At the previous dialogue in St. Petersburg in 2010, a number of proposals were offered to the Company.



The Company’s responses are provided below.

Installation of pulse water meters

Added to plans for 2014: when the service life of the current meter expires, it will be replaced with the proposed alternative.

Introduction of air-humidification systems using high-pressure water

At the last dialogue, a pilot project was presented. It involves the installation of air-humidification systems using high-pressure water, to replace steam-based humidifiers for the purposes of reducing energy expenditures. Plans were announced to evaluate the results and determine prospects for their further integration.

The air-humidification systems using high-pressure water are still being introduced: in fact, under construction of the new production department, these installations found broad application. The use of air-humidification systems using high-pressure water is widely recognised as cutting-edge practice. Use of the equipment is planned for the future.

That said, based on the findings of an operational analysis of “pilot” installation, it has been determined that replacement of the currently-installed steam-based humidifiers with the new systems would be inexpedient. It would also entail capital reconstruction of the factory’s existing ventilation installations.

Use of LED bulbs

These plans have now been fulfilled. At the time of report preparation, the factory had finished installing LED lights in the zone for the automated palletisation of finished products (space covering roughly 900 m²).



Steam meters at BAT-SPb

Dialogue participants' suggestions to BAT-SPb

Dialogue participants made a number of suggestions to the BAT-SPb factory. They are grouped by topic, the Company's comments are italicised.



Topic 1. Environmental protection and resource conservation

1. Supplement the on-going efforts to plant greenery in the Primorsky District with new elements to extend the effect (for example, include projects to enhance the population's environmental awareness).

2. Consider the possibility of creating projects aimed at developing environmental awareness among the city's businesses and population using the factory's experience in waste sorting.

■ *Company specialists are willing to share their experience in implementing environmental initiatives (e.g., waste sorting) with other district and city enterprises.*

3. Consider the possibility of installing new-generation water-intake meters with a remote GSM-based transmitter, allowing resource consumption to be tracked online.

■ *The Company will examine how appropriate it is to install a new-generation meter and will look into this possibility conjointly with Vodokanal.*

4. Continue implementing measures to reduce the discharge of sewage pollutants and the efforts to optimise water consumption.

■ *The factory continuously works to optimise water intake and reduce the discharge of sewage pollutants, with annual evaluations of the progress.*

5. Combine the efforts of government agencies, businesses and the public to reduce the negative environmental impact of two Primorsky District facilities: the solid domestic waste landfill and wastewater treatment plants.

Topic 2. Sharing BAT Russia's experience in the field of sustainable development



6. Several dialogue participants suggested that BAT-SPb take a more active approach in sharing best practices in the area of labour safety, environmental protection and resource conservation with other companies and institutions in St. Petersburg and Russia.

7. Expand the Company's involvement in elaborating ideas aimed at environmental responsibility and sustainable development.

■ *In an effort to promote environmental responsibility of business, BAT Russia presents descriptions of its projects in this area online at www.batrussia.ru in the "Responsible Approach" section.*

Topic 3. Stakeholder engagement

8. Expand cooperation with universities to enhance the professional level of graduate students, including in the field of environmental protection.

■ *BAT Russia constantly works to expand its cooperation with universities. The Company's specialists regularly participate in student job recruitment fairs and hold master classes and workshops. The Company has developed several career development programmes for university students and graduates: the student ambassador programme, summer internship programme and management trainee programme.*

■ *In December 2013, specialists from BAT Russia held a master class on Corporate Social Responsibility for students of the Economics Department of the St. Petersburg State University enrolled in the Managing Organisational Development programme. During the master class, students learned about BAT Russia's projects in the field of social project management.*

9. Voluntarily inform public authorities about the factory's environmental investment projects, which the Company plans to undertake in addition to the established legal requirements. Inform water supply and sanitation organisations about the factory's plans to reduce pollutant discharge.

■ *BAT-SPb steadily cooperates with the regulatory authorities, regularly informing them about its plans and receiving their recommendations.*

Topic 4. Ensure information is reflected in the report

10. Provide more information on the innovative technologies applied by the factory in the field of environmental protection.

11. Supplement BAT Russia's report with a separate BAT-SPb factory report to demonstrate its performance and development prospects in St. Petersburg.



ILLICIT TRADE IN TOBACCO PRODUCTS

BAT Russia held the first dialogue on the topic of illegal trade in tobacco products two years ago in 2012. At that time, independent experts and Company specialists were noting the first signs of the phenomenon on the market. Participants in the 2012 meeting discussed the causes of the emerging illegal trade, possible scenarios of further development of the situation, and steps to counteract the growing scale of the problem.

In April 2014, when some of the scenarios mentioned began to manifest themselves in practice, BAT Russia returned to the subject once again. According to Nielsen reports and industry estimates, the volume of illegal trade in Russia has surged, multiplying by a factor of 5 in the past year alone. As of year-end 2013, illegal products accounted for 1.6% of the total tobacco market.

Position of BAT Russia

The problem of illegal trade in tobacco products is a pressing and serious concern both for the Russian tobacco industry, as well as for the state and consumers. On issues related to the fight against illegal trade, BAT Russia takes an active stance, one based on the principles of corporate social responsibility.

Today, the number of countries signing the Protocol to Eliminate Illicit Trade in Tobacco Products⁵ is growing. Signatories undertake to implement a set of measures to effectively control the supply chain of tobacco products. In its operations around the world, British American Tobacco has gained valuable experience in the fight against counterfeit and contraband tobacco products that

could well be applied in Russia. BAT Russia is prepared to share this experience and cooperate with all interested stakeholders to develop appropriate measures for the prevention and mitigation of the negative consequences of illegal trade in tobacco products.

The Company constantly studies the effectiveness of legislation on illegal trade and analyses global practice in this area. BAT Russia strives, wherever possible, to prevent expansion of the illegal market and towards this end, develops proposals designed to foster effective and appropriate law-enforcement practice, offering them for discussion by interested stakeholders.

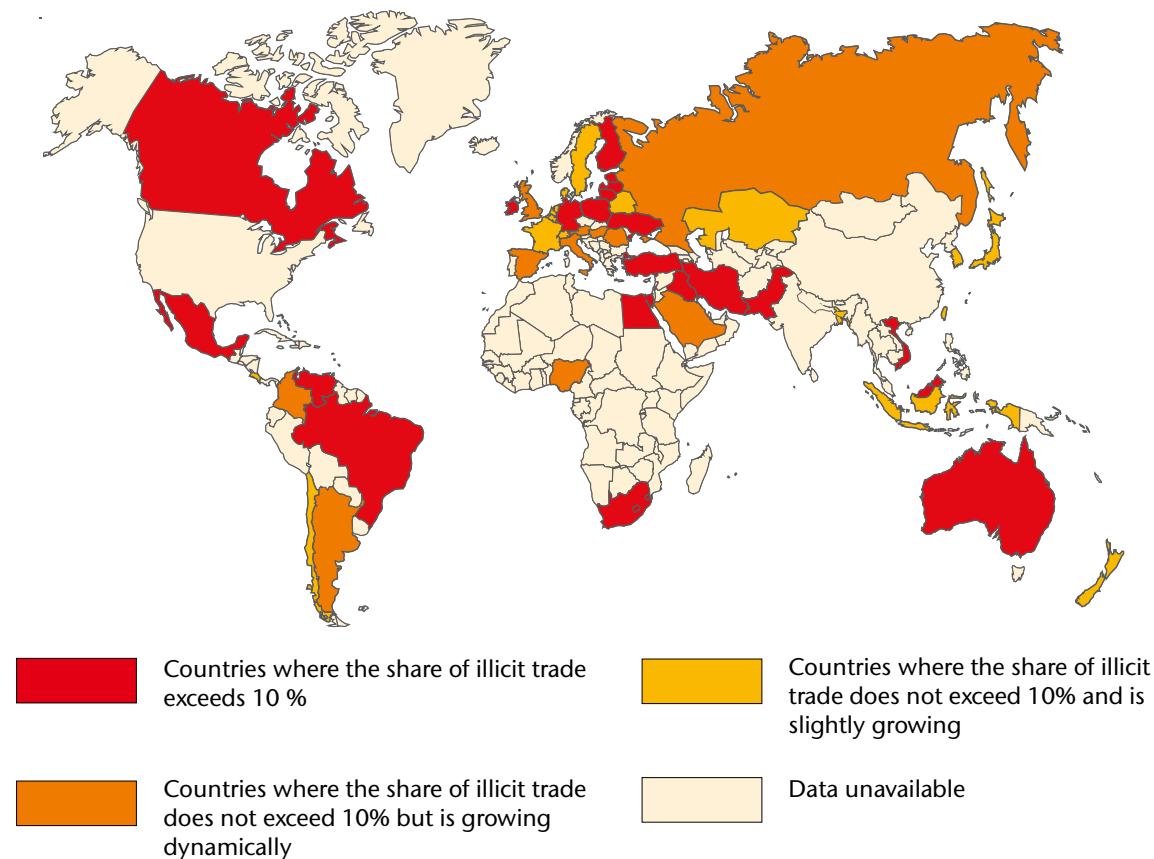
BAT Russia advocates for the harsher punishment of individuals and organisations involved in the illegal trade in tobacco products. In particular, the Company is in favour of reducing the level of damages needed to hold offenders criminally responsible and increasing the overall severity of punitive sanctions.

The Company is also a proponent of the harmonisation of excise rates in Customs Union countries. BAT Russia proposes introducing limits on the volume of tobacco products not bearing Russian excise stamps that can be shipped by individuals within the Customs Union.

The Company views the confiscation of equipment used for illicit production purposes as an effective measure in the fight against counterfeit products.

BAT Russia boasts the experience and resources necessary to conduct the expert analysis of tobacco products. The Company is prepared to assist its partners in the detection and positive identification of illegal product specimens. The Company also stands ready to cooperate with state authorities and market participants in the field of information sharing, as well as to provide international and Russian experts for participation in working groups, roundtables, and conferences convened to address the matter of combatting illegal trade in tobacco products.

Illicit trade in tobacco products in the world



Source: KPMG Project Star research, BAT Russia's internal data, 2012–2013

⁵ for more information please visit www.who.int/fctc/protocol/en

Illegal products – products manufactured or sold in violation of applicable law. Such products include: counterfeit products, illegally imported or exported products, products not intended for sale within the territory of the Russian Federation (without Russian excise stamps), and products of undeclared origin.

Counterfeit products – products manufactured without the proper authorisation by the registered copyright holders of the respective items of intellectual property and closely imitating the original to the extent that they are perceived by the consumer to be the product of the legal producer. Counterfeit products often copy the packaging, labelling and other distinguishing attributes of the original product.



As global experience shows, trade in counterfeit and contraband tobacco products is one of the fastest-growing illegal business in the world today. At the beginning of 2014, illegal cigarettes, by various estimates, accounted for anywhere from 6 to 10% of the global market for tobacco products.

According to the Euromonitor consulting firm, illegal sales of cigarettes will continue to grow throughout the world. According to company estimates, over the next few years the global volume of illegal trade in tobacco products is poised to grow by 16%,

to **660 bln**
cigarettes a year

This means that all states confronted by this phenomenon must bolster the effectiveness of measures designed to combat illegal trade at the national level.

Illegal trade in tobacco products in Russia in 2011–2013

Studies by independent expert organisations and consulting firms, as well as the observations of BAT Russia specialists, attest to a rise in the level of illegal trade in the Russian regions over the past three years.

Illegal (not intended for sale in the Russian Federation) products primarily penetrate the domestic market via regions

bordering the countries of the Customs Union. Whereas, in 2011 instances of the sale of illegal cigarettes were reported in 7 regions, by 2012 this number had jumped to 21 constituent entities of the Russian Federation. In 2013, illegal cigarettes were sold in a total of 47 Russian regions⁶.



Seminar in Saratov, April 2014

Another hotbed for the spread of illegal products is the North Caucasus. In Dagestan, the share of illegal products in 2013 stood at roughly 19.3%. That year, every fifth pack of cigarettes sold in the republic was of illicit origin.

In light of the fact that cigarette prices in countries bordering Russia will continue to be lower than in Russia over the foreseeable future, the risk of continued growth in the share of products of illegal origin on the tobacco market is disconcertingly high.

At the same time as the flow of illegal goods continues within the Customs Union, another negative phenomenon is being observed. According to an industry study conducted in the spring of 2014 the level of counterfeit products on the Russian tobacco market is rising faster than the level of contraband products. The spread of counterfeit products represents an even greater danger for the public, insofar as the quality and production conditions of such goods are, as

a rule, unknown. As of today, counterfeit products account for a significant share of all illegal tobacco products in the North Caucasus (2.6% of the total volume of the regional market).

The equipment of abandoned Soviet tobacco factories was never destroyed following their closure, and to this day, the country remains flooded with outmoded yet fully-functional machinery which, according to BAT Russia estimates, is capable of producing up to 60 bln cigarettes per year. In 2013, three underground factories were shut down (in Voronezh, Kursk and Yaroslavl Regions) that had been using such equipment for the manufacture of illegal tobacco products.

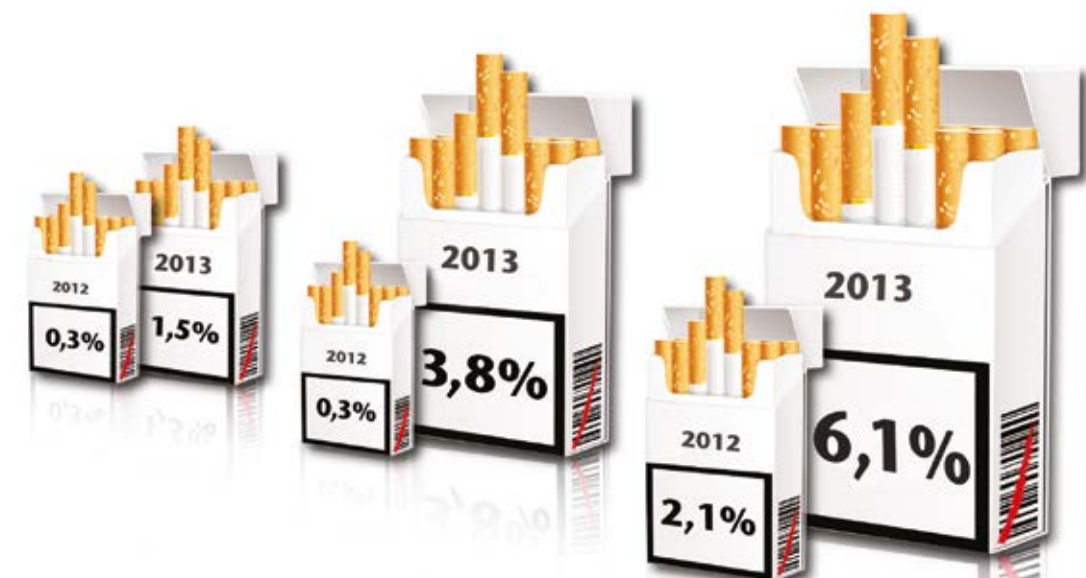
A special niche is occupied by Internet-based trade. Difficulties associated with the identification of sellers and buyers and the gathering of evidence is creating fertile ground for the online spread of illegal trade in tobacco products.

Share of illegal tobacco products, %

SARATOV, SAMARA,
ORENBURG AND CHELYABINSK
REGIONS

NORTH CAUCASUS⁷

BRYANSK AND
SMOLENSK REGIONS



Source: TNS research, BAT Russia data, 2013

⁷ Kabardino-Balkaria, Karachay-Cherkessia, Adygea and North Ossetia

⁶ As of the end of September 2013.

Precursors to the development of illegal trade

Globally one of the principal drivers of the illegal trade are economic factors. Large and sudden excise increases result in higher prices, leading consumers to seek cheaper, illegal products. This pattern applies to Russia as well, as many dialogue participants agreed.

The excise-duty rate on tobacco products has been rising in Russia over the past ten years, though up until 2010, these rate increases were gradual. By contrast, between 2010 and 2013 the minimum excise rate nearly tripled. Whereas, in 2010 a producer was expected to pay a minimum tax of RUB 250 per 1,000 cigarettes, in 2013 this amount jumped to RUB 730. The state explained the sharp hike in tobacco-excite rates by pointing to implementation of its tobacco-consumption prevention policy in 2010-2015, as affirmed by executive order of the RF Government in September 2010, and the need to raise the taxation of tobacco products in the Russian Federation to the level of countries in the European

region in accordance with the recommendations made by the World Health Organisation (WHO).

Since January 2014, the minimum excise rate has risen by another 42.5% to RUB 1,040 per 1,000 cigarettes. As a result, the level of tax burden on tobacco products in Russia has become the highest in the CIS, while the gap in minimal excise rates with neighbouring countries has reached USD 22 per 1,000 cigarettes – double the gap that existed in 2012.

In the beginning of 2014, cigarette prices increased by an average of RUB 9 (or by 20%). This growth in tobacco-product prices is outpacing both inflation rates and consumer-income dynamics. The affordability of tobacco products to the consumer is dropping, approaching critical levels. This is the main precursor for the emergence and spread of illegal trade.

"An important role in solving the problem of preventing and combatting the illegal production and circulation of tobacco products belongs to the legislative branch of power."

*Representative
of a government agency*



Round table in Moscow, April 2014

"Excise duties can be harmonised in a number of different ways. It's important to approach the issue with due consideration for all related economic factors, the most crucial of which is population income, insofar as demand for tobacco products is inelastic. In a country with a vast territory such as Russia, it's rather difficult to ensure the scrupulous performance of legislative requirements. For this reason, economic regulation of the market should dominate over administrative-bureaucratic regulation."

Representative of a public organisation

"In Kazakhstan, growth in excise duties on tobacco products is complemented by the support of product manufacturers. This makes it possible to secure the proper collection of taxes and stability of the tax base. Russia should protect its national interests and support its producers, thereby ensuring revenue flow to the budget."

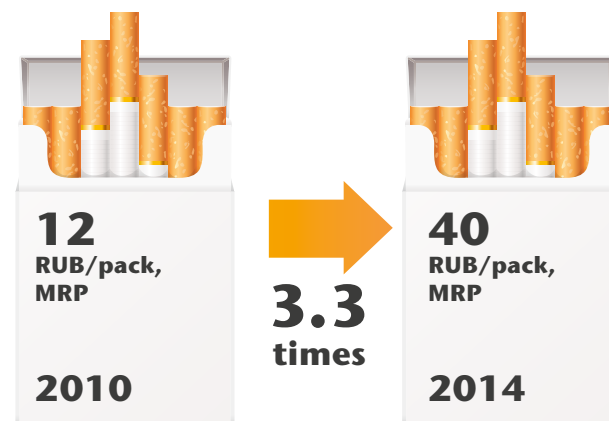
*Representative of a research
organisation*

"The unification of cigarette packaging makes it all the more difficult to detect and positively identify illegal (including counterfeit) products. The display ban, which goes into effect as of 1 June 2014, will be one more factor facilitating the illicit trade in cigarettes."

*Representative of a business
association*



Growth in cigarette prices in the low segment



Creation of the Customs Union and the subsequent opening of state borders has greatly facilitated trade turnover between Russia, the Republic of Belarus and Kazakhstan. On the whole, this has had a positive impact on the development of the respective national economies. On the other hand, variations in excise rates have led to a price imbalance for tobacco products among the three countries. The opportunity has emerged for the satisfaction of Russian demand for cheaper cigarettes through supplies from neighbouring countries.

Discordant excise policy among the Customs Union's member states has left Russia in a difficult position: on

Negative consequences of illegal trade

Further development of the illegal market for tobacco products carries significant risks for the state and society.

Every year, the state budget loses billions of rubles in potential tax receipts due to the illegal trade in cigarettes and shrinking volume of the legal market. According to industry-expert projections, these indicators are only expected to rise in the future. Illegal trade presents a threat to the producers of legal products and law-abiding sellers.

As a rule, contraband and counterfeit products are accompanied by growth in crime and illegal migration.

the one hand, the European Union is demanding that Russia raise excise rates to the European level by 2020, while on the other, neighbouring states, no longer separated by customs borders, are continuing to maintain lower tax rates and consequently lower prices on tobacco products.

Dialogue participants agreed that the harmonisation of excise duties within the Customs Union and refinement of legislation regulating illegal trade within the Russian Federation represent important issues of pressing concern demanding active engagement by all interested stakeholders. Approaches to the solution of these issues are bound to differ, so it's crucial to continue fostering dialogue in order to identify common positions and acceptable mechanisms.

Dialogue participants also noted other causes encouraging growth in illegal trade:

- insignificant punishments for offenders (low fines, high threshold of criminal responsibility);
- low level of legal understanding among sellers and customers, lack of awareness or recognition of the public danger;
- ignorance, insufficient informedness among law-enforcement agencies;
- unification of cigarette packaging among the Customs Union's member states, as envisioned by the Technical Regulation, and the display ban.

Proceeds from the illegal tobacco trade are frequently funnelled to finance extremist and terrorist groups.

Counterfeit products can also present a threat to the health of consumers. Such cigarettes can turn out to be of low quality, in violation of the applicable requirements of the Technical Regulation and, in certain cases, even pose grave danger to the health of consumers.

The expansion of illegal trade encourages the spread of smoking among minors, because it provides adolescents with easier access to cigarettes.



"It's important to work more closely with other organisations participating in the legislative process. The set of issues dealing with the assignment of tasks to the executive branch must be decided at the governmental level and formulated in the form of the respective instructions."

Representative of a public organisation

Actions by BAT Russia

Having carefully considered the proposals made by participants of the 2012 dialogue, BAT Russia has implemented a number of socially-important projects in the fight against illegal trade, and ramped-up its interaction and cooperation with public organisations, the Customs Union, and law-enforcement agencies in terms of combatting contraband and counterfeit tobacco products.

Main areas of BAT Russia's interaction with stakeholders in combatting illegal trade in tobacco products:

- Sharing information and experience;
- Providing assistance in the expert analysis of illegal products;
- Analysing existing legislation;
- Social advertising;
- Publishing and distributing informational materials (brochures).

Awareness campaigns: roundtables and publications

BAT Russia held a series of roundtables for government officials and seminars for members of the retail community in those regions in which alarming indicators of illegal trade have been observed. More than 175 people took part in these meetings. The events were devoted to providing explications of applicable legislation and consultations on how to distinguish legal products from illegal cigarettes. In addition, the Company published a series of brochures and created layouts of social advertising.

Provision of expert-analysis services

The Company provided assistance in the expert analysis of suspect products and actively shared its experience with other market participants.

Monitoring and rapid response

BAT Russia's Trade Marketing Representatives have gotten involved in monitoring and begun reporting the discovery of illegal products. The hotline is now in operation, which anyone encountering trade in illicit products can call.

The hotline number is printed on every pack of Company products.



HOTLINE:
8 800 200 77 37

Proposals by dialogue participants

Most meeting participants agreed with the Company's conclusions and supported the idea of joining forces to pursue the harmonisation of legislation among the Russian Federation and the Customs Union's member states. Dialogue participants were unanimous that it is imperative to strengthen administrative-statutory regulation and carry out awareness campaigns among the public, interested organisations and concerned establishments.

Legislative regulation of illegal trade in tobacco products and law-enforcement practice

1. The Company should continue its work on providing expert assessments and recommendations in order to refine the legislative framework in the area of illegal trade in tobacco products. Balanced legislative regulation will help law-enforcement and oversight agencies combat illegal trade with greater effectiveness.
2. The Company and industry organisations should continue their joint work on promoting the following initiatives:
 - institution of controls over the circulation of tobacco leaf, wrapping materials and equipment;
 - introduction of amendments to applicable law mandating the destruction of equipment used in the illicit production of tobacco products, as well as the destruction of related raw materials and counterfeit cigarettes;
 - creation of an integrated database of equipment used in the production of tobacco products.

Legislative regulation of the tobacco industry. Policy in the area of excise-rate harmonisation

1. Create a discussion platform at the governmental level to discuss and formulate legislative proposals that could facilitate the pursuit of a carefully-considered excise policy that takes into account the purchasing power of the population in the Customs Union's member states and the threat posed by growth in illegal trade. Related work should feature the participation of interested ministries and industry associations.
2. Initiate and hold meetings and forums within the scope of the Customs Union for a discussion of the pressing issues identified during the course of dialogues.
3. Hold similar meetings in RF constituent entities directly bordering the Republic of Belarus, Kazakhstan and Ukraine in order to gather the most objective statistics possible on the volumes of contraband products, their sources of origin and distribution channels. The topic of illegal trade in tobacco products is poised to gain importance as excise rates continue to climb.

4. Expand the topic of discussions: make the subject of the dialogues not only the ramifications of the "anti-tobacco law," which was adopted without consideration for the opinion of interested stakeholders (consumers and specialists), but also a return to the fundamental review of the law with the participation of all interested establishments.

Awareness campaigns among the public

1. Carry out large-scale awareness campaigns, cooperate with public organisations – including those dedicated to defending the rights of smokers.
2. Continue informing representatives of commercial organisations on how to recognise illegal (particularly counterfeit) products, and explaining the nuances of the enforcement of RF Federal Law No. 15-FZ dated February 23, 2013 "On the Protection of Public Health from Exposure to Environmental Tobacco Smoke and the Consequences of Tobacco Consumption".
3. Encourage the spread of social advertising designed to foster the rejection of illegal products among the public.

Social advertising developed with the support of BAT Russia

"Growth in the illegal trade in tobacco products nullifies all of the hard-won successes in the area of reducing smoking among minors. Both the professional commercial community and the public at large are poorly informed as to the provisions of the new law."

Representative of a public organisation

Seminar in Saratov, April 2014



BAT Russia Scorecard 2013–2014

Legend:

- Improvement or maximum level
- ◆ Minimal or no change (2% or less)
- Decline

International Marketing Standards	2012	2013	Trend
Number of reported instances of partial or non-adherence	0	0	●
Youth smoking prevention	2012	2013	Trend
Reports running or supporting youth smoking prevention programmes	Yes	Yes	●
Preventing underage access	2012	2013	Trend
Reports engaging with the government to improve measures to help prevent underage access to tobacco	Yes	Yes	●
Energy use	2012	2013	Trend
Gigajoules per million cigarettes equivalent produced	10.83	13.42	■
Carbon dioxide	2012	2013	Trend
Tonnes CO ₂ per million cigarettes equivalent produced	0.80	0.98	■
Waste to landfill	2012	2013	Trend
Tonnes per million cigarettes equivalent produced	0.013	0.011	◆
Recycling	2012	2013	Trend
Percentage of waste recycled	86.31%	89.81%	●
Water use	2012	2013	Trend
Cubic metres per million cigarettes equivalent produced	1.38	1.43	■
Lost Workday Case Incident Rate (LWCIR)	2012	2013	Trend
LWCIR = Number of lost workday cases through injury x 200,000 divided by total hours worked	0.10	0.10	◆
Lost workday cases	2012	2013	Trend
Work-related accidents (including assaults) resulting in injury to employees and to contractors under our direct supervision, causing absence of one shift or more	3	3	◆

Feedback Form

We would be very grateful to you for sharing your opinion on the Stakeholder Report 2013-2014. Please return this form either by fax or E-mail or by post to the BAT Russia CORA department at:

17 building,
Krylatskaya street,
Moscow,
Russia, 121614

Telephone: +7 (495) 974 05 55
Fax: +7 (495) 228 43 99
E-mail: info@batrussia.ru
Website: www.batrussia.ru

Contact details:

Organisation:

Name:

Job title:

Address:

Telephone:

Fax:

E-mail:

1. Your overall comments on this report

2. Do you have any specific suggestions regarding BAT Russia stakeholder reporting process?

3. What additional information would you like to see in future stakeholder reports?

4. What other organisations would you like us to invite to next dialogues?

5. Will you or your organisation be interested in participating in future dialogue sessions:
YES (please provide your contact details below) ☐ NO ☐

6. Would you like to receive a copy of our next report?
YES (please provide your contact details below) ☐ NO ☐

CONTACT INFORMATION

You have read the British American Tobacco Russia Stakeholder Report 2013-2014. The Company welcomes your opinion on the Report as well as on its approach to stakeholder reporting process in general.

If you would like to receive extra copies of the Report, ask questions or make comments, please contact:

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