

B.A.T Russia Limited
Registered Number 2906395

Directors' Report and Accounts

For the year ended 31 December 1998



B.A.T Russia Limited

Directors' report

Board of Directors

The names of the persons who served as Directors of the Company during the period 1 January 1998 to the date of this report are as follows:

Dr. Bernd Schweitzer	Chairman
Philip Michael Cook	
David John Etchells	
Simon John Roderick Smith	

Directors' interests

The interests of the Directors at 31 December 1998 in the share capital and share option schemes of B.A.T. Industries p.l.c. and British American Tobacco p.l.c., are as shown below. Dr B Schweitzer is a Director of British-American Tobacco (Holdings) Limited and his interests are shown in the Annual Report and Accounts of that company.

Tables 1 and 2 show the interests of the Directors in the share capital and share option schemes of B.A.T Industries p.l.c. from 1 January 1998 to the restructuring of that company on 7 September 1998.

Table 1

B.A.T Industries p.l.c. Ordinary 25p Shares

	1 January 1998	7 September 1998
P.M. Cook	1,105	1,520
D.J. Etchells	3,169	3,652
S.J.R. Smith	4,225	4,751

B.A.T Russia Limited

Directors' report (continued)

Directors' interests (continued)

Table 2

B.A.T Industries p.l.c. Share Options

	1 January 1998	Granted	Exercised	7 September 1998
P.M. Cook	3,669	3,970	-	7,639
D.J. Etchells	12,955	4,160	-	17,115
S.J.R. Smith	25,913	4,130	-	30,043

In addition, on 7 September 1998, the B.A.T Industries Employee Share Ownership Trust held 5,120,249 shares in B.A.T Industries p.l.c. (1 January 1998: 7,246,691 shares). All employees, including the Executive Directors of the Company, are deemed to have had a beneficial interest in these shares, which are held for the purpose of satisfying options granted between 1994 and 1998 under the B.A.T Industries Employee Share 'E' Option Scheme.

Further information on the conversion of shares and share options resulting from the restructuring of the Group is given in the Annual Report and Accounts of British American Tobacco p.l.c.

Tables 3 and 4 show the interests of the Directors in the shares and share options of British American Tobacco p.l.c. on 7 September 1998 following the restructuring of B.A.T Industries p.l.c., and to 31 December 1998.

Table 3

British American Tobacco p.l.c. Ordinary 25p Shares

	7 September 1998	31 December 1998
P.M. Cook	760	760
D.J. Etchells	1,825	860
S.J.R. Smith	2,374	2,376

Table 4

British American Tobacco p.l.c. Share Options

	7 September 1998	Granted	Exercised	31 December 1998
P.M. Cook	11,816	10,633	-	22,449
D.J. Etchells	26,475	16,740	-	43,215
S.J.R. Smith	46,472	16,595	-	63,067

B.A.T Russia Limited

Directors' report (continued)

Directors' interests (continued)

In addition, on 31 December 1998, the B.A.T Industries Employee Share Ownership Trust held 6,309,394 shares in British American Tobacco p.l.c. (7 September 1998: 2,560,124 shares). The British American Tobacco Group Employee Trust also held 4,391,432 shares in British American Tobacco p.l.c. (7 September 1998: nil) All employees, including the Executive Directors of the Company are deemed to have a beneficial interest in the shares which are held by these trusts for the purpose of satisfying options granted between 1994 and 1998 under the B.A.T Industries Employee Share "E" Option Scheme and from 1998 onwards under the British American Tobacco Share Option Scheme.

Details of the share option schemes are included in the Report and Accounts of British American Tobacco p.l.c.

Review of the year to 31 December 1998

On 22 December 1997, B.A.T Industries p.l.c., the ultimate holding company, entered into a merger agreement for its principal financial services subsidiaries to be merged with those of Zurich Insurance Company. The remaining businesses were to be retained within a new parent company, British American Tobacco p.l.c. On 7 September 1998, B.A.T Industries p.l.c. completed this transaction as described in the financial statements of British American Tobacco p.l.c.

The Company did not trade during the year and consequently the result for the financial year was £nil (1997 £nil).

Principal activities

The principal activity of the Company is the management of tobacco related issues in Russia.

Millennium

The British American Tobacco Group of companies has long taken the issue of the Millennium date change seriously, recognising its potential impact on business continuity. As early as 1996, a series of working parties was set up to address the implications and to identify and implement agreed solutions.

The Group has reviewed the impact of the Year 2000 on its systems and business environment. Specifically, the Group has:

- taken remedial action in respect of all critical systems
- reviewed any specific impact the year 2000 issue may have on the Group's accounting systems
- worked with its major external trading partners and service providers to assess and minimise risks to continuity of business

B.A.T Russia Limited

Directors' report (continued)

Millennium (continued)

- started to draw up business continuity plans for the period around the year end.

As a result of these initiatives, an agreed action plan is in place which the Directors of the Company believe provides maximum protection against disruption, although this is an area where absolute guarantees are not possible. The Group conducts regular progress reviews on this issue, taking actions as appropriate.

The latest estimate for expenditure to tackle the Millennium issue across the Group worldwide is disclosed in the accounts of British American Tobacco p.l.c., the ultimate parent company.

European Monetary Union

The British American Tobacco Group of companies, as a matter of policy, actively supports Economic and Monetary Union as a means of delivering increased stability and prosperity. The Group's European subsidiaries including those in the UK are capable of transacting business in the euro following its introduction in eleven European countries on 1 January 1999. The ability of the Company to conduct business in national currencies will be retained as long as necessary. The decision as to when to adopt the euro as its functional currency will be a local decision for each Group subsidiary in the European Union, having regard to the speed of transition to the euro in the individual economy.

Each Group operating subsidiary has a business impact plan in preparation assessing the risks and uncertainties associated with the euro, with all end-market activity in the euro being co-ordinated through a European Regional Support Team. Costs incurred in 1998 on the Euro Programme had no material effect on the Group's business performance and the Group is still finalising estimates of costs expected for 1999 and 2000.

B.A.T Russia Limited

Directors' report (continued)

Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures being disclosed and explained in the financial statements
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

The Company's previous auditors Price Waterhouse, merged with Coopers & Lybrand on 1 July 1998 following which they resigned and the Directors appointed the new firm PricewaterhouseCoopers as auditors.

Resolutions will be proposed at the annual general meeting for their reappointment and to authorise the Directors to determine their remuneration.

On behalf of the Board



Secretary

Dated

28 JUL 1999

Auditors' report to the members of B.A.T Russia Limited

We have audited the financial statements on pages 8 to 11 which have been prepared under the historical cost convention and the accounting policies set out on pages 9.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the annual report, including as described on page 6, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding the Directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 1998 and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants
and Registered Auditors
1 Embankment Place
London WC2N 6NN

28 July 1999

B.A.T Russia Limited

Balance sheet – 31 December 1998

	Note	1998 £	1997 £
Current assets			
Debtors			
- amounts falling due within one year	3	67	67
Creditors - amounts falling due within one year	4	(691)	(691)
Net current liabilities		(624)	(624)
Total assets less current liabilities		(624)	(624)
Capital and reserves			
Called up share capital	5	2	2
Profit and loss account	6	(626)	(626)
Total equity shareholders' funds		(624)	(624)

During the financial year, and the preceding financial year, the Company did not trade and received no income and incurred no expenditure. Consequently, during those years, the Company made neither a profit or a loss.

There are no other recognised gains and losses.

The financial statements on pages 8 to 11 were approved by the Directors on
and are signed on their behalf by:

28 JUL 1998



Director

The notes on pages 9 to 11 form part of these financial statements.

B.A.T Russia Limited

Notes to the accounts – 31 December 1998

1 Accounting Policies

A summary of the principal group accounting policies is set out below.

(1) Basis of accounting

The financial statements are prepared in accordance with Accounting Standards applicable in the United Kingdom and under the historical cost convention.

(2) Cash flow statement

The company is a 100% owned subsidiary of British American Tobacco p.l.c. The cash flows of the company are included in the consolidated cash flow statement of British American Tobacco p.l.c. which is publicly available. Consequently the company is exempt under the terms of Financial Reporting Standard 1 from publishing a cash flow statement.

(3) Translation of assets and liabilities

Assets and liabilities expressed in currencies other than sterling are translated to sterling at rates of exchange ruling at the end of the financial year. Exchange differences arising on the re-translation to sterling (using rates of exchange ruling at the end of the financial year) of overseas net assets at the beginning of the period are taken direct to reserves. No such difference arose this year. Other exchange differences are reflected in the profit and loss account.

(4) Taxation

Taxation is provided on the profits of the period together with deferred taxation. Deferred taxation is provided for on timing differences using the liability method to the extent that it is probable that the liability will crystallise. Timing differences arise on items of income and expenditure which are recognised for tax purposes in different periods from those in which they are recognised in the profit and loss account. No account is taken of tax which may be payable on the realisation of investments or in the event of the distribution of profits retained by the subsidiary undertakings.

(5) Accounting for income

Income is accounted for on a receivable basis. Where delays are anticipated in the receipt of monies from overseas, provision is made in accordance with the concept of prudence.

2 Directors' emoluments

None of the Directors received any remuneration in respect of their services as a Director of the Company during the period.

3 Debtors: amounts falling due within one year

	1998	1997
	£	£
Taxation on UK profits	67	67

B.A.T Russia Limited

Notes to the accounts – 31 December 1998

4 Creditors: amounts falling due within one year

	1998 £	1997 £
Amounts owed to parent undertaking	691	691

5 Share capital

Ordinary shares of £1 each	1998	1997
Authorised - value	£1,000	£1,000
- number	1,000	1,000
Allotted, called up and fully paid		
- value	£2	£2
- number	2	2

6 Reserves

	Profit and loss account £	Total £
1 January 1998	(626)	(626)
31 December 1998	(626)	(626)

7 Related parties

The Company has taken advantage of the exemption under paragraph 3(c) of the Financial Reporting Standard 8 from disclosing transactions with other subsidiary undertakings of the British American Tobacco p.l.c. group.

B.A.T Russia Limited

Notes to the accounts – 31 December 1998

8 Parent undertakings

The Company's ultimate parent undertaking is British American Tobacco p.l.c. being incorporated in the United Kingdom and registered in England and Wales. Its immediate parent undertaking is British American Tobacco (Investments) Limited. Group accounts are prepared only at the British American Tobacco p.l.c. level.

9 Copies of the report and accounts

Copies of the report and accounts of British American Tobacco p.l.c. may be obtained from:

The Company Secretary
Globe House
4 Temple Place
London
WC2R 2PG