

**REPORT OF THE BOARD OF DIRECTORS ON THE APPOINTMENT BY CO-OPTION OF  
THE PROPRIETARY DIRECTOR MR. JOHN MICHAEL JONES**

I

On 4<sup>th</sup> December 2018, the Secretary of the Company's Board of Directors received copy of the written communication sent to the Chairman, by the proprietary Director Mr. Richard Charles Hill, tendering his resignation as Director of the Company, with effect from 31<sup>st</sup> December 2018, as he has been appointed by IB, CEO of a business involving executive responsibilities, which would not allow him to properly perform his functions as Director of the Company.

Mr. Hill had worked in the capacity of proprietary Director, in application of article 529 duodecies 4 of the Law of Capital Companies, because he represented Imperial Brands PLC – the Company's majority indirect shareholder – on the Board of Directors.

II

In accordance with the provisions of Article 529 decies of the Capital Companies Act, of Article 33<sup>o</sup> of the Bylaws, and of Article 22 of the Rules of the Board of Directors, *"the members of the Board of Directors of a listed company will be appointed by the General Shareholders' Meeting, or, when a vacancy is foreseen, by the Board itself, by co-option, without the need for the director appointed by the Board to be a shareholder of the Company"*.

An appointment by co-option has to be ratified by the next General Meeting of the Company.

III

In accordance with the rules of the Framework Agreement of 12th June, 2014, signed between the Company and IB (formerly, 'ITG'), the latter proposed the appointment of four directors, out of the ten who currently constitute the Company's Board of Directors.

According to the rules of the Framework Agreement, the vacancy created by Mr. Hill's resignation must be filled by another Director who represents IB on the Board.

IB, in a communication from the Secretary of its Board of Directors to the Chairman of the Company's Board, proposed the appointment of Mr. John Michael Jones to fill the vacancy produced.

Mr. John Michael Jones joined Imperial Brands in 1998 in the Treasury Department and has been Director of Treasury since 2001. He has gained extensive financial experience over that time and played a major role in the development of the financing and risk management activities of the Imperial Brands Group, particularly with the transforming acquisitions of Reemtsma (2002), Altadis (2008) and the US brands (2015). He is currently responsible for treasury, insurance and the financial risk management of pensions for the group.

Prior to Imperial Brands, after graduating with a degree in mathematics from York University, John started his career in audit with KPMG (1992-1996) then as Assistant Group Treasurer with Hickson International PLC (1996-1998).

#### IV

The Appointments and Remuneration Committee, in its meeting of today, 29<sup>th</sup> January 2019, decided that Mr. Jones:

- i) fulfils the requirements of the Law and of the Company's Policy on the Selection of Directors of 19th December 2017, (knowledge, professional experience, recognized soundness and competence, responsibility for the exercise of their office, and absence of conflicts of interest) for appointment as a Director;
- ii) is not involved in any case involving prohibition or incompatibility under the Law or under the Company's Policy on the Selection of Directors; and
- iii) fulfils the legal and statutory requirements for inclusion in the category of proprietary Director.

Therefore, the Appointments and Remuneration Committee unanimously proposed to the Board - to fill the vacancy resulting from the resignation of Mr. Richard Charles Hill - the appointment, by co-option, as proprietary Director, of Mr. John Michael Jones for the statutory period of four years, subject to ratification by the next General Meeting of the Company.

#### V

Mr. John Michael Jones will serve in the capacity of proprietary Director, in accordance with Article 529 duodecies 3 of the Capital Companies Act, Article 7.1.2 b) of the Rules of the Board of Directors of 26th January 2016, and Article 4.1 b) of the Company's Policy on the Selection of Directors, of 19th December 2017.

VI

In view of the foregoing, the Board of Directors unanimously considered that Mr. Jones possesses the appropriate ability, experience and merits, and fulfils the conditions, to be appointed by co-option as proprietary Director of the Company, and to adequately perform the duties of a Director. It therefore appointed, by co-option, Mr. John Michael Jones as proprietary Director for the statutory period of four years, subject to ratification by the next General Meeting of the Company.

It is also noted that the appointment as Director of Mr. Jones complies with the Framework Agreement of June 12, 2014, signed between the Company and Imperial Brands PLC, at the time of the public offering of shares of the Company of that year.

This report was unanimously approved by the Board of Directors, in accordance with Article 529 decies 5 of the Capital Companies Act, and will be attached to the minutes of the Board Meeting which formalised the appointment.

Leganés, 29<sup>th</sup> January 2019.

The Board Secretary,

Rafael de Juan López