

**PROPOSED REPORT FROM THE BOARD OF DIRECTORS, ON THE
PROPOSAL TO THE GENERAL MEETING CONCERNING THE RE-ELECTION
OF THE DIRECTOR MR. JOHN MATTHEW DOWNING**

I

By a decision of the then sole shareholder of the Company on 13th May, 2014, Mr. John Matthew Downing was appointed a Director of the Company for the period – then in accordance with the Bylaws – of five years.

Law 31/2014 of 3rd December modified Article 529 undecies of the Law of Capital Companies, fixing the maximum term of office of directors of listed companies at four years.

Furthermore, Transitional Provision 3 of the aforementioned Law 31/2014 stipulates that directors appointed before 1st January, 2014, may complete their terms of office even if they are of more than the four years stipulated by the current Article 529 undecies of the Law of Capital Companies.

Mr. Downing's term of office will therefore end in May of this year, four years after his appointment.

Under Article 529 duodecies 3 of the Law of Capital Companies, Mr. Downing is a proprietary director, as he represents the majority shareholder Imperial Brands PLC on the Board of Directors.

II

On 23rd January, 2018, the Appointments and Remuneration Committee noted that Mr. Downing:

- 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 his office, and absence of conflicts of interest) well enough to be appointed 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;
- iii) has performed in the role of Director of the Company with appropriate dedication, efficiency and quality of work; and
- iv) continues to fulfil the legal and statutory requirements for inclusion in the category of proprietary director.

Consequently, and with the abstention of Mr. Downing, the Appointments and Remuneration Committee unanimously reported in favour of the proposal of the Board of Directors that the General Meeting should re-elect Mr. John Matthew Downing as a proprietary Director for the statutory term of four years.

III

Mr. John Matthew Downing will be a proprietary Director in accordance with Article 529 duodecies 3 of the Law of Capital Companies; Article 7.1.2 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.

IV

In view of the foregoing, and with the abstention of Mr. Downing, the Board of Directors unanimously considered that Mr. John Matthew Downing has the appropriate skill, experience and merits, and fulfils the requirements, to be re-elected as a proprietary Director of the Company, and to perform adequately in the role of Director; and therefore proposed that the General Shareholders' Meeting re-elect him as a proprietary Director for the statutory period of four years.

It is also noted that the re-election of Mr. Downing as a proprietary Director complies with the Framework Agreement of 12th June, 2014, that was signed between the Company and Imperial Brands PLC, at the time of the public offering of the Company's shares in that year.

This Report is unanimously approved by the Board of Directors, with the abstention indicated, in accordance with Article 529 decies 5 of the Law of Capital Companies, and will be attached to the minutes of the General Meeting which resolves to re-elect Mr. Downing as Director.

Leganés, 23rd January, 2018.

The Board Secretary/Director,

Rafael de Juan López