

REPORT OF THE BOARD OF DIRECTORS, JUSTIFYING THE PROPOSAL TO APPOINT AS DIRECTOR, BY CO-OPTION, MR.RICHARD CHARLES HILL

I

In a written communication of 21st March, 2017, addressed to the Secretary of the Company's Board of Directors, Mr. Nicholas James Keveth tendered his resignation as a Director of the Company, indicating that with effect from 31st March, 2017, he would cease to provide Imperial Brands PLC ('IB') with professional services.

Mr. Keveth had worked in the capacity of proprietary director because he represented IB – the Company's majority indirect shareholder – on the Board of Directors.

II

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. Keveth's resignation must be filled by another Director who represents IB on the Board.

IB, in a communication of 28th March, 2017, from the Secretary of its Board of Directors to the Chairman of the Company's Board, proposed the appointment of Mr. Richard Charles Hill to fill the vacancy produced.

Mr. Richard Charles Hill is currently the IB Group's Director of Human Resources and Transformation. He is a graduate in Physics and Medical Physics from the University of Exeter (UK), and holds a postgraduate degree in Business Coaching from the University of Chester (UK).

He worked for much of his professional career at Allied Domecq PLC, where he had various successive responsibilities in Management (CEO Greece), Finances (CFO Europe), Marketing and Sales in several countries (the UK, Greece and Italy), and at Standard Chartered Bank PLC (Chairman, CEO and CFO in Korea).

III

The Appointments and Remuneration Committee, in its meeting of today, 25th April, reported in favour of the proposal to appoint as Director, by co-option, Mr. Richard Charles Hill, for the statutory period of four years, subject to ratification of the appointment by the next General Shareholders' Meeting.

As he represents IB on the Company's Board of Directors, Mr. Richard C. Hill would work in the capacity of proprietary director, in accordance with the provisions of Article 529 duodecies 3 of the Law of Capital Companies and those of Article 7.2) b) of the Rules of the Company's Board of Directors, Consolidated Text of 26th January, 2016.

In view of the foregoing, the Board of Directors unanimously considered that Mr. Richard Charles Hill has the appropriate skill, experience and merits to be appointed to and perform in the post of Director of the Company, and consequently also unanimously decided that his appointment by co-option should be formalised to fill the vacancy produced by the resignation of Mr. Nicholas James Keveth.

This Report was unanimously approved by the Board of Directors, in compliance with the provisions of Article 529 decies 5 of the Law of Capital Companies, and is attached to the minutes of the Board Meeting, also in compliance with the said Article.

Leganés, 25th April, 2017.

The Board Secretary/Director,

Rafael de Juan López