

# 5.

# Management Report

<b>5.1</b>	<b>Key figures from the consolidated financial statements for the year ended 30 June 2019</b>	<b>144</b>	<b>5.3</b>	<b>Net debt</b>	<b>150</b>
5.1.1	Income statement	144	<b>5.4</b>	<b>Outlook</b>	<b>151</b>
5.1.2	Balance sheet	144	<b>5.5</b>	<b>Financial policy</b>	<b>151</b>
5.1.3	Net financial debt	145	<b>5.6</b>	<b>Recent Developments</b>	<b>151</b>
5.1.4	Cash flow statement	145	<b>5.7</b>	<b>Definitions and reconciliation of alternative performance indicators with IFRS indicators</b>	<b>152</b>
<b>5.2</b>	<b>Analysis of business activity and results</b>	<b>145</b>	5.7.1	Organic growth	152
5.2.1	Presentation of results	146	5.7.2	Free cash flow	152
5.2.2	Organic net sales growth of Strategic International Brands	148	5.7.3	“Recurring” indicators	152
5.2.3	Contribution after advertising & promotion costs	148	5.7.4	Net debt	152
5.2.4	Profit from Recurring Operations	148	5.7.5	EBITDA	152
5.2.5	Financial income/(expense) from recurring operations	149	<b>5.8</b>	<b>Material contracts</b>	<b>152</b>
5.2.6	Group Net Profit from recurring operations	149	5.8.1	Significant contracts not related to financing	152
5.2.7	Group Net Profit	149	5.8.2	Financing contracts	153

## 5.1 Key figures from the consolidated financial statements for the year ended 30 June 2019

### 5.1.1 Income statement

The term "Restated" refers only to restatements of FY18 required under IFRS 15 (for details, please see Note 1.1.2.1.1 in Section 6 "Notes to the annual consolidated financial statements"). Where the term does not appear, IFRS 15 has not had any impact on the data.

€ million	30.06.2018 Restated	30.06.2019
Net sales	8,722	9,182
<b>Gross margin after logistics expenses</b>	<b>5,289</b>	<b>5,648</b>
Advertising and promotion expenses	(1,429)	(1,512)
Contribution after advertising & promotion costs	3,860	4,137
Profit from recurring operations	2,358	2,581
<b>Operating profit</b>	<b>2,296</b>	<b>2,375</b>
Financial income/(expense) from recurring operations	(301)	(310)
Corporate income tax	(392)	(582)
Share of net profit/(loss) of associates	0	0
<b>NET PROFIT</b>	<b>1,603</b>	<b>1,482</b>
o/w:		
• non-controlling interests	26	27
• Group share	1,577	1,455
<b>EARNINGS PER SHARE – BASIC (in euros)</b>	<b>5.97</b>	<b>5.51</b>
<b>EARNINGS PER SHARE – DILUTED (in euros)</b>	<b>5.94</b>	<b>5.48</b>

### 5.1.2 Balance sheet

€ million	30.06.2018	30.06.2019
<b>Assets</b>		
Non-current assets	21,737	22,665
<i>Of which intangible assets and goodwill</i>	16,858	17,074
Current assets	7,821	8,375
Assets held for sale	-	5
<b>TOTAL ASSETS</b>	<b>29,558</b>	<b>31,045</b>
<b>Liabilities and shareholders' equity</b>		
Consolidated shareholders' equity	14,978	16,182
Non-current liabilities	10,838	10,185
Current liabilities	3,743	4,676
Liabilities held for sale	-	2
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>29,558</b>	<b>31,045</b>

### 5.1.3 Net financial debt

€ million	30.06.2018	30.06.2019
Gross non-current financial debt	7,239	6,434
Gross financial debt from recurring operations	452	1,121
Non-current hedging instruments - assets	-	(13)
Hedging instruments from recurring operations - assets	(1)	-
Non-current derivative instruments - liabilities	25	2
Derivative instruments from recurring operations - liabilities	-	-
Cash and cash equivalents	(754)	(923)
<b>NET FINANCIAL DEBT</b>	<b>6,962</b>	<b>6,620</b>
Free cash flow <sup>(1)</sup>	1,433	1,366

(1) The calculation of free cash flow is set out in the note 5.3 - Net debt of the Management Report.

### 5.1.4 Cash flow statement

€ million	30.06.2018	30.06.2019
Self-financing capacity before financing interest and taxes	2,535	2,711
Net interest paid	(288)	(308)
Net income tax paid	(371)	(521)
Decrease/(increase) in working capital requirement	(100)	(181)
<b>Net change in cash flow from operating activities</b>	<b>1,776</b>	<b>1,701</b>
<b>Net change in cash flow from investment activities</b>	<b>(404)</b>	<b>(516)</b>
<b>Net change in cash flow from financing activities</b>	<b>(1,287)</b>	<b>(1,034)</b>
Cash flow from discontinued operations	-	-
Foreign currency translation adjustments	(8)	1
<b>Cash and cash equivalents at start of period</b>	<b>677</b>	<b>754</b>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>754</b>	<b>923</b>

## 5.2 Analysis of business activity and results

Pernod Ricard uses alternative performance indicators when conducting an analysis of its activity. These indicators are set out on page 152.

**Excellent year, demonstrating clear business acceleration.**

**Very strong FY19 delivery...**

- sales at +6.0%, while optimising wholesaler inventories in USA;
- strong price effect on strategic brands: +2% ;
- accelerated completion of Operational Excellence FY16-20 roadmap (€200m savings) one year in advance;
- profit from recurring operations (PRO): +8.7%, the highest since FY12;
- PRO margin improvement: +74bps;
- strong cash conversion at 88%<sup>(1)</sup> and Recurring free cash flow +4%, but Free cash flow -5% due to non-recurring items.

**... and investment paving the way for future success**




- roll-out of Transform & Accelerate strategic plan, with significant progress made in year 1;
- active portfolio management, in particular through gin and American whiskey acquisitions;
- launch of new 2030 Sustainability & Responsibility roadmap;
- strengthened route-to-market in USA and Global Travel Retail;
- sustained A&P investment at 16.5% of Sales, focused on core priorities;
- significant increase in ageing stocks +€0.3bn to develop leadership in cognac and enhance whiskey position.

**Inflection in financial policy:**

- FY19 dividend increased to €3.12 (payout ratio of 50%);
- share buy-back programme of up to €1bn, across FY20 and FY21.

(1) Ratio of Recurring Operating Cashflow to PRO.

Pernod Ricard has successfully started implementing its 3-year plan:

<div><div>Pernod Ricard <i>Créateurs de convivialité</i></div></div>		<div>TRANSFORM AND ACCELERATE</div>	<div>MEDIUM-TERM AMBITION</div>	<div>FY19 ACHIEVEMENTS</div>
<div><div>STRATEGIC PILLARS</div></div>	Leverage unique premium portfolio		Innovation: +26 % Luxury: +14%	<div>✓</div>
	<div>WIN IN 4 KEY MARKETS:</div> <div>Develop USA Broaden leadership in China Broaden leadership in India Develop premium+ Travel Retail leadership</div>	<div>MSD<sup>1</sup> growth HSD to LDD<sup>2</sup> growth LDD<sup>3</sup> growth</div>	<div>+ 4 % (Sell-out)<sup>4</sup> +21% +20% +6%</div>	<div>✓</div>
	Leverage our Sustainability & Responsibility strategy		Roll-out of 2030 roadmap, building on previous 2020 plan	<div>✓</div>
<div><div>FINANCIAL KPIs</div></div>	SALES	+4% to +7%	+ 6.0%	<div>✓</div>
	REVENUE GROWTH MANAGEMENT	Promotional effectiveness Active price management	+2%	<div>✓</div>
	OPERATIONAL EXCELLENCE	FY16-20: €200m FY20-21: €100m	100% complete -	<div>✓</div>
	SUSTAINED A&P INVESTMENT	c. 16%	16.5%	<div>✓</div>
	STRUCTURE COST DISCIPLINE	< Sales growth	+4%	<div>✓</div>
	OPERATING LEVERAGE	c. 50-60bps	+74bps	<div>✓</div>

<sup>1</sup> MSD: Mid-Single-Digit.

<sup>2</sup> HSD: High-Single-Digit.

<sup>3</sup> LDD: Low-Double-Digit.

<sup>4</sup> Internal estimate of Spirits market growth +4.5%.

## 5.2.1 Presentation of results

### 5.2.1.1 Group Net profit per share from recurring operations – diluted

c million	30.06.2018 Restated	30.06.2019
Number of shares in circulation - diluted	265,543,003	265,419,549
Profit from recurring operations	2,358	2,581
Operating margin	27.0%	28.1%
Financial income/(expense) from recurring operations	(301)	(314)
Corporate income tax on recurring operations	(520)	(586)
Non-controlling interests, discontinued operations and share of net profit from equity associates	(26)	(27)
<b>GROUP NET PROFIT FROM RECURRING OPERATIONS <sup>(1)</sup></b>	<b>1,511</b>	<b>1,654</b>
<b>GROUP NET EARNINGS PER SHARE FROM RECURRING OPERATIONS – DILUTED (In euros)</b>	<b>5.69</b>	<b>6.23</b>

(1) Profit from Recurring Operations adjusted for financial result from recurring operations, recurring income tax, share of net result of associates and profit from assets held for sale, as well as non-controlling interests.

**MANAGEMENT REPORT**  
Analysis of business activity and results

### 5.2.1.2 Profit from recurring operations

Group € million	30.06.2018 Restated	30.06.2019	Reported growth		Organic growth <sup>(1)</sup>	
Net sales	8,722	9,182	460	5%	512	6%
Gross margin after logistics expenses	5,289	5,648	359	7%	346	7%
Advertising and promotion expenses	(1,429)	(1,512)	(83)	6%	(82)	6%
Contribution after advertising & promotion expenses	3,860	4,137	277	7%	265	7%
<b>PROFIT FROM RECURRING OPERATIONS</b>	<b>2,358</b>	<b>2,581</b>	<b>223</b>	<b>9%</b>	<b>207</b>	<b>9%</b>

(1) Organic growth is defined on page 152

America € million	30.06.2018 Restated	30.06.2019	Reported growth		Organic growth <sup>(1)</sup>	
Net sales	2,485	2,545	60	2%	40	2%
Gross margin after logistics expenses	1,629	1,698	69	4%	10	1%
Advertising and promotion expenses	(495)	(504)	(9)	2%	(5)	1%
Contribution after advertising & promotion expenses	1,134	1,193	59	5%	5	0%
<b>PROFIT FROM RECURRING OPERATIONS</b>	<b>735</b>	<b>785</b>	<b>50</b>	<b>7%</b>	<b>(1)</b>	<b>0%</b>

(1) Organic growth is defined on page 152

Asia/Rest of World € million	30.06.2018 Restated	30.06.2019	Reported growth		Organic growth <sup>(1)</sup>	
Net sales	3,564	3,965	401	11%	443	12%
Gross margin after logistics expenses	2,030	2,308	278	14%	301	15%
Advertising and promotion expenses	(528)	(592)	(64)	12%	(68)	13%
Contribution after advertising & promotion expenses	1,502	1,716	213	14%	233	15%
<b>PROFIT FROM RECURRING OPERATIONS</b>	<b>996</b>	<b>1,179</b>	<b>183</b>	<b>18%</b>	<b>195</b>	<b>19%</b>

(1) Organic growth is defined on page 152

Europe € million	30.06.2018 Restated	30.06.2019	Reported growth		Organic growth <sup>(1)</sup>	
Net sales	2,674	2,672	(1)	0%	28	1%
Gross margin after logistics expenses	1,630	1,643	13	1%	36	2%
Advertising and promotion expenses	(406)	(415)	(9)	2%	(10)	2%
Contribution after advertising & promotion expenses	1,224	1,228	4	0%	26	2%
<b>PROFIT FROM RECURRING OPERATIONS</b>	<b>626</b>	<b>617</b>	<b>(10)</b>	<b>-2%</b>	<b>13</b>	<b>2%</b>

(1) Organic growth is defined on page 152

## 5.2.2 Organic net sales growth of Strategic International Brands

<i>In millions of 9-litre cases</i>	Volume 30.06.2018	Volume 30.06.2019	Organic growth <sup>(1)</sup> in net sales	Volume growth	Price/mix
Absolut	11.4	11.1	-3%	-2%	-1%
Chivas Regal	4.4	4.5	6%	2%	3%
Ballantine's	7.1	7.6	7%	7%	-1%
Ricard	4.5	4.4	-3%	-2%	-1%
Jameson	7.3	7.7	6%	6%	0%
Havana Club	4.6	4.6	0%	1%	-1%
Malibu	3.8	3.7	-1%	-2%	1%
Beefeater	2.9	3.2	8%	8%	-1%
Martell	2.4	2.6	18%	11%	8%
The Glenlivet	1.1	1.2	9%	8%	1%
Royal Salute	0.2	0.2	16%	15%	1%
Mumm	0.8	0.7	1%	-2%	3%
Perrier-Jouët	0.3	0.3	5%	0%	6%
<b>STRATEGIC INTERNATIONAL BRANDS</b>	<b>50.7</b>	<b>51.9</b>	<b>7%</b>	<b>2%</b>	<b>4%</b>

(1) Organic growth is defined on page 97

Net sales were €9,182 million, representing reported growth of +5.3%, as a result of:

- organic growth of +6.0%, with strong growth across all key spirits categories and strong performance in must-win markets;
- a currency effect of €(32) million over the year, driven by a stronger USD more than offset by weakness in emerging market currencies;
- a negative scope effect of €(19) million.

Pernod Ricard continued to benefit from its premium portfolio, with strong sales growth across all key spirits categories:

- Strategic International Brands: +7%, continued strong growth, notably on Jameson, with acceleration on Martell and Scotch whiskies, dampened by impact of USA wholesaler optimisation;
- Strategic Local Brands: +12%, acceleration driven by Seagram's Indian whiskies;
- Specialty Brands: +12%, continued dynamism, particularly for Lillet, Altos, Monkey 47, ultra premium Irish Whiskey range and Smooth Ambler;
- Strategic wines: -5%, due to value strategy in UK and USA inventory management;
- Innovation: contributing approximately 25% of Group topline growth, in particular thanks to Martell Blue Swift, Chivas XV, Lillet, Beefeater Pink and Monkey 47.

Strong performance in must-win markets:

- USA: sell-out broadly in line with market <sup>(1)</sup> and strengthening of route-to-market;
- China: +21%, excellent performance thanks to strong dynamism of Martell and growth relays;
- India: +20%, with continued expansion of Seagram's Indian whiskies and Strategic International Brands;
- Travel Retail: +6%, strong growth driven by all regions.

By region, FY19 sales driven mainly by Asia:

- Americas: +2%, acceleration in Canada, dynamic growth in Latam and sell-out broadly in line with market in USA <sup>(1)</sup>, but sales dampened by wholesaler inventory optimisation;
- Asia-Rest of World: +12%, strong acceleration driven mainly by China, India and Turkey and continued good growth in Japan;
- Europe: +1%, slight growth in contrasted environment, with continued strong growth in Eastern Europe partly offset by Western Europe (difficult market in France and commercial disputes).

## 5.2.3 Contribution after advertising & promotion costs

The gross margin (after logistics expenses) amounted to €5,648 million, with an increase of +7% <sup>(2)</sup> (+39bps), due to:

- strong pricing on Strategic brands of: +2%;
- increase in cost of goods (in particular agave, glass and GNS in India) offset by accelerated completion of Operational Excellence FY16-20 roadmap one year early;
- negative mix linked mainly to Seagram's Indian whiskies and USA wholesaler inventory management.

Advertising and Promotion expenses were up +6% <sup>(1)</sup> to €1,512 million (-2 bps), an increase broadly in line with sales, with strong arbitration and focus behind strategic priorities (China and India in particular).

## 5.2.4 Profit from Recurring Operations

Profit from recurring operations was up +8.7% <sup>(1)</sup>, or €223 million, to €2,581 million. This represented margin expansion of +74bps <sup>(1)</sup>, a strong improvement thanks to positive pricing, Gross margin improvement and Structure cost discipline. Structure costs increased +4% <sup>(1)</sup>, a moderate increase in context of business acceleration, thanks to strong discipline

(1) Estimate of spirits market growth at +4.5%.

(2) Organic growth is defined on page 152.

and resource focus on key priorities. The currency effect (+1%, or +€25 million) was primarily due to the stronger US Dollar but partially offset by weaker emerging market currencies, most notably the Turkish Lira, Indian Rupee and Chinese Renminbi. The scope effect remained limited (-0%, or €(9) million). Including the currency and scope effect, Profit from Recurring Operations grew +9,5% on a reported basis.

### 5.2.5 Financial income/(expense) from recurring operations

Financial expenses from recurring operations were €(314) million, compared with €(301) million the previous period. This represented a slight increase in financial expense from recurring operations mainly due to higher short-term USD interest rates over the period and increased financing costs in emerging markets.

The debt structure at 30 June 2019 was as follows:

- the bond portion was approximately 93% of gross debt;
- the fixed rate portion was 82% of total debt;
- the maturity of gross debt was 6 years;
- the Group had €0.9 billion in cash and €2.5 billion in undrawn syndicated credit facility;
- structuring the debt by currency (USD: 55%) provides a natural hedging mechanism with debt by currency matched with cash flow by currency.

### 5.2.6 Group Net Profit from recurring operations

Tax on Profit from Recurring Operations stood at €(586) million. This represents a tax rate on recurring items close to 26%, a slight increase vs. FY18 driven by profit increase in countries with a higher tax rate.

Non-controlling interests amounted to €(27) million.

Group Net Profit from recurring operations increased by +9,5% to €1,654 million. Diluted Net Profit per share from recurring operations stood at €6.23, up +10%.

### 5.2.7 Group Net Profit

Other non-recurring operating income and expenses amounted to €(206) million. Non-current financial income (expense) equalled net income of €3 million. Non-current tax was a net income of €4 million.

Accordingly, Group Net Profit stood at €1,455 million, a decrease of (8)% on FY18. This decrease in Group share of Net profit, despite excellent PRO growth, was driven mainly by one-off items in FY19 and an unfavourable basis of comparison due to positive exceptional items in FY18 (sale of bulk Scotch whisky inventory; reimbursement of French tax on dividends and revaluation of deferred tax assets and liabilities in USA).

## 5.3 Net debt

**Reconciliation of Net financial debt** – The Group uses net financial debt in the management of its cash and its Net debt capacity. A reconciliation of net financial debt and the main balance sheet items is provided in Note 4.9 – *Financial instruments* in the Notes to the annual consolidated financial statements. The following table shows the change in Net debt over the year:

€ million	30.06.2018	30.06.2019
<b>Profit from recurring operations</b>	<b>2,358</b>	<b>2,581</b>
<b>Other operating income and expenses</b>	<b>(62)</b>	<b>(206)</b>
• Depreciation of fixed assets	216	226
• Net change in impairment of goodwill and property, plant and equipment and intangible assets	73	69
• Net change in provisions	(35)	7
• Restatement of contributions to pension funds acquired from Allied Domecq and others	14	3
• Fair value adjustments on commercial derivatives and biological assets	(1)	(7)
• Net (gain)/loss on disposal of assets	(48)	0
• Share-based payments	35	40
<b>Sub-total of depreciation and amortisation, change in provisions and other</b>	<b>254</b>	<b>339</b>
<b>SELF-FINANCING CAPACITY BEFORE FINANCING INTEREST AND TAX*</b>	<b>2,549</b>	<b>2,714</b>
Decrease/(increase) in working capital requirements	(100)	(181)
Net interest and tax payments	(659)	(829)
Net acquisitions of non-financial assets and other	(358)	(338)
<b>FREE CASH FLOW</b>	<b>1,433</b>	<b>1,366</b>
of which recurring free cash flow	1,422	1,477
Net disposal of financial assets and activities, contributions to pension plans acquired from Allied Domecq and others	(60)	(181)
Change in the scope of consolidation	-	-
• Capital increase and other changes in shareholders' equity	-	-
• Dividends and interim dividends paid	(551)	(645)
• (Acquisition)/disposal of treasury shares	(23)	(121)
<b>Sub-total dividends, purchase of treasury shares and other</b>	<b>(575)</b>	<b>(766)</b>
<b>DECREASE/(INCREASE) IN DEBT (BEFORE FOREIGN EXCHANGE IMPACT)</b>	<b>798</b>	<b>420</b>
Opening IFRS 15 impact		16
Foreign currency translation adjustments	91	(94)
<b>DECREASE/(INCREASE) IN DEBT (AFTER FOREIGN EXCHANGE IMPACT)</b>	<b>889</b>	<b>342</b>
Net debt at beginning of period	(7,851)	(6,962)
Net debt at end of period	(6,962)	(6,620)

\* Excluding investments in pension funds acquired from Allied Domecq.



## 5.4 Outlook

For FY20, in a particularly uncertain environment, Pernod Ricard expects:

- continued execution of the Transform & Accelerate<sup>(1)</sup> strategic plan, focused on embedding dynamic growth and delivering operating leverage, in order to maximise long-term value creation;
- dynamic Sales growth to continue, albeit growth rates to moderate in India and China, consistently with plan assumptions;
- dynamism in USA following inventory optimisation by wholesalers in FY19;

- increased investment behind key Capex and strategic inventories;
- launch of a share buy-back programme of up to €1 billion over FY20 and FY21;
- soft Q1 expected due to unfavourable comparison base in Asia-RoW (+23% in FY19) but dynamic start in USA.

The guidance for FY20 is organic growth in Profit from Recurring Operations between +5% and +7%<sup>(2)</sup>.

## 5.5 Financial policy

In view of the Group's strong cash generation and the decline in the Net Debt/EBITDA ratio, the financial policy is evolving. While maintaining its investment grade rating, the Group's priorities are to:

1. continue to invest in future organic growth, particularly through strategic inventory and capex
2. pursue its active portfolio management and execution of value-creating M&A
3. increase dividend payments by increasing the payout ratio to around 50%, from FY19
4. launch a share buyback programme of up to €1 billion between FY20 and FY21.

A proposed dividend of €3.12 per share will therefore be put to vote at the Shareholders' Meeting of 8 November 2019.

In addition to raising the payout ratio, Pernod Ricard is further announcing its intention to implement a share buy-back programme for a maximum amount of €1bn. This programme is due to be implemented over FY20 and FY21 and the shares acquired through this programme are due to be cancelled.

This share buy-back programme will be implemented depending on market conditions. As a result, the timing, volumes and purchase price will be decided from time to time. Furthermore, Pernod Ricard may decide to suspend or terminate this programme at any time, without further notice or justification. This buy-back programme is undertaken in the context of continued implementation of the Group's strategic plan, in consistency with its financial policy priorities.

## 5.6 Recent Developments

In line with a history of de-risking and its long-term strategic objectives, the Trustee of Pernod Ricard's largest pension plan in the UK is actively considering further de-risking options.

This strategy includes the purchasing of annuity policies with insurers which, if completed, could imply a reduction of Group equity, estimated at circa €(0.9) billion.

<sup>(1)</sup> The Transform & Accelerate strategic plan described on page 146

<sup>(2)</sup> These perspectives have been prepared in a manner comparable to the historical financial information, and in line with the Group's accounting methods, notably those described in Note 5.7 "Definitions and additional information related to the use of non-IFRS measures" of this Universal Registration Document.

## 5.7 Definitions and reconciliation of alternative performance indicators with IFRS indicators

Pernod Ricard's management process is based on the following non-IFRS measures which are chosen for planning and reporting. The Group's management believes these measures provide valuable additional information for users of the financial statements in understanding the Group's performance. These non-IFRS measures should be considered as complementary to the comparable IFRS measures and reported movements therein.

### 5.7.1 Organic growth

Organic growth is calculated after excluding the impacts of exchange rate movements and acquisitions and disposals.

Exchange rate impacts are calculated by translating the current year results at the prior year's exchange rates.

For acquisitions in the current year, the post-acquisition results are excluded from the organic movement calculations. For acquisitions in the prior year, post-acquisition results are included in the prior year but are included in the organic movement calculation from the anniversary of the acquisition date in the current year.

Where a business, brand, brand distribution right or agency agreement was disposed of or terminated in the prior year, the Group excludes in the organic movement calculations the results for that business from the prior year. For disposals or terminations in the current year, the Group excludes the results for that business from the prior year from the date of the disposal or termination.

This measure enables the Group to focus on the performance of the business which is common to both years and which represents those measures that local managers are most directly able to influence.

### 5.7.2 Free cash flow

Free cash flow comprises the net cash flow from operating activities excluding the contributions to Allied Domecq pension plans, aggregated with the proceeds from disposals of property, plant and equipment and intangible assets and after deduction of the capital expenditures.

## 5.8 Material contracts

### 5.8.1 Significant contracts not related to financing

#### 5.8.1.1 Suntory

In 1988, Allied Domecq entered into a series of agreements with Suntory Ltd, one of Japan's leading producers and distributors of spirits. One of the provisions of these agreements concerned the creation of a joint venture company in Japan called Suntory Allied Ltd, in which 49.99% of the capital and voting rights are owned by Allied Domecq and 50.01% by Suntory Limited. Suntory Allied Ltd was granted the exclusive distribution rights for certain Allied Domecq brands in Japan until 31 March 2029.

### 5.7.3 "Recurring" indicators

The following three measures represent key indicators for the measurement of the recurring performance of the business, excluding significant items that, because of their nature and their unusual occurrence, cannot be considered as inherent to the recurring performance of the Group:

- **Recurring free cash flow**

Recurring free cash flow is calculated by restating free cash flow from non-recurring items.

- **Profit from recurring operations**

Profit from recurring operations corresponds to the operating profit excluding other non-current operating income and expenses.

- **Group net profit from recurring operations**

Group net profit from recurring operations corresponds to the Group net profit excluding other non-current operating income and expenses, non-recurring financial items and corporate income tax on non-recurring items.

### 5.7.4 Net debt

Net financial debt, as defined and used by the Group, corresponds to total gross debt (translated at the closing rate), including fair value and net foreign currency assets hedge derivatives (hedging of net investments and similar), less cash and cash equivalents.

### 5.7.5 EBITDA

EBITDA stands for "Earnings Before Interest, Taxes, Depreciation and Amortisation". EBITDA is an accounting measure calculated using the Group's Profit from recurring operations excluding depreciation and amortisation on operating fixed assets.

The management of Suntory Allied Ltd is jointly controlled by Pernod Ricard, as successor-in-interest to Allied Domecq, and Suntory Ltd.

#### 5.8.1.2 Sale and repurchase agreements

During FY19, Pernod Ricard did not conclude any sale and repurchase agreements. For more details on transactions related to previous sale and repurchase agreements, please refer to the *Share buyback programme* subsection of Section 9 *About the Company and its share capital*.

## 5.8.2 Financing contracts

### 5.8.2.1 2017 Credit Agreement (syndicated credit)

As part of the refinancing of the bank debt taken out in 2012 to cover the Group's short-term financing requirements, Pernod Ricard and certain of its affiliates signed a new five-year €2.5 billion revolving credit facility (the "Credit Agreement") on 14 June 2017. As the extension options to six or seven years have been activated, this agreement now expires in 2024.

The obligations of each of the borrowers under the Credit Agreement are guaranteed by Pernod Ricard. No security interest (*sûreté réelle*) was granted under the terms of the Credit Agreement.

The Credit Agreement contains the customary representations and warranties, as well as the usual restrictive covenants contained in such contracts, notably restricting the ability of some Group companies (subject to certain exceptions) to pledge their assets as security interest, alter the general nature of the Group's activities or carry out certain acquisition transactions.

The Credit Agreement also sets out obligations, including a commitment to provide lenders with adequate information, compliance with a solvency ratio at each half-year end as mentioned hereunder (the "Solvency Ratio"), and compliance with certain commitments customary in this type of credit agreement (including the maintenance of the credit's *pari passu* ranking).

### 5.8.2.2 Solvency ratio (total consolidated Net debt/consolidated EBITDA)

The Solvency Ratio must be 5.25 or less. At 30 June 2019, the Group was compliant with this solvency ratio (see "Liquidity risks" in this management report).

The Credit Agreement incorporates the main terms of the 2012 Credit Agreement and, in addition, provides for certain cases of voluntary or compulsory early repayment obligations, depending on circumstances, which are standard practice for credit agreements of this kind (including non-compliance with commitments, change of control and cross default). The Credit Agreement also contains a clause under which the taking of control of the Company by any person or group of persons acting in concert (other than Société Paul Ricard or any group of persons acting in concert with Société Paul Ricard) is likely to constitute grounds for compulsory early repayment.

### 5.8.2.3 Bond issuance

The nominal amount of the Bonds and the interest thereon constitute direct, unsubordinated and unsecured obligations of Pernod Ricard, ranking equally amongst themselves and *pari passu* with all other unsecured and unsubordinated debt, present and future, of Pernod Ricard. In addition, Pernod Ricard has agreed not to grant any security interest (*sûreté réelle*) with regard to bonds or other debt securities that have been or may be admitted to trading on a regulated market, over-the-counter market or other exchange unless the Bonds benefit from similar security interests or security interests approved by the bondholders.

These bond issuances include a clause regarding change of control, which could lead to the compulsory early repayment of bonds upon request of each bondholder in the event of a change of control of the Company (benefitting a person or a group of persons acting in concert) and leading to a deterioration in the Company's financial rating.

In addition, these bonds may be redeemed early if certain customary events of default arise.

	Amount US\$ thousands	Amount € thousands	Place of issue	Nominal value thousands of currency	Maturity date	Repayment dates	Allocation of net proceeds of the issue	Rate
USD bond of 07.04.2011	1,000,000		Private placement for institutional investors, and subject to New York State (United States) law	US\$150,000 (with multiples of US\$1,000 in excess of this amount)	07.04.2021	Payable annually in arrears on 7 April and 7 October	Repayment of the 2008 syndicated loan in order to extend the Group's debt maturity and a part of the 2008 syndicated loan denominated in US dollars	Annual fixed rate of 5.75%
USD bond of 25.10.2011	1,500,000		Private placement for institutional investors, and subject to New York State (United States) law	US\$150,000 (with multiples of US\$1,000 in excess of this amount)	15.01.2022	Payable annually in arrears on 15 January and 15 July	Repayment of part of the 2008 syndicated loan denominated in US dollars	Annual fixed rate of 4.45%
USD bond of 12.01.2012	850,000		Private placement for institutional investors, and subject to New York State (United States) law	US\$150,000 (with multiples of US\$1,000 in excess of this amount)	15.01.2042	Payable annually in arrears on 15 January and 15 July	Repayment of part of the 2008 syndicated loan denominated in US dollars	Annual fixed rate of 5.50%
USD bond of 12.01.2012	800,000		Private placement for institutional investors, and subject to New York State (United States) law	US\$150,000 (with multiples of US\$1,000 in excess of this amount)	15.07.2022	Payable annually in arrears on 15 January and 15 July	Repayment of part of the 2008 syndicated loan denominated in US dollars	Annual fixed rate of 4.25%

## MANAGEMENT REPORT

## Material contracts

	Amount US\$ thousands	Amount € thousands	Place of issue	Nominal value thousands of currency	Maturity date	Repayment dates	Allocation of net proceeds of the issue	Rate
Bond of 20.03.2014		850,000	Regulated market of Euronext Paris	100	22.06.2020	Payable annually in arrears on 20 March	Repayment of bond debt to extend the maturity of the Group's debt	Annual fixed rate of 2%
Bond of 29.09.2014		650,000	Regulated market of Euronext Paris	100	27.09.2024	Payable annually in arrears on 27 September	Repayment of bond debt to extend the maturity of the Group's debt	Annual fixed rate of 2.13%
Bond of 28.09.2015		500,000	Regulated market of Euronext Paris	100	28.09.2023	Payable annually in arrears on 28 September	Repayment of bond debt to extend the maturity of the Group's debt	Annual fixed rate of 1.88%
USD PANDIOS bond of 26.01.2016	201,000		A single counterparty	1,000	26.01.2021	Payable each half-year from 26 July 2016	Repayment of bond debt to extend the maturity of the Group's debt	Floating rate
Bond of 17.05.2016		600,000	Regulated market of Euronext Paris	100	18.05.2026	Payable annually in arrears on 18 May	Repayment of bond debt to extend the maturity of the Group's debt	Annual fixed rate of 1.50%
USD bond of 08.06.2016	600,000		Private placement for institutional investors, and subject to New York State (United States) law	US\$150,000 (with multiples of US\$1,000 in excess of this amount)	08.06.2026	Payable annually in arrears on 8 June and 8 December from 8 December 2016	Repayment of short-term debt and bond debt to extend the maturity of the Group's debt	Annual fixed rate of 3.25%

### 5.8.2.4 Europe Factoring Agreement

On 15 December 2008, certain affiliates of Pernod Ricard and Pernod Ricard Finance signed a Factoring Framework Agreement with BNP Paribas Factor, to set up a pan-European factoring programme in the gross amount of €350 million, which was increased to €400 million by an addendum dated 23 June 2009. The programme was most recently renewed on 3 December 2018, for a period of five years from 1 January 2019. This programme was agreed in the amount of €500 million. The receivables are sold under the contractual subrogation regime under French law, except where certain local legal restrictions are in force. As substantially all of the risks and rewards related to the receivables are transferred to the purchaser in accordance with this factoring programme, transferred receivables are deconsolidated.

### 5.8.2.5 Securitisation (Master Receivables Assignment Agreement)

On 24 June 2009, certain affiliates of Pernod Ricard entered into an international securitisation programme arranged by Crédit Agricole CIB. The purpose of the programme was the transfer of eligible commercial receivables to Ester, in accordance with the provisions of a framework agreement dated 24 June 2009 and country-specific agreements entered into at the time that each relevant affiliate joined the programme. This programme was renewed on 17 June 2019 under the terms of an addendum to the framework agreement. The programme amounts to €65 million, US\$230 million, £145 million and 400 million Swedish kronor.

This three-year programme includes a change of control clause that applies to each affiliate participating in the programme as a seller, which could lead to the early repayment of the programme by the affiliate concerned by such change of control. "Change of control" is defined as Pernod Ricard ceasing to hold, directly or indirectly, at least 80% of the share capital or voting rights of an affiliate participating in the programme as a seller, unless (i) Pernod Ricard continues to hold, directly or indirectly, 50% of the share capital or voting rights of such affiliate and (ii) issues, at the request of Crédit Agricole CIB, a guarantee in terms that Crédit Agricole CIB deems satisfactory (acting reasonably) for the purpose of securing the obligations of such affiliate under the securitisation transaction documents.

### 5.8.2.6 Factoring agreement Pacific

On 18 March 2013, a new agreement for the sale of receivables was signed between Premium Wine Brands Pty<sup>(1)</sup>, Pernod Ricard New Zealand Limited and the Royal Bank of Scotland plc. This factoring agreement covers Australia and New Zealand and amounts to AUD128.5 million and NZD45 million. The receivables sale agreement was taken over in full by BNP Paribas on 4 December 2015, replacing The Royal Bank of Scotland plc.

Additional information on the impact of these financing contracts on the Group's financial statements is provided in Notes 4.8.1 – *Breakdown of net financial debt by nature and maturity* and 4.8.7 – *Bonds to the consolidated financial statements*.

(1) Renamed Pernod Ricard Winemakers Pty.