Report of the Chairman of the Board of Directors on the conditions governing the preparation and organisation of the work performed by the Board

On 12 February 2009, the Board of Directors of Pernod Ricard confirmed that the AFEP-MEDEF Corporate Governance Code for listed companies published in December 2008, and updated in April 2010 (hereinafter referred to as the 'AFEP-MEDEF Code'), available on the MEDEF's website, is applied by Pernod Ricard, notably in preparing the report required by article L. 225-37 of the French Commercial code.

The Company believes that its practices comply with the recommendations of the Governance Code, which it applies and complies with in full.

This report was approved by the Board of Directors on 31 August 2011 and submitted to the Statutory Auditors.

Governance structure

Dissociating the functions of Chairman and CEO

To adapt the governance of the Group and to allow for the natural and operational transition in the Company's Senior Management, the Board of Directors met following the Shareholders' Meeting of 5 November 2008 and decided to separate the functions of Chairman and CEO. Mr Patrick Ricard's term as Chairman of the Board of Directors was therefore renewed and Mr Pierre Pringuet was appointed CEO.

The Chairman of the Board of Directors organises and directs the Board's work, which is reported at the Shareholders' Meeting. He oversees the proper functioning of the Company's managing bodies and in particular, ensures that the Directors are in a position to fulfil their duties. He can also request any document or information that can be used to help the Board in preparing its meetings.

The CEO is granted full powers to act in the name of the Company under any circumstances. He exercises these powers within the limits of the corporate purpose and subject to the powers expressly granted by the law to Shareholders' Meetings and to the Board, and within the limits of internal rules as defined by the Board of Directors and its Internal Regulations (see paragraph 'Limitation on the powers of the CEO' below).

Limitation on the powers of the CEO

For internal purposes and following the decision made by the Board of Directors on 5 November 2008, the CEO must first ensure that the Board of Directors agrees to significant transactions that fall outside the strategy announced by the Company as well as the transactions listed below:

- carrying out acquisitions, transfers of ownership or disposals of assets and property rights and making investments for an amount greater than €50 million per transaction;
- signing any agreements to make investments in, or participate in joint ventures with any other French or non-French companies except with a subsidiary of Pernod Ricard (as defined in article L. 233-3 of the French Commercial Code);
- making any investments or taking any shareholding in any company, partnership or investment vehicle, whether established or yet to be established, through subscription or contribution in cash or in kind, through the purchase of shares, ownership rights or other securities, and more generally in any form whatsoever, for an amount greater than €50 million per transaction;
- granting loans, credits and advances in excess of €50 million per borrower, except when the borrower is a subsidiary of Pernod Ricard (as defined in article L. 233-3 of the French Commercial Code) and with the exception of loans granted for less than one year;
- borrowing, with or without granting a guarantee on corporate assets, in excess of €200 million in the same financial year, except from subsidiaries of Pernod Ricard (as defined in article L. 233-3 of the French Commercial Code), for which there is no limit;
- granting pledges, sureties or guarantees, except with express delegation of authority from the Board of Directors, within the limits provided for by articles L. 225-35 and R. 225-28 of the French Commercial Code; and
- selling investments with an enterprise value in excess of €50 million. Above this amount he must obtain the agreement of the Board of Directors.

On 10 November 2010, the Board of Directors authorised the CEO, for a period of one year, to grant pledges, sureties or guarantees in the name of the Company within the limit of a total amount of €50 million.

The Board of Directors authorised the CEO, for a period of one year, to grant charges, sureties or guarantees to tax and customs authorities in the name of the Company. No limit is placed on the amount of such guarantees.

Structure and operation of the Board of Directors

General rules concerning the composition of the Board and the appointment of Directors

The names of the members of the Board of Directors are listed in the section 'Members of the Board of Directors and duties performed by the Directors'.

The Board of Directors of the Company is comprised of three members at least 18 years of age, unless otherwise authorised by legal provisions. In accordance with the statutory provisions, each Director must own at least 50 registered Company shares in registered form. However, the Board's Internal Regulations recommend that Directors buy and hold at least 1,000 Company shares.

The members of the Board of Directors are appointed at the Ordinary Shareholders' Meeting based on proposals from the Board of Directors following recommendation by the Appointments Committee. They can be dismissed at any time by decision of the Shareholders' Meeting.

On the date of filing of this registration document, the Board of Directors comprised 14 members. Over the 2010/2011 financial year, Mr Jean-Dominique Comolli, due to his appointment as Commissioner of State Holdings to the Ministry of the Economy, Industry and Employment, resigned from his functions as Director in September 2010. Ms Susan Murray was appointed as the new Independent Director at the Ordinary Shareholders' Meeting held on 10 November 2010. Lord Douro also resigned from his functions for personal reasons in March 2011. Based on the recommendation of the Appointments Committee, the Board of Directors appointed Mr Laurent Burelle as Director to replace Lord Douro. This appointment is subject to ratification at the Shareholders' Meeting on 15 November 2011.

The Board of Directors does not have any members elected by employees, but two representatives from the Company's sole employee representative body attend meetings of the Board of Directors in an advisory role.

The Board of Directors may, upon proposal of its Chairman, appoint one or more censors, who may be either individuals or legal entities and may or may not be shareholders. This option was not exercised during the 2010/2011 financial year.

Independence of Directors

The Company applies criteria of independence as expressed in the AFEP-MEDEF Code, which encompasses the October 2003 recommendations in addition to recommendations concerning remuneration issued in January 2007 and October 2008. A Director on the Board of Directors is considered 'independent' when he/she has no relations of any kind with the Company, its Group or its Management, which could impair the free exercise of his/her judgement (article 3 of the Internal Regulations).

This is the basis used by the Board of Directors and Appointments Committee in their annual review designed to assess the independence of Directors. The Board of Directors and Appointments Committee determine whether the Director:

- performs any management duties in the Company or its Group or has any special ties with its management executives;
- is or has been at any point in the past five years:
  - an employee or member of the Board of the Company or a Group company;
  - member of the Board of another company in which the Company is a Director or in which an employee or Director of the Company holds the office of Director (currently or in the past five years);
- is a major client, supplier or banker of the Company or its Group or for which the Company or its Group represents a significant share of its business;
- has close family ties with a member of the Board;
- has been a Company auditor at any point in the past five years;
- has been a member of the Company's Board of Directors for more than 12 years;
- is a major or majority shareholder in the Company or Parent Company controlling the Company. If this shareholder owns more than 10% of the share capital or voting rights in the Company, the Appointments Committee and Board will systematically review its independence in consideration of the Company's share ownership structure and the potential conflict of interest.

In compliance with these criteria, the Board of Directors is comprised of 14 members on the date of filing of this registration document, including 7 independent Directors.

On 4 May 2011, the Board of Directors, following the advice of the Appointments Committee, appointed Mr Laurent Burelle as Director to replace Lord Douro, outgoing Director. This appointment is subject to ratification at the Shareholders' Meeting on 15 November 2011.

The Appointments Committee reviewed the candidate and determined that Mr Laurent Burelle fully meets the independence criteria applied by the Company.

The presentation of Mr Laurent Burelle is provided in the section 'Personal information concerning the Directors' above.

Code of Conduct of Directors

Article 4 of the Internal Regulations and article 17 of the bylaws stipulate the rules of conduct that apply to Directors and their permanent representatives. Each Director acknowledges his/her awareness of these obligations prior to accepting the office.

Directors are asked to submit any transactions involving the Pernod Ricard share or its derivatives to the Compliance Committee for approval.

Operation and activity

The method of operation of the Board of Directors is provided for by the legal and regulatory provisions, by the bylaws and by Internal Regulations [1] adopted by the Board of Directors at its meeting on 17 December 2002, reviewed and supplemented during the Board sessions of 18 June 2008, 23 July 2008, 22 July 2009 and 16 February 2011. The Internal Regulations of the Board of Directors specify the rules and methods of operation of the Board, in addition to the legal, regulatory and statutory aspects. In particular, they remind Directors of the rules on diligence, confidentiality and disclosure of conflicts of interest. They confirm the various rules in force with regard to the conditions for trading in the Company's shares on the stock market, the obligations to make declarations, and publication requirements relating thereto.

On a regular basis of at least once a year, the Board of Directors includes on its agenda a discussion on its operation, in which it:

- reviews its composition, operation and structure;
- checks that the major issues have been adequately prepared and debated.

Furthermore, at least once every three years, it performs a formal review of its work or has one carried out. This review was carried out in 2008/2009. Its main conclusions were presented in the Chairman's Report for that financial year.

Another review will be carried out in the first half of 2012 and discussed in the Chairman's Report for 2011/2012.

Board of Directors meetings

It is the responsibility of the Chairman to call Board meetings either at regular intervals, or at times that he considers appropriate. In order to enable the Board to review and discuss in detail the matters falling within its area of responsibility, the Internal Regulations provide that Board meetings must be held at least six times a year. In particular, the Chairman of the Board of Directors ensures that Board of Directors meetings are held to close the interim financial statements as well as the annual financial statements and to convene a Shareholders' Meeting for the purpose of approving the financial statements.

Board meetings are called by the Chairman. The notice of the Board meeting sent to the Directors at least eight days before the date of the meeting, except in the event of a duly substantiated urgent situation, shall state the place of the meeting, which will in principle be the Company's registered office. Board Meetings may also be held by video conference or telecommunication, under the conditions provided for in the Internal Regulations and regulations in force.

Information to the Directors

The Directors receive the information they require to fulfil their role. The written texts and documents in support of matters on the agenda, are sent to them long enough in advance to enable them to prepare effectively for each meeting, and, generally speaking, eight days before the meetings, pursuant to the Internal Regulations.

A Director may ask for any explanations or the production of additional information and, more generally, submit to the Chairman any request for information or access to information which might appear to be appropriate to him or her.

As the Directors have insider information on a regular basis, they must refrain from using this information to buy or sell shares of the Company and carry out stock market transactions in the 30 days prior to publication of the annual and half-year results and fifteen days prior to publication of quarterly net sales.

Responsibilities of the Board of Directors and activity in 2010/2011

In the exercise of its legal prerogatives, the Board of Directors:

- rules on all decisions relating to the major strategic, economic, social and financial orientations of the Company and sees to their implementation by General Management;
- deals with any issue relating to the smooth operation of the Company and monitors and controls these issues; in order to do this, it carries out the controls and verifications that it considers appropriate and notably the control of Company management;
- approves the investment projects and any transaction, more specifically, acquisition or disposal transaction that is likely to significantly affect the Group's profits, the structure of its balance sheet or its risk profile;
- draws up the annual and interim financial statements and prepares the Shareholders' Meeting;
- defines the Company's financial communication policy;
- checks the quality of the information provided to the shareholders and to the markets;
- designates the Directors responsible for managing the Company;
- defines the remuneration policy for the General Management based on the recommendations of the Remuneration Committee;
- reviews each of the Directors annually on a case-by-case basis prior to the publication of the annual report and reports the outcome of this review to the shareholders in order to identify the independent Directors;
- approves the Chairman's report on the conditions for preparation and organisation of the work of the Board of Directors as well as the internal control procedures implemented by the Company.

During the financial year ended 30 June 2011, the Board of Directors met eight times with an attendance rate of 96%. Meetings lasted three hours on average.

The Board of Directors approved the annual and interim financial statements and the terms of financial communications, reviewed the budget, prepared for the Combined (Ordinary and Extraordinary)

(1) The internal regulations can be consulted on the Company's website (www.pernod-ricard.com) and can be amended at any time by the Board of Directors.

Shareholders' Meeting and, in particular, approved the draft resolutions.

The current state of the business was debated at each of these meetings: business, reporting results and cash flow.

In managing debt, it monitored the progress of the projected asset disposal programme and decided, as part of the regular review of the refinancing plan, to proceed with the use of bilateral financing and, during the first quarter of 2011, with two bond issues, one in euro and the other in US dollars.

It established the remuneration of Mr Patrick Ricard and Mr Pierre Pringuet in line with AFEP-MEDEF Code recommendations. It also set the terms of the stock option and performance share plans, both implemented in June 2011.

Furthermore, the Board reviewed the succession plan for Directors, as proposed by the Appointments Committee, which is takes into account the AFEP-MEDEF Code recommendations concerning the representation of women on Boards of Directors.

In application of the AMF's recommendations on preventing insider trading, the Board adopted a Code of Conduct and decided to set up a Compliance Committee.

Lastly, the Directors were regularly informed of developments in the competitive environment, and the operational directors of the main subsidiaries described their organisation, businesses and outlook.

Shareholders' Meetings and attendance procedures

Article 32 of the bylaws sets out the procedures that shareholders must follow to attend Shareholders' Meetings. A summary of these rules is provided in Section 8 'Information on the Company and its share capital' of this document.

Corporate Governance bodies

Committees of the Board of Directors

The Board of Directors delegates responsibility to its specialised committees for the preparation of specific topics submitted for its approval.

Four committees handle subjects in the area for which they have been given responsibility and submit their opinions and recommendations to the Board: the Strategic Committee, the Audit Committee, the Remuneration Committee, and the Appointments Committee.

Strategic Committee

The Strategic Committee is made up of:

Chairman:

Mr Patrick Ricard

Members:

Mr François Gérard

Mr Rafaël Gonzalez-Gallarza

Ms Danièle Ricard

The Strategic Committee met six times in 2010/2011 with an attendance rate of 92%. Its mission essentially consists in preparing the strategic policies submitted to the Board of Directors for approval.

Audit Committee

At 31 August 2011, the Audit Committee was made up of:

Chairman:

Mr Michel Chambaud
(Independent Director)

Members:

Ms Nicole Bouton
(Independent Director)

Mr François Gérard

Mr Wolfgang Colberg
(Independent Director)

The members of the Audit Committee were specifically chosen for their expertise in accounting and finance.

In addition to the operational charter adopted in June 2002, the Audit Committee adopted its Internal Regulations at the Board of Directors' meeting of 18 March 2003. During the 2010/2011 financial year, as during the 2009/2010 financial year, the Audit Committee met four times, with an attendance rate of 94%.

Main roles of the Audit Committee

The main roles of the Audit Committee are as follows:

- ensuring the appropriateness and consistency of the accounting policies applied in the preparation of the consolidated financial statements and the Parent Company financial statements and the appropriate treatment of complex or unusual transactions at Group level;
- analysing the options available when preparing the financial statements;
- examining material risks and off-balance sheet commitments;
- examining the scope of consolidation and, where appropriate, the reasons why some companies may not be included;
- monitoring the efficiency of internal control and risk management systems;
- monitoring the preparation of financial information;
- supervising the procedure for selecting Statutory Auditors;
- giving the Board of Directors its opinion or recommendation on the renewal or appointment of the Statutory Auditors, the quality of their work related to the legal control of the Company and consolidated financial statements, the amount of their fees, and ensuring the compliance of the rules guaranteeing their independence and objectivity;
- examining any matters of a financial or accounting nature that are referred to it by the Board of Directors.

Report on the work carried out during the 2010/2011 financial year

In accordance with its Internal Regulations and in liaison with the Statutory Auditors and the Consolidation, Finance and Internal Audit Departments of the Company, the Audit Committee's work mainly related to the following issues:

- review of the main provisions of French and foreign legislation or regulations, reports and commentaries with regard to Corporate Governance, risk management, internal control and audit matters.

  The Audit Committee notably reviewed the new Reference Framework for risk management and internal control and the report on audit committees published by the AMF in July 2010;
- review of the interim financial statements at 31 December 2010 during the meeting of 15 February 2011;
- review of the consolidated financial statements at 30 June 2011 (these financial statements were reviewed at the Audit Committee meeting on 30 August 2011): the Audit Committee met with Management and with the Statutory Auditors in order to discuss the financial statements and accounts and their reliability for the whole Group. It notably examined the conclusions of the Statutory Auditors and the draft presentation of financial reporting;
- monitoring of the Group's cash flow and debt;
- approval of the Group Internal Audit plan for 2011/2012 at the meeting of 14 June 2011. This audit plan was prepared and approved following an analysis of the Group's major risks. The Group's main risks are regularly assessed in a detailed presentation to the Audit Committee. They were identified in a formal mapping procedure that covered the Group's main subsidiaries and main executives and was completed in June 2010;
- risk management: in addition, the Group sent its main subsidiaries a self-assessment questionnaire making it possible to evaluate whether their internal controls were adequate and effective. Based on the Group's Internal Control Policies and in compliance with the French Financial Markets Authority (AMF) Reference Framework for Risk Management and Internal Control ('*Cadre de référence de l'AMF sur le dispositif de gestion des risques et de contrôle interne*') and its Application Guide published in 2007 and updated in July 2010, this questionnaire covers Corporate Governance practices, operational matters and computer support. Response to the questionnaire was documented and reviewed in detail by the regional holding companies and the Group's Internal Audit Department.

  An analysis of the returned questionnaires was presented to the Audit Committee at the meeting on 30 August 2011;
- examination of the Internal Audit reports: in addition to the audits and controls carried out by the different subsidiaries on their own behalf, 25 Internal Audits were performed in 2010/2011 by the audit teams of the regional holding companies and the Company. A full report was drawn up for each audit covering the types of risks identified – operational, financial, legal or strategic – and their management. Recommendations are issued when deemed necessary. The Audit Committee approves the recommendations of all the audit reports issued and checks the progress in implementing the recommendations from previous audits.

Outlook for 2011/2012

In 2011/2012, the Audit Committee will pursue the mission it is carrying out for the Board of Directors in line with current regulations. In addition to the risks associated with preparing financial information, 2011/2012 will notably be dedicated to reviewing the management of risks presented in the Group's risk map, particularly risks associated with cash management and marketing expenditure.

Appointments Committee

At 31 August 2011, the Appointments Committee comprised:

Chairman:

Ms Nicole Bouton (Independent Director), replacing Mr Jean-Dominique Comolli as of 1 September 2010.

Members:

Mr Anders Narvinger (Independent Director), replacing Lord Douro as of 20 October 2010.

Ms Danièle Ricard

Mr Patrick Ricard, Chairman of the Board of Directors, attends the meetings of this Committee, in particular those dealing with Directors' appointments.

During the 2010/2011 financial year, the Committee met four times with a 100% attendance rate.

Main roles of the Appointments Committee

The roles of this Committee, formalised in the Internal Regulations of July 2009, include:

- drawing up proposals concerning the selection of new Directors and proposing research and renewal procedures;
- on at least an annual basis, discussing the qualification of independence of Directors, and candidates for the post of Director or for a Committee of the Board of Directors in light of the independence criteria of the AFEP-MEDEF Code;
- ensuring the continuation of Management bodies by defining a succession plan for Executive Director(s) and Board Director(s) in order to propose replacement options in the event of an unplanned vacancy;
- being informed of the succession plan for key Group positions;
- regularly reviewing the composition of the Board of Directors to monitor the quality (number of members, diversity of profiles) and attendance of its members;
- carrying out assessments on the operation of the Board of Directors on a regular basis.

Report on the work carried out during the 2010/2011 financial year

In 2010/2011, the Appointments Committee had the following roles:

- examination of the appointment of a new Director following the resignation of a director in September 2010;
- proposals of new committee members following the resignation of a Director;

- review of the composition of the Board in application of the law on the balanced representation of women and men on boards and equal opportunity;
- review of the independence of Directors and committee members;
- implementation of a Code of Conduct in accordance with the AMF recommendations of November 2010;
- review and proposal of candidates for the renewal of Directors at the Shareholders' Meeting on 15 November 2011;
- preparation of the resolution to anticipate the renewal of offices to better stagger renewals in the future. Shareholders will vote on the resolution at the Meeting of 15 November 2011.

Remuneration Committee

At 31 August 2011, the Remuneration Committee comprised:

Chairman:

Ms Nicole Bouton (Independent Director), replacing Mr Jean-Dominique Comolli as of 1 September 2010.

Members:

Mr Anders Narvinger (Independent Director), replacing Lord Douro as of 20 October 2010.

Mr Gérald Frère (Independent Director).

During the 2010/2011 financial year, the Remuneration Committee met four times with a 100% attendance rate.

Main roles of the Remuneration Committee

The roles of the Remuneration Committee, approved by the Board on 22 July 2009, include:

- reviewing and proposing to the Board of Directors the remuneration to be paid to the Executive Director(s), the provisions of retirement schemes and any other benefits granted to them;
- proposing rules to this effect, and assessing them on a yearly basis, to determine the variable portion of the remuneration of Executive Director(s) and ensure that the criteria applied are in line with the Company's short-, medium- and long-term strategy;
- recommending the total amount of Directors' fees to be submitted for approval to the Shareholders' Meeting to the Board of Directors, as well as the way it will be distributed:
  - for duties performed as Board members,
  - for duties carried out on specialised Committees of the Board of Directors;
- being informed, in the presence of the Executive Director(s), of the remuneration policy of the senior managers of Pernod Ricard group companies;
- ensuring that the remuneration policy for senior managers is consistent with the policy for Executive Director(s);
- proposing the general policy for stock option and bonus share plans, in particular the terms applicable to the Company's Executive Director(s);
- approving the information provided for shareholders in the annual report on the remuneration of Executive Director(s) and the policy on stock option and bonus share plans as well as, more generally, the other work of the Remuneration Committee.

Report on the work carried out during the 2010/2011 financial year

Further details of the work of the Remuneration Committee are provided in the paragraph 'Remuneration of Directors' in Section 4 'Management Report' of this document.

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Management structure

General Management

Group General Management is provided by the Chief Executive Officer, Mr Pierre Pringuet, who is supported by three Managing Directors at 30 June 2011. The Executive Office is the permanent coordination unit of the Group's General Management.

It is comprised of Group General Management and General Counsel.

The Executive Office prepares and examines all decisions relating to the functioning of the Group or submits the latter to the Board of Directors when approval is required. It organises the Executive Committee's work.

Composition of the Executive Office:

- **Chief Executive Officer,** Pierre Pringuet, Executive Director;
- **4 Managing Directors,** respectively:
  - **Thierry Billot,** Managing Director, Brands;
  - **Gilles Bogaert,** Managing Director, Finance;
  - **Bruno Rain,** Managing Director, Human Resources and Corporate Social Responsibility;
  - **Alexandre Ricard,** Managing Director, Distribution Network (as from 1 September 2011);
- **Ian FitzSimons,** General Counsel.

The Communication Department is also part of the General Management.

Executive Committee

The Executive Committee is the management unit of the Group comprising General Management, the General Counsel and the Managers of the main subsidiaries.

The Executive Committee liaises between the Holding Company and the subsidiaries as well as between the subsidiaries themselves (Brand Companies and Market Companies). Under General Management's authority, the Executive Committee ensures that the activities are carried out and that its main policies are applied.

In this capacity, the Executive Committee:

- examines the activity of the Group and its variations with respect to the development plan;
- gives its opinion regarding the establishment of objectives (earnings, debt and qualitative objectives);
- periodically reviews the brands' strategies;
- analyses the performance of the network of the Group's Market Companies and Brand Companies and recommends the necessary organisational adjustments;
- approves and enforces the adherence to the main policies of the Group (human resources, good marketing and business practices, QSE (Quality, Security, Environment) policies, Corporate Responsibility, etc.).

It meets 8 to 11 times a year.

The Executive Committee is made up of:

- the Executive Office;
- the Brand Companies:
  - Chivas Brothers, Christian Porta, Chairman and CEO;
  - Martell Mumm Perrier-Jouët, Lionel Breton, Chairman and CEO;
  - Premium Wine Brands, Jean-Christophe Coutures, Chairman and CEO;
  - Irish Distillers Group, Alexandre Ricard, Chairman and CEO;
  - The ABSOLUT Company, Philippe Guettat, Chairman and CEO;
- the Market Companies:
  - Pernod Ricard Americas, Philippe Dréano, Chairman and CEO;
  - Pernod Ricard Asia, Pierre Coppéré, Chairman and CEO;
  - Pernod Ricard Europe, Laurent Lacassagne, Chairman and CEO;
  - Pernod, César Giron, Chairman and CEO;
  - Ricard, Philippe Savinel, Chairman and CEO.

Significant post-balance sheet events

Mr Alexandre Ricard was appointed Managing Director, Distribution Network, as of 1 September 2011. He was replaced as Chairman and CEO of Irish Distillers by Ms Anna Malmhake, who had held the position of Marketing Director of The ABSOLUT Company since September 2009.

Report of the Chairman of the Board of Directors on internal control and risk management

The Group's Internal Control and Risk Management policies and procedures follow Corporate Governance guidelines which are compliant with the AMF (French Financial Markets Authority) Reference Framework for risk management and internal control and its application guide.

Definition of internal control

The internal control policies and procedures in force within the Group are designed:

- first of all, to ensure that management, transactions and personal conduct comply with guidelines relating to Group business conduct, as set out by the Group bodies responsible for Corporate Governance and General Management, applicable law and regulations, and with Group values, standards and internal rules;
- secondary, to ensure that the accounting, financial and management information provided to the Group's governance bodies fairly reflects the performance and the financial position of the companies in the Group;
- lastly to ensure the proper protection of assets.

One of the objectives of the internal control systems is to prevent and control all risks arising from the activities of the Group, in particular accounting and financial risks, including error and fraud, as well as operational, strategic and compliance risk. As with all control systems, they cannot provide an absolute guarantee that such risks have been fully eliminated.

Description of the internal control environment

Components of the internal control system

The principal bodies with responsibility for internal control are as follows:

At Group level

The **Executive Committee** is comprised of Group General Management, the Managing Directors (in charge of Brands, Finance, Human Resources and Corporate Social Responsibility, and Distribution Network as of 1 September 2011), the General Counsel of the Group and the Chairmen and CEOs of the Brand and Market Companies. The Executive Committee ensures that the activities are carried out and that its main policies are applied. It meets 8 to 11 times a year.

The **Executive Office** is the permanent coordination unit of the Group's General Management. It is comprised of Group General Management and General Counsel. The Executive Office prepares and examines any decision relating to the functioning of the Group or submits it to the Board of Directors when approval is required. It organises the Executive Committee's work.

The Group's **Internal Audit** Department is attached to the Group's Finance Department and reports to Group General Management and the Audit Committee. It comprises teams located both in the Company and the Regions, as well as some large subsidiaries. The Audit plan is drawn up once the Group's main risks have been identified and analysed. It is validated by the General Management and Audit Committee and presents the different cross-business issues that will be reviewed during the year, the list of subsidiaries that will be audited, and the main topics covered during the audits.

The outcomes of the work are then submitted for examination and analysis to the Audit Committee, General Management and Statutory Auditors.

Statutory Auditors: the selection and appointment of joint Statutory Auditors proposed at the Shareholders' Meeting is performed by the Board of Directors on the basis of recommendations from the Audit Committee.

The Group has selected joint Statutory Auditors who are able to provide it with global and comprehensive coverage of Group risks.

At subsidiary level

The **Management Committee** is appointed by the Holding Company or by a Region and is composed of the subsidiary's Chairman and Chief Executive Officer and its senior managers. The Management Committee is notably responsible for managing the main risks affecting the subsidiary.

The subsidiary's **Finance Director** is tasked by the subsidiary's Chairman and Chief Executive Officer with establishing appropriate internal control systems for the prevention and control of risks arising from the subsidiary's operations, in particular accounting and finance risks including error and fraud.

Identification and management of risks

The 2010/2011 financial year was devoted to:

- reviewing and analysing the risk management systems in place, notably those identified during the formal mapping procedure completed in June 2010;
- implementing the self-assessment questionnaire on internal control and risk management. The questionnaire was in full compliance with the AMF's Reference Framework for risk management and internal control and its application guide, which were updated in July 2010. The questionnaire was updated during the financial year, notably regarding Corporate Social Responsibility;

- performing audits: 25 audits were carried out in 2010/2011. The purpose of these audits, along with the analysis of operational risk management, was to ensure that the Group's internal control policies were applied properly at its subsidiaries.

All of the key areas for improvement identified were addressed in specific action plans drawn up at each subsidiary and at Group level, which were validated by General Management and the Audit Committee. Their implementation is regularly assessed by the Group's Internal Audit Department.

The work performed enabled the quality of internal control and risk management to be strengthened within the Group.

Key components of internal control procedures

The key components of internal control procedures are as follows:

The **Pernod Ricard Charter,** updated during the financial year, sets out the rights and duties of every employee in relation to Group values, particularly in its Code of Ethics. Among other things, these rights and duties include compliance with the law and integrity. A copy of the Charter is given to each employee when they are recruited and is always available in several languages on the Group Intranet site.

A formal **Delegation of authority** procedure, issued by the Board of Directors, sets out the powers of the Chief Executive Officer as well as those of the Managing Directors in charge of Brands, Finance, Distribution Network, Human Resources and Corporate Social Responsibility, and those of the General Counsel of the Group.

The **Internal Audit Charter** is for all employees who have a management and audit position. It defines the standards, the missions, the responsibilities, the organisation and the operating mode of the Group's Internal Audit Department in order to remind every employee to strive for compliance with and improvement of the Internal Audit process.

Group **Internal Control Policies,** which have been established for each of the 14 operational cycles identified, enable the subsidiaries to concentrate on the internal control procedures related to the Group's main risks.

Regularly updated notably to comply with the AMF Reference Framework for risk management and internal control and its application guide, the **self-assessment questionnaire** is based on the Group's internal control policies. In particular, it covers Corporate Governance practices, operational activities and IT support.

Submitted to the Group's main subsidiaries, it enables them to assess the adequacy and the effectiveness of their internal controls. Responses to the questionnaires are documented and reviewed in detail by the Regions and Group Internal Audit Department. All of this work has been covered by:

- a summary by subsidiary and an overall Group summary, which are both provided to the General Management and the Audit Committee;
- a letter of representation from each subsidiary sent to the Chairman and Chief Executive Officer of their Parent Company and a letter of representation from the various parent companies sent to the Chief Executive Officer of Pernod Ricard. This letter engages subsidiary management as regards the adequacy of their control procedures in the light of identified risks.

The **Pernod Ricard Environment, Security and Quality Charter** sets out the rules to be complied with in these areas. The Industrial Operations Department of the Group is in charge of ensuring that they are followed. An annual report is presented by this Department to the Executive Committee.

Budgetary control is organised around three key areas: the annual budget (revised several times during the year), monthly reporting to monitor performance and the four-year strategic plan. Budgetary control is exercised by the management control teams attached to the Finance Departments of the Holding Company, the Regions and the subsidiaries. It operates as follows:

- the budget is subject to specific instructions (principles, timetable) published by the Holding Company and sent to all the subsidiaries. The final budget is approved by the General Management of the Group;
- *reporting* is prepared on the basis of data directly input by subsidiaries in accordance with a precise timetable provided at the beginning of the year and in accordance with the *reporting* manual as well as the accounting and financial policies published by the Holding Company;
- monthly performance analysis is carried out as part of the reporting process and is presented by the Finance Department to the General Management, the Executive Committee and at meetings of the Audit Committee and the Board of Directors;
- a four-year strategic plan for the Group's main brands is prepared each year using the same procedures as those used for the budget;
- a single management and consolidation system allows each subsidiary to directly input all its accounting and financial data.

Centralised Treasury Management is led by the Treasury Unit of the Group's Finance Department.

Legal and operational control of the Holding Company over its subsidiaries

Subsidiaries are mostly wholly-owned, either directly or indirectly, by the Pernod Ricard Parent Company.

The Holding Company is represented directly or indirectly (through an intermediate subsidiary) on its subsidiaries' Boards of Directors.

The Organisation Charter and the Group Internal Control Policies define the level of autonomy of subsidiaries, particularly with respect to strategic decisions.

The role of the Holding Company, as described in the 'decentralised business model' paragraph of Section 1 'Presentation of the Pernod Ricard group' of the present document is an important component of the control of subsidiaries.