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Management report

Key figures from the consolidated financial statements for the year ended 30 June 2016

INCOME STATEMENT

€ million	30.06.2014	30.06.2015	30.06.2016
Net sales	7,945	8,558	8,682
Gross margin after logistics expenses	4,987	5,296	5,371
Advertising and promotion investments	(1,503)	(1,625)	(1,646)
Contribution after advertising & promotion investments	3,484	3,671	3,725
Profit from Recurring Operations	2,056	2,238	2,277
Operating profit	1,817	1,590	2,095
Financial income/(expense)	(485)	(489)	(432)
Corporate income tax	(305)	(221)	(408)
NET PROFIT	**1,027**	**880**	**1,255**
o/w:			
◆ Non-controlling interests	11	19	20
◆ Group share	1,016	861	1,235
Earnings per share – basic (in euro)	3.86	3.26	4.68
Earnings per share – diluted (in euro)	3.82	3.24	4.65

BALANCE SHEET

€ million	30.06.2014	30.06.2015	30.06.2016
Assets			
Non-current assets	20,968	22,978	23,310
Of which intangible assets	16,449	17,706	17,572
Current assets	6,646	7,419	7,282
Assets held for sale	2	1	6
TOTAL ASSETS	**27,616**	**30,398**	**30,598**
Liabilities and shareholders' equity			
Consolidated shareholders' equity	11,778	13,288	13,506
Non-current liabilities	11,933	11,972	12,137
Current liabilities	3,905	5,138	4,955
Liabilities held for sale	-	-	-
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**27,616**	**30,398**	**30,598**

NET FINANCIAL DEBT

€ million	30.06.2014	30.06.2015	30.06.2016
Gross non-current financial debt	7,673	7,459	7,335
Gross current financial debt	1,219	2,052	2,027
Non-current derivative instruments – assets	(63)	(51)	(77)
Current derivative instruments – assets	(1)	(15)	-
Non-current derivative instruments – liabilities	1	-	-
Current derivative instruments – liabilities	-	121	-
Cash and cash equivalents	(477)	(545)	(569)
NET FINANCIAL DEBT	**8,353**	**9,021**	**8,716**
Free Cash Flow [1]	755	808	1,061

(1) The calculation of Free Cash Flow is set out in the Note-Net Debt in the Management Report.

CASH FLOW STATEMENT

€ million	30.06.2014	30.06.2015	30.06.2016
Self-financing capacity before financing interest and taxes	2,089	2,220	2,315
Net interest paid	(428)	(455)	(408)
Net income tax paid	(413)	(538)	(393)
Decrease/(increase) in working capital requirements	(308)	(193)	(178)
Net change in cash flow from operating activities	**940**	**1,035**	**1,336**
Net change in cash flow from investment activities	**(311)**	**(264)**	**(359)**
Net change in cash flow from financing activities	**(632)**	**(735)**	**(928)**
Cash flow from discontinued operations	-	-	-
Foreign currency translation adjustments	(117)	32	(25)
Cash and cash equivalents at beginning of period	**597**	**477**	**545**
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**477**	**545**	**569**

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 101.

In 2015/16, Pernod Ricard delivered a solid and encouraging year.

The Group achieved its quantitative objectives:

- Organic growth [1] in net sales of +2%, an improvement on the 2014/15 financial year restated for French technical impact [2];
- An improvement in pricing: +1% (compared with stable over the 2014/15 financial year);
- Organic growth [1] in Profit from Recurring Operations of 2%, in line with the guidance;
- Improvement of 7 bps [1] in the recurring operating margin, thanks to tight control of resources and initiatives to increase operating efficiency;
- Solid growth of Group Net Profit From Recurring Operations up 4% to a historic high;
- Significant growth in Free Cash Flow at €1,061 million, up 31%;
- Continuing debt reduction with a decrease in net debt of €0.3 billion and a corresponding decrease in the average Net debt/EBITDA ratio to 3.4 [3] (-0.3 excluding currency effect).

The Group also undertook significant initiatives to implement its medium-term strategy and further improve its performance:

- Acceleration in USA and on innovation;
- Organisational changes to enhance performance (United States, Travel Retail, China, Korea, etc.);
- Implementation of an operational efficiency roadmap covering the supply chain, production, purchases and advertising and promotion investments;
- Active portfolio management and resource allocation with a targeted M&A policy, with the disposal of non-strategic assets (*e.g.* Paddy) to focus on "Premium+" segments undergoing rapid growth (Monkey 47);
- Sound management of trade inventories;
- Refinancing at excellent conditions and upgrading by Moody's of Pernod Ricard's rating to Baa2/P2.

Furthermore, in 2015/16, there was:

- An increase in organic growth [1] in Profit from Recurring Operations of +4% in the Americas and +7% in Europe, but a decline of -2% in Asia/Rest of World (impacted by China and Travel Retail);
- A slight decline in gross margin (-13 bps [1]) with an improvement in pricing, amid challenging price conditions, and with a negative mix, but strict discipline on cost control (+1% on a constant mix basis);
- Strong cash generation with Free Cash Flow from recurring operations of €1,200 million, up 4% on the 2014/15 financial year;
- A proposed dividend per share of €1.88, a 4% increase compared with the previous year. This represents a pay-out ratio of 36%, in line with the customary policy of cash payment of approximately one-third of Group net profit from recurring operations.

The following operating changes occurred since 1 July 2016:

- **Simplification of the Americas region**, to better focus on its core business, the United States;
- **Creation of two new management entities**: one with a lead market of Mexico, combining Colombia, Venezuela and Peru, and another with a lead market of Brazil, combining Argentina, Uruguay and Chile;
- **Establishment of Global Travel Retail**, reporting directly to the Headquarters;
- **Completion of the transformation** of the affiliate in the **United States**, based on the following principles:
  - Continue to make the Company fully "consumer centric" to win over consumers in the long term, by reorganising the marketing team into brand divisions, based around five key moments of *Convivialité*,
  - Focus Pernod Ricard's resources in the field to speed up decision-making and improve excellence in performance in both Off-Trade and On-Trade. To do this, the sales team will be reorganised along territorial lines, with the creation of dedicated Market Entities in four States, three multi-State Divisions, and a Distribution Channel division, all supported by a Route To Market centre of excellence,
  - Stimulate the development of future growth drivers by creating an "incubator" for brands with high potential, the New Brand Ventures Department.
- **Adjustment of the organisational structure in China** to fit the new market context, based on the following principles:
  - Creation of a dedicated sales force for premium brands, consistent with the reallocation of network resources and traditional brands towards new trends,
  - Reorganisation of the marketing team based around moments of *Convivialité*.
- **Change of organisation in Korea** with a new management team and a new commercial team to turnaround business performance.

(1) Organic growth, defined on page 101.
(2) Shipments brought forward from July to June 2015 ahead of back-office mutualisation between Ricard and Pernod on 1 July 2015.
(3) Average EUR/US dollar exchange rate of 1.11 over the 2015/16 financial year compared to 1.20 over the 2014/15 financial year.

PRESENTATION OF RESULTS

Group Net Profit per share from Recurring Operations – diluted

€ million	30.06.2015	30.06.2016
Number of shares in circulation – diluted	266,230,412	265,632,528
Profit from Recurring Operations	2,238	2,277
Operating margin	26.2%	26.2%
Financial income/(expense) from recurring operations	(457)	(422)
Corporate income tax on recurring operations	(434)	(455)
Non-controlling interests, profit from discontinued operations and share of net profit from equity associates	(18)	(20)
GROUP NET PROFIT FROM RECURRING OPERATIONS (1)	**1,329**	**1,381**
GROUP NET PROFIT PER SHARE FROM RECURRING OPERATIONS – DILUTED *(in euros)*	**4.99**	**5.20**

Group Profit from Recurring Operations

Group *(€ million)*	30.06.2015	30.06.2016	Reported growth		Organic growth (2)	
Net sales	8,558	8,682	124	1%	152	2%
Gross margin after logistics expenses	5,296	5,371	76	1%	83	2%
Advertising and promotion	(1,625)	(1,646)	(21)	1%	(14)	1%
Contribution after advertising & promotion	3,671	3,725	54	1%	68	2%
PROFIT FROM RECURRING OPERATIONS	**2,238**	**2,277**	**39**	**2%**	**46**	**2%**

Americas *(€ million)*	30.06.2015	30.06.2016	Reported growth		Organic growth (2)	
Net sales	2,382	2,476	94	4%	96	4%
Gross margin after logistics expenses	1,519	1,639	120	8%	61	4%
Advertising and promotion	(478)	(509)	(31)	7%	(26)	6%
Contribution after advertising & promotion	1,041	1,130	88	8%	35	3%
PROFIT FROM RECURRING OPERATIONS	**632**	**706**	**75**	**12%**	**28**	**4%**

Asia/Rest of World *(€ million)*	30.06.2015	30.06.2016	Reported growth		Organic growth (2)	
Net sales	3,446	3,498	51	1%	27	1%
Gross margin after logistics expenses	2,073	2,071	(2)	0%	(14)	-1%
Advertising and promotion	(627)	(621)	6	-1%	13	-2%
Contribution after advertising & promotion	1,446	1,450	4	0%	(1)	0%
PROFIT FROM RECURRING OPERATIONS	**999**	**982**	**(16)**	**-2%**	**(24)**	**-2%**

Europe *(€ million)*	30.06.2015	30.06.2016	Reported growth		Organic growth (2)	
Net sales	2,731	2,709	(21)	-1%	29	1%
Gross margin after logistics expenses	1,704	1,662	(42)	-2%	36	2%
Advertising and promotion	(521)	(516)	4	-1%	(1)	0%
Contribution after advertising & promotion	1,183	1,145	(38)	-3%	34	3%
PROFIT FROM RECURRING OPERATIONS	**608**	**588**	**(20)**	**-3%**	**42**	**7%**

(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.

(2) Organic growth, defined on page 101.

NET SALES GROWTH AND VOLUMES OF STRATEGIC BRANDS

In millions of 9-litre cases	Volume 30.06.2015	Volume 30.06.2016	Organic growth (1) in net sales	Including Volume growth	Including Price/mix
Absolut	11.2	10.9	-4%	-2%	-1%
Chivas Regal	4.5	4.3	-4%	-5%	1%
Ballantine's	6.2	6.5	3%	5%	-2%
Ricard	4.9	4.5	-8%	-8%	0%
Jameson	5.1	5.7	16%	12%	4%
Havana Club	4.0	4.0	3%	1%	2%
Malibu	3.4	3.4	1%	1%	0%
Beefeater	2.6	2.7	4%	3%	1%
Kahlúa	1.5	1.5	-2%	-2%	0%
Martell	2.1	2.1	-4%	-1%	-3%
The Glenlivet	1.1	1.0	3%	-2%	5%
Royal Salute	0.2	0.2	4%	5%	-1%
Mumm	0.7	0.7	0%	2%	-2%
Perrier-Jouët	0.3	0.3	9%	7%	1%
TOTAL TOP 14	**47.8**	**47.9**	**0%**	**0%**	**0%**

(1) Organic growth, defined on page 101.

Full-year sales [1] were €8,682 million, representing reported growth of +1%, as a result of:

- Organic growth [2] of +2% in a contrasted environment, with growth impacted by the technical effect of anticipating shipments from July to June 2015 ahead of the mutualisation of Pernod and Ricard's back offices on 1 July 2015;
- A slightly positive currency effect of +€23 million over the year, linked primarily to the strengthening of the US dollar against the euro, despite the weakness of currencies on emerging markets; and
- a negative scope effect of €(52) million.

All Regions experienced growth [2]:

- Americas were up 4% [2], with an acceleration of growth [2] driven by the United States. The performance of both the Group and the market improved over the year, with growth helped by the establishment of a new organisational structure, and the initial results of innovations and growth drivers. Jameson, The Glenlivet and Martell posted very strong growth [2], while Absolut was in decline, but with improving underlying trends. Outside the USA, dynamic growth of +4% [2] was reported in other markets in the region;
- Asia/Rest of World saw modest growth of +1% [2] with double-digit growth [2] in India and Africa/Middle East, despite difficulties in China, South Korea and Travel Retail Asia. India, the Group's second-largest market (in terms of net sales), posted very good performance of +12% [2] driven by local and imported whiskies, and solid momentum on the Top 14 strategic brands and key local brands. In a climate that remains difficult, sales in China were down 9% [2];
- Europe posted growth of +1% [2] with an improving global performance driven primarily by Spain. Restated for the French technical effect [3], sales in Europe were up 3% [2], and stable in France: In Spain, growth continued, driven by a good performance in gins and whiskies. Furthermore, Travel Retail Europe and Russia proved their resilience in an ongoing challenging environment.

(1) Net sales presented after deduction of excise duties (see Accounting principles in the Notes to the consolidated financial statements, Note 2: Segment reporting – "Net Sales").

(2) Organic growth, defined on page 101.

(3) Shipments brought forward from July to June 2015 ahead of back-office mutualisation between Ricard and Pernod on 1 July 2015.

CONTRIBUTION AFTER ADVERTISING & PROMOTION INVESTMENTS

The gross margin (after logistics expenses) amounted to €5,371 million, or +2% [(1)]. Gross margin stood at 61.9% for the 2015/16 financial year, down slightly by 13 bps [(1)] compared to a fall of 105 bps [(1)] during the previous year, due to:

- pricing improving in a challenging environment with +1% [(1)] compared to a stable figure last year;
- a negative mix effect due to the geographic mix (reduction of China's weight in favour of India), that is less significant than last year due to renewed growth in the United States;
- good cost control (+1% on a constant mix basis), thanks to the first results of operational efficiency initiatives.

Advertising and promotion investments were up +1% [(1)] to €1,646 million, and the ratio remained virtually stable at 19% of sales. Investments are targeted, specifically on key innovation projects and new growth opportunities (particularly in the United States). Many initiatives were undertaken to improve their effectiveness.

PROFIT FROM RECURRING OPERATIONS

Profit from Recurring Operations was up +2% [(1)], in line with the increase [(1)] in net sales, to reach €2,277 million. Structure costs were managed very well, with an increase of 2% [(1)], which is in line with sales. The currency effect (+0%, or +€6 million) and the scope effect (-1%, or €(13) million) remained limited.

FINANCIAL INCOME/(EXPENSE)

Financial expenses from recurring operations were €(422) million, compared with €(457) million the previous year. The cost of debt stood at 4.1% for the year, compared with 4.4% for the 2014/15 financial year. For 2016/17, the average cost of debt should be around 3.8%.

The debt structure at 30 June 2016 was as follows:

- the bond portion was approximately 96% of gross debt;
- the fixed rate portion was 94% of total debt;
- the maturity of gross debt at the end of June 2016 was six years and eight months;
- the Group had €0.6 billion in cash and €2.4 billion in available credit facilities (undrawn syndicated loan at 30 June 2016);
- structuring the debt by currency (USD: 61%) provides a natural hedging mechanism with debt by currency matched with cash flow by currency.

GROUP NET PROFIT FROM RECURRING OPERATIONS

Tax on Profit from Recurring Operations stood at €(455) million, giving a current effective rate of tax of 24.5%, compared with 24.4% at 30 June 2015. Non-controlling interests amounted to €(20) million.

Group net profit from recurring operations reached €1,381 million, up by +4% compared to the 2014/15 financial year, due to:

- a rise [(1)] in Profit from Recurring Operations;
- a reduction in net interest expense.

Diluted net profit per share from recurring operations stood at €5.20, up +4%.

GROUP NET PROFIT

Other non-recurring operating income and expenses amounted to €(182) million. Non-current financial income (expense) amounted to a net expense of €(10) million. Corporate income tax on non-recurring item as amounted to net income of €46 million.

Accordingly, Group net profit stood at €1,235 million, up +43% on 2014/15, with Group net profit having been affected the previous year by the partial impairment of the Absolut brand (€404 million in net profit after taxes).

(1) Organic growth, defined on page 101.

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* of the Notes to the consolidated financial statements. The following table shows the change in net debt over the year:

€ million	30.06.2015	30.06.2016
Profit from Recurring Operations	**2,238**	**2,277**
Other operating income and expenses	(649)	(182)
◆ Depreciation of fixed assets	214	219
◆ Net change in impairment of goodwill, property, plant and equipment and intangible assets	656	107
◆ Net change in provisions	(156)	(76)
◆ Restatement of contributions to pension funds acquired from Allied Domecq	75	43
◆ Fair value adjustments on commercial derivatives and biological assets	(12)	(4)
◆ Net (gain)/loss on disposal of assets	(98)	(59)
◆ Share-based payments	27	32
Sub-total of depreciation of fixed assets, change in provisions and others	**706**	**263**
SELF-FINANCING CAPACITY BEFORE FINANCING INTEREST AND TAX (1)	**2,296**	**2,358**
Decrease/(increase) in working capital requirements	(193)	(178)
Net interest and tax payments	(992)	(801)
Net acquisitions of non-financial assets and other	(302)	(317)
FREE CASH FLOW	**808**	**1,061**
Of which Free Cash Flow from recurring operations	1,154	1,200
Net disposals of financial assets and activities, contributions to pension funds acquired from Allied Domecq	(37)	(85)
Change in the scope of consolidation	-	-
◆ Capital increase and other changes in shareholders' equity	-	-
◆ Dividends and interim dividends paid	(461)	(497)
◆ (Acquisition)/disposal of treasury shares	(14)	(18)
Sub-total of dividends, purchase of treasury shares and other	**(475)**	**(515)**
DECREASE/(INCREASE) IN DEBT (BEFORE FOREIGN EXCHANGE IMPACT)	**296**	**461**
Foreign currency translation adjustments	(964)	(157)
DECREASE/(INCREASE) IN DEBT (AFTER FOREIGN EXCHANGE IMPACT)	**(668)**	**305**
Net debt at beginning of period	(8,353)	(9,021)
Net debt at end of period	(9,021)	(8,716)

(1) Excluding investments in pension funds acquired from Allied Domecq.

Outlook

Pernod Ricard continued to implement its strategy and confirmed its confidence in its ability to deliver medium-term objectives:

- organic sales growth between +4% and +5%;
- improvement in operating margin.

For 2016/17, the Group expects:

- ongoing solid performance in the United States, India, on Jameson and innovations;
- an improvement in the sales trend compared to the 2015/16 financial year on China, Absolut and Chivas;
- continued implementation of the operational efficiency roadmap and emphasis placed on its priority brands and innovations;
- continued strong cash generation.

The guidance for 2016/17 is organic growth in Profit from Recurring Operations between +2% and +4%.

Definitions and link-up 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.

Organic growth

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

Exchange rates impact is 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, postacquisition 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, in the organic movement calculations, excludes 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 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.

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.

"Recurring" indicators

The following 3 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 share of Net Profit from Recurring Operations:**

  Group share of Net Profit from Recurring Operations corresponds to the Group share of Net Profit excluding other non-current operating income and expenses, non-recurring financial items and corporate income tax on non-recurring items.

Net Debt

Net 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 hedging derivatives (hedging of net investments and similar), less cash and cash equivalents.

EBITDA

EBITDA stands for "earnings before interest, taxes, depreciation and amortization". EBITDA is an accounting measure calculated using the Group's profit from recurring operations excluding depreciation and amortization on operating fixed assets.

Compensation policy

CORPORATE OFFICERS' COMPENSATION

This section has been drawn up with the assistance of the Compensation Committee.

Compensation policy for members of the Board of Directors

The conditions governing Directors' compensation are determined by the Board of Directors on the basis of a recommendation from the Compensation Committee and must fall within the bounds of the total amount allocated by the Shareholders' Meeting for Directors' fees.

Directors' annual compensation comprises a fixed portion set at €11,500, with an additional €5,500 for members of the Audit Committee and €3,000 for members of the Strategic Committee, the Compensation Committee, and the Nominations, Governance and CSR Committee. The Chairman of the Audit Committee receives an additional sum of €6,000, while the Chairmen of the Compensation Committee and of the Nominations, Governance and CSR Committee each receive an additional €3,000.

The Vice Chairman of the Board of Directors receives an additional Directors' fee of €40,000 each year.

Directors are also eligible for a variable portion, calculated on the basis of their presence at Board and Committee meetings. The variable portion is €4,000 per meeting.

Furthermore, in order to take account of distance constraints, an additional premium of €1,500 is paid to Directors who are not French residents when they attend Board meetings. Directors who take part in Board meetings by videoconference or conference call are not eligible for this additional amount.

Employee Directors receive, in the form of Directors' fees, a fixed annual sum of €15,000 for their attendance at meetings of the Board of Directors and of its Committees, if applicable.

The Chairman & CEO does not receive Directors' fees.

Of the €950,000 allocated by the Shareholders' Meeting of 6 November 2015, a total of €880,917 in Directors' fees was paid to members of the Board of Directors in the 2015/16 financial year, in accordance with the rules set out above.

Table of Directors' fees and other compensation received by Non-Executive corporate officers (in euro) (Table 3 AMF nomenclature):

Members of the Board	Amounts paid in 2014/15	Amounts paid in 2015/16
Ms Nicole Bouton	95,500	99,500
Mr Laurent Burelle	40,750	38,500
Mr Michel Chambaud (1)	35,583	N/A
Mr Wolfgang Colberg	83,750	110,000
Mr Ian Gallienne	85,250	92,500
Mr François Gérard (1)	27,583	N/A
Mr César Giron (2)	71,750	73,500
Ms Martina Gonzalez-Gallarza	55,500	55,500
Ms Susan Murray (1)	31,583	N/A
Mr Anders Narvinger (3)	117,167	59,583
Mr Pierre Pringuet (4)	38,708	104,500
Société Paul Ricard represented by Mr Paul-Charles Ricard (2) (5)	43,500	39,500
Mr Gilles Samyn	52,333	71,500
Ms Kory Sorenson (6)	N/A	50,834
Ms Veronica Vargas (7)	21,292	55,500
Mr Sylvain Carré (2)	15,000	15,000
Mr Manousos Charkoftakis (2)	15,000	15,000
TOTAL	**830,250**	**880,917**

N/A: not applicable.

(1) Until 6 November 2014.

(2) In addition to Directors' fees, Messrs César Giron and Paul-Charles Ricard also received compensation in their respective capacities as Chairman & CEO of Martell Mumm Perrier-Jouët (MMPJ) and Marketing Manager of Martell Mumm Perrier-Jouët (MMPJ). Messrs Sylvain Carré and Manousos Charkoftakis, Employee Directors, also received compensation in their respective capacities as Production Team Leader at Pernod S.A. and Area Sales Manager for Crete and the Aegean Islands at Pernod Ricard Hellas.

(3) Until 6 November 2015.

(4) From 11 February 2015, the end of his term of office as Chief Executive Officer.

(5) Permanent representative of Société Paul Ricard, Director.

(6) From 6 November 2015, the date on which she was appointed as a Director by the Shareholders' Meeting to replace Mr Anders Narvinger.

(7) From 11 February 2015, date of her co-option as a Director to replace Ms Danièle Ricard.

Compensation policy for the Executive Director

1. Overall criteria of the policy

The compensation policy for the Executive Director of Pernod Ricard is established by the Board of Directors on the basis of recommendations from the Compensation Committee. This policy is regularly reviewed and discussed by the Board of Directors. During the 2015/16 financial year, members of the Compensation Committee looked into regulatory developments and best practices in terms of proper governance and the level of transparency of the component parts of the Executive Director's compensation package, and made proposals to the Board of Directors for the practical implementation of a number of measures for Pernod Ricard.

In its analysis and proposals to the Board, the Compensation Committee is particularly careful to follow the recommendations of the AFEP-MEDEF Code, which the Group uses as reference. The Board takes particular care to adhere to the following core principles:

Overview and balance

All the elements comprising the compensation package for the Executive Director are reviewed annually and their respective weightings are considered: fixed and variable compensation, volumes and the value of any stock option and/or performance-based share allocations as well as the criteria for definitive allocation, social security benefits and deferred commitments such as the supplementary pension scheme.

Simplicity and consistency

Based on the recommendations of the Compensation Committee, the Board of Directors seeks to implement a compensation policy for the Executive Director that is straightforward, easy to understand and consistent over time. As an example, the decision was therefore made some years ago not to pay Directors' fees to Executive Directors, ensuring impartiality.

The Compensation Committee and the Board of Directors take regular steps to ensure that the elements of the compensation policy for the Executive Director are fully consistent with the policy for all members of the Group's Management team. Such consistency helps to unite players who are key to the Group's development around shared criteria that are known to all.

Motivation and performance

In its recommendations to the Board of Directors, the Compensation Committee aims to propose a compensation policy commensurate with the responsibilities of each recipient and in line with the practices of large international corporations.

The Executive Director of Pernod Ricard receives consistent annual compensation (fixed and variable) in comparison to the compensation paid to his counterparts in French groups that are listed on the CAC 40. In addition, the variable portion granted in the form of stock options and performance-based shares is historically reasonable.

In its recommendations, the Compensation Committee is careful to maintain this balance between motivation and performance, while also taking into consideration Executive Directors' compensation in other corporations especially in spirit industry, around the world.

Lastly, the policy on variable compensation (setting the criteria for the annual variable portion and the performance conditions for stock options and performance-based shares) is kept under regular review, based on the Group's strategic priorities.

2. Fixed portion

The amount of the fixed portion is determined on the basis of the responsibilities of the Executive Director.

Every year, a study is carried out with the help of specialist firms on the positioning of compensation for the Executive Director in relation to the practices of other CAC 40-listed French companies and other spirits corporations around the world.

3. Variable portion

Several years ago, the Board of Directors defined a method for calculating the variable portion of Executive Directors' compensation that was designed to provide a significant incentive. The procedure is based on ambitious quantitative and qualitative criteria in order to align Directors' compensation with Group performance.

This variable portion is expressed as a percentage of the annual fixed portion. It may vary between 0% and 110% if the quantitative and qualitative targets are achieved (target level), and can rise to a maximum of 180% if the Group records exceptional financial performance in relation to the targets. The criteria are reviewed regularly and modified on an occasional basis. During the 2015/16 financial year, on the recommendation of the Compensation Committee, the Board reviewed the criteria and adopted the following:

- **achievement of the target for Profit from Recurring Operations:** the weight of this criterion may vary between 0 and 30% of the fixed compensation if the target is achieved, rising to a maximum of 55% if the target is significantly exceeded. This criterion, intended to foster an incentive to exceed the target for Profit from Recurring Operations, restated for foreign exchange impact and scope changes, is one of the key elements of the Group's decentralised structure. The concept of a commitment to the Profit from Recurring Operations budget helps bring together the Group's various departments, which are rewarded according to the extent to which they meet their own targets for Profit from Recurring Operations. This criterion rewards the management performance of the Executive Director;
- **achievement of the target for Group Net Profit from Recurring Operations:** the weight of this criterion may vary between 0 and 20% if the target is achieved and up to 40% if significantly exceeded. This criterion, restated for currency effects and changes in the scope of consolidation, takes account of all of the Group's financial items over the financial year and thus helps to best align the Executive Director's compensation with shareholders' remuneration;
- **reduction in Group debt (Net debt/EBITDA ratio):** the weight of this criterion varies between 0 and 30% if the target is achieved and up to 55% for an exceptional level of debt reduction, restated for currency effects and changes in the scope of consolidation. The inclusion of this criterion in the calculation of the variable portion paid to the Executive Director is in line with the Group's target. It also applies to operating affiliates' Management Committees in the form of a cash flow generation target during the year. This evaluation of debt reduction is restated for currency effects and changes in the scope of consolidation;

- **qualitative criteria:** these criteria may vary between 0 and a maximum of 30% of the fixed annual compensation. The individual performance of the Executive Director is assessed annually by the Board of Directors on the recommendation of the Compensation Committee. The qualitative criteria assessed are reviewed annually, based on the Group's strategic priorities. For confidentiality reasons regarding the Group's strategy, details of qualitative objectives can only be made public after assessment by the Board of Directors.

4. *Stock option and performance-based share allocation policy for the Executive Director*

As part of its stock option and performance-based share allocation policy, the Board of Directors has implemented **the following principles**:

- the Executive Director's entire allocation is subject to the performance condition(s). Such condition(s) are internal or external performance conditions, or a combination of both where possible and relevant;
- the economic value of the total award made to Executive Director is limited to 5% of the plan's total economic value (the plan's total economic value comprises all elements distributed);
- the financial amount of the allocation to the Executive Director is proportional to his individual annual compensation, and adds to his motivation to achieve medium and long-term financial performance for the Group;
- the total volume of stock options subject to performance conditions awarded to the Executive Director must not exceed the specific ceiling of 0.21% of the share capital on the allocation date, as provided in the 23rd resolution of the Shareholders' Meeting of 6 November 2015;
- the total volume of performance-based shares awarded to the Executive Director must not exceed the specific ceiling of 0.06% of the share capital on the allocation date, as provided in the 22nd resolution of the Shareholders' Meeting of 6 November 2015;
- the Board of Directors requires the Executive Director:
  - to retain in a registered form until the end of his term of office a number of shares corresponding to (i) in respect of stock options, 30% of the capital gain since acquisition, net of social security contributions and taxes, resulting from the exercise of the stock options, and (ii) in respect of performance-based shares, 20% of the volume of performance-based shares that have been actually transferred to him,
  - to undertake to buy a number of additional shares equal to 10% of the performance-based shares transferred, at the time that the performance-based shares are actually transferred to him,
  - once an Executive Director holds a number of registered Company shares that correspond to more than three times his or her gross fixed annual compensation at that time, the above-mentioned obligation will be reduced to 10% for stock options and for performance-based shares and the Executive Director concerned will no longer be required to acquire additional shares. If, in the future, his registered holdings fall below the three-times ratio, the lock-in and acquisition requirements cited above will again apply;
- in accordance with the Code of Conduct approved by the Board of Directors (see Section 2 "Corporate governance and internal control", paragraph "Directors' Code of Conduct") and the AFEP-MEDEF Code, the Executive Director has formally committed to refrain from using hedging mechanisms for any stock options and performance-based shares received from the Company.

A combined allocation plan was implemented by the Board of Directors' meeting of 6 November 2015, under authorisations to allocate stock options and performance-based shares granted for a period of 38 months by the Shareholders' Meeting of 6 November 2015.

The terms and conditions, including the volumes granted under the plan of November 2015 for the Executive Director, are disclosed in the elements of compensation due or granted in respect of the 2015/16 financial year ("Say on Pay") in the section 7 "Combined (Ordinary and Extraordinary) Shareholders' Meeting of 17 November 2016 of this Registration Document.

5. *Policy on deferred commitments*

In accordance with recommendations of the AFEP-MEDEF Code, Mr Alexandre Ricard, at the time of his appointment as the Chairman and CEO of the Group, resigned on 11 February 2015 from his suspended contract of employment and, consequently, waived his right to the benefits related to that contract.

Since that date, Mr Alexandre Ricard no longer has a contract of employment with Pernod Ricard. His compensation relates entirely to his directorship.

Contract of employment/term of office (Table 11 AMF nomenclature)

Executive Directors	Contract of employment		Supplementary defined-benefit pension scheme		Indemnities or advantages due or liable to be due by virtue of the discontinuance of or change in his or her positions		Indemnities relating to a non-compete clause	
	Yes	No	Yes	No	Yes	No	Yes	No
Mr Alexandre Ricard, Chairman and CEO (1)		X	X		X		X	

(1) *Mr Alexandre Ricard resigned from his contract of employment on 11 February 2015, when he was appointed Chairman and CEO. Before this, his contract of employment with Pernod Ricard had been suspended since 29 August 2012.*

In addition, Mr Alexandre Ricard, as Chairman & CEO, benefits from:

- **One-year non-compete clause** a one-year non-compete clause (corresponding to 12 months of compensation: last fixed + variable annual compensation decided by the Board of Directors). The purpose of this non-compete clause is to prevent the Executive Director from performing duties for a competitor. It is a protection mechanism for the Company. In accordance with the AFEP-MEDEF Code, a provision authorises the Board of Directors to waive the application of this clause when the Executive Director leaves;
- **Imposed departure clause** an imposed departure clause (corresponding to a maximum of 12 months of compensation: last fixed + variable annual compensation decided by the Board of Directors) subject to performance conditions. In accordance with the AFEP-MEDEF Code, this amount will be due in case of a change of control or strategy of the Group, but there would be no payment in case of a departure related to i) non-renewal of his term of office, ii) if the departure was decided by the Executive Director himself, iii) in case of a change of position within the Group or iv) if he is able to benefit in the near future from pension rights.

  The imposed departure clause is subject to the following three performance criteria:

  - 1st criterion: bonus rates achieved over the term(s) of office: criterion number 1 will be considered as met if the average bonus paid over the entire length of the term(s) of office is no less than 90% of the target variable compensation;
  - 2nd criterion: growth rate of Profit from Recurring Operations over the term(s) of office: criterion number 2 will be considered as met if the average growth rate of Profit from Recurring Operations vs budget of each year over the entire length of the term(s) of office is more than 95% (adjusted from foreign exchange and scope impacts);
  - 3rd criterion: average sales growth over the term(s) of office: criterion number 3 will be considered as met if the average sales growth over the entire length of the term(s) of office is greater than or equal to 3% (adjusted from foreign exchange and scope impacts).

  The amount of the compensation paid under the imposed departure clause is calculated as follows:

  - if all three criteria are met: payment of 12 months' compensation(1);
  - if two of the three criteria are met: payment of 8 months' compensation(1);
  - if one of the three criteria is met: payment of 4 months' compensation(1);
  - if no criterion is met: no compensation paid.

In accordance with the AFEP-MEDEF Code, the overall amount of the non-compete clause and the imposed departure clause will be capped at (sum of both clauses) 24 months' compensation (fixed + variable).

Pursuant to the regulated agreements and commitments procedure, these commitments were approved by the Shareholders' Meeting of 6 November 2015 (5th resolution).

The Shareholders' Meeting of 17 November 2016 (5th resolution) will be asked to approve the renewal of these regulated agreements benefiting Mr Alexandre Ricard, subject to the renewal of his term of office as Executive Director by the Board of Directors to be held at the close of the Shareholders' Meeting.

- **Defined-benefit supplementary pension scheme**

During the Board of Directors' meeting of 11 February 2015, Mr Alexandre Ricard was allowed to retain the benefits of the supplementary and conditional defined-benefit pension scheme described below.

The defined-benefit supplementary pension scheme for the Executive Director, as described below, corresponds to the scheme applicable to Mr Alexandre Ricard during the 2015/16 financial year.

The Executive Director and French Senior Management team of Pernod Ricard have a conditional defined-benefit supplementary pension scheme (Article 39) under article L. 137-11 of the French Social Security Code, provided that they:

- have at least 10 years' seniority within the Group when they leave or retire,
- are at least 60 years of age on the date of leaving or retirement,
- have wound up the basic and complementary French social security pension schemes (ARRCO, AGIRC (T1 and T2)),
- permanently put an end to their professional career, and
- end their professional career within the Group. In accordance with regulations, employees aged over 55 whose contract is terminated and who do not take up another job are deemed to have retired. The Board of Directors has consistently chosen to treat the Group's Executive Directors in the same way as its Senior Managers, especially with regard to elements comprising compensation and advantages, including supplementary pensions. It therefore signalled at its meeting of 12 February 2009 that the termination of an Executive Director's mandate can be assimilated with the termination of a work contract, subject to the above-mentioned conditions regarding age and failure to take up another job.

The aim of the scheme is to allow the Group's Senior Managers to supplement the pension provided by France's mandatory state-run pension scheme. It offers retired beneficiaries a life annuity that can be passed on to their spouse and/or ex-spouse in the event of death.

Pensions are proportionate to the beneficiary's length of service, with an upper limit of 20 years. Pensions are calculated on the basis of the beneficiary's average compensation (fixed and variable) over the three years preceding his or her retirement.

The amount of the supplementary annuity is calculated by applying the following coefficients to the basis of calculation:

- for the portion of the compensation between 8 and 12 times France's annual social security ceiling, the coefficient is 2% multiplied by the number of years' service (capped at 20 years, i.e. 40%),
- between 12 and 16 times France's annual social security ceiling, the coefficient is 1.5% per year of service (capped at 20 years, i.e. 30%), and
- in excess of 16 times France's annual social security ceiling, the coefficient is 1% per year of service (capped at 20 years, *i.e.* 20%)

The supplementary pension equals the sum of the three amounts above.

In addition, the rights granted under this plan, added to those of other pensions, cannot exceed two-thirds of the amount of the beneficiary's most recent fixed annual compensation.

A provision is entered on the balance sheet during the build-up phase (while the Executive Director is active) and, when the beneficiary claims his or her pension, the capital is transferred to an insurer and thus entirely outsourced.

(1) Last annual fixed and variable compensation decided by the Board of Directors.

Funding for this scheme is the responsibility of Pernod Ricard, which pays premiums to a third-party insurance agency to which it has entrusted management of this pension scheme.

Pursuant to the provisions of Decree No. 2016-182 of 23 February 2016, at 30 June 2016, the estimated gross amount of the annuity potentially paid under the supplementary defined-benefit pension scheme for Mr Alexandre Ricard was €173,105 per year.

The relevant social security contributions falling due to Pernod Ricard stood at 24% of the contributions transferred to the insurer.

◆ Supplementary pension scheme

Given the current high charges of the defined-benefit supplementary pension scheme (article L. 137-11 of the French Social Security Code) and its loss of efficiency, the Board of Directors at its meeting of 31 August 2016 [(1)], acting on the recommendation of the Compensation Committee, decided to remove this advantage granted to Mr Alexandre Ricard, Executive Director, as of the renewal of his term of office as Executive Director, which will be put to the Board of Directors' meeting to be held at the close of the Shareholders' Meeting of 17 November 2016. In return for the removal of the defined-benefit supplementary pension scheme and to take account of the fact that the Executive Director must then be personally responsible for establishing his own supplementary pension, the Board of Directors, on the recommendation of the Compensation Committee, decided to compensate Mr Alexandre Ricard, subject to (i) the renewal of his term of office as Executive Director by the Board of Directors' meeting to be held at the close of the Shareholders' Meeting of 17 November 2016 and (ii) the vote by the Shareholders' Meeting of 17 November 2016 on the resolution regarding the allocation of free shares, *via* the granting of two components of additional compensation:

- an exceptional component intended to allow the Executive Director to build up seed capital allowing him to establish his supplementary pension. This will consist of an exceptional allocation of 26,968 free shares that will be vested, subject to a presence condition, in instalments over a period of three years (*i.e.* 8,989 shares in November 2017, 8,989 shares in November 2018 and 8,990 shares in November 2019). At the end of the vesting period, they will all be subject to a lock-in period that shall be no less than two years. The Board of Directors wished to arrange compensation exclusively in shares so as to ensure total alignment of interests with that of the shareholders. These shares have an IFRS value of €2,668 million.

  Since this allocation is intended to partially compensate the rights granted in connection with the defined-benefit supplementary pension scheme which will no longer apply to the Executive Director, the Board of Directors, acting on the recommendation of the Compensation Committee, decided not to submit said shares to performance criteria. However, it did wish to impose a presence condition by spreading the vesting period over three years.

  This exceptional allocation of free shares will be subject to the approval of the relevant resolution by the Shareholders' Meeting of 17 November 2016 (16th resolution) and as part of a specific plan to be implemented by the Board of Directors following the Shareholders' Meeting.

- an annual component equal to 10% of his annual fixed and variable compensation, paid each year with effect from 2017:
  - half (*i.e.* 5%) in the form of the allocation of performance-based shares, the number of which will be determined based on the IFRS value of shares when the allocation occurs, which must be approved by the Board of Directors each year. The conditions relating to performance, presence and holding that will apply to these allocations will be the same as those outlined under the allocation of Group performance-based shares plan in effect on the grant date, and
  - half (*i.e.* 5%) in cash.

  It is made clear that the Executive Director will commit to invest the cash component of this additional compensation he may receive, net of social security contributions and tax, in investment vehicles dedicated to financing his supplementary pension.

Based on the calculations made by a consulting actuary and verified by a second consulting actuary, this decision to terminate the Executive Director's defined-benefit supplementary pension scheme will result in a reversal of provision of €7.0 million in the consolidated financial statements for the 2016/17 financial year and a saving for the Company of approximately 39%, *i.e.* €7.1 million (composed of €3.8 million for past services and €3.3 million for future services).

◆ Collective healthcare and welfare schemes

The Board of Directors, held on 11 February 2015, allowed Mr Alexandre Ricard to retain the collective healthcare and welfare schemes offered by the Company under the same terms as those applicable to the category of employees to which he belongs for the determination of his welfare benefits and other additional elements of his compensation.

In accordance with the regulated agreements and commitments procedure, this commitment was approved by the Shareholders' Meeting of 6 November 2015 (5th resolution).

The Shareholders' Meeting of 17 November 2016 (5th resolution) will be asked to renew this commitment benefiting Mr Alexandre Ricard, subject to the renewal of his term of office as Executive Director by the Board of Directors to be held at the close of the Shareholders' Meeting.

(1) A notice was published online on 5 September 2016 detailing this removal.

Summary of Mr Alexandre Ricard elements of compensation due or granted for the 2015/16 financial year

Summary table of compensation paid and options and shares granted to Mr Alexandre Ricard (Table 1 AMF nomenclature)

In euro	2014/15	2015/16
Compensation due for the financial year (1)	1,724,100	1,833,649
Value of multi-year variable compensation allocated during the financial year	N/A	N/A
Value of options granted during the financial year	N/A	332,028
Value of performance-based shares allocated during the financial year	505,528	593,290
TOTAL	**2,229,628**	**2,758,967**

N/A: not applicable.

(1) 2014/15: in his capacity as Deputy Chief Executive Officer and Chief Operating Officer until 11 February 2015 then as Chairman & CEO after that date.

Summary table of compensation paid to Mr Alexandre Ricard (by the Company and the controlled companies as defined by article L. 233-16 of the French Commercial Code and the controlling company or companies) – (Table 2 AMF nomenclature)

	2014/15		2015/16	
In euro	Amounts due	Amounts paid	Amounts due	Amounts paid
Fixed compensation (1)	837,185	837,185	950,000	950,000
Annual variable compensation (1) (2)	883,649	415,500	913,900	883,649
Multi-year variable compensation	N/A	N/A	N/A	N/A
Special bonus	N/A	N/A	N/A	N/A
Directors' fees	N/A	N/A	N/A	N/A
Benefits in kind (3)	3,266	3,266	3,260	3,260
TOTAL	**1,724,100**	**1,255,951**	**1,867,160**	**1,836,909**

N/A: not applicable.

(1) 2014/15: in his capacity as Deputy Chief Executive Officer and Chief Operating Officer until 11 February 2015 then as Chairman & CEO after that date.

(2) The variable compensation due in year N-1 is paid in year N.

(3) Company car.

Stock options granted to Mr Alexandre Ricard by the Company and any Group companies during the financial year (Table 4 AMF nomenclature)

	Date of plan	Type of options (purchase or subscription)	Value of shares according to the method used for the consolidated financial statements (IFRS)	Number of options granted during the financial year	Strike price	Performance conditions	Exercise period
2015/16 financial year	06.11.2015	Purchase	€332,028	20,700	€102.80	Positioning of the overall performance of the Pernod Ricard share compared to the overall performance of a panel of 12 companies over three years	From 07.11.2019 to 06.11.2023

Stock options exercised by Mr Alexandre Ricard during the financial year (Table 5 AMF nomenclature)

Date of plan	Number of options exercised during the financial year	Strike price
15.06.2011	12,092	€68.54

Performance-based shares granted to Mr Alexandre Ricard by the Company and any Group companies during the financial year (Table 6 AMF nomenclature)

Date of plan	Number of shares granted during the year	Valuation of shares according to the method used for the consolidated financial statements (IFRS)	Acquisition date	Vesting date	Performance conditions
06.11.2015	3,000	€297,720	07.11.2019	07.11.2019	Average ratio of achievement of the forecast Profit from Recurring Operations in N, N+1, and N+2 (three consecutive financial years).
06.11.2015	5,500	€295,570	07.11.2019	07.11.2019	* Average ratio of achievement of the forecast Profit from Recurring Operations in N, N+1, and N+2 (three consecutive financial years). * Positioning of the overall performance of the Pernod Ricard share compared to the overall performance of a panel of 12 companies over three years.

Performance-based shares vested to Mr Alexandre Ricard during the financial year (Table 7 AMF nomenclature)

Date of plan	Number of shares vested during the financial year	Terms of acquisition
N/A [1]	-	-

N/A: not applicable.

(1) Only performance-based shares granted to Mr Alexandre Ricard in his capacity as an Executive Director and vested during the financial year are cited.

COMPENSATION ELEMENTS DUE OR GRANTED FOR THE 2015/16 FINANCIAL YEAR TO THE COMPANY'S EXECUTIVE DIRECTOR, SUBMITTED TO THE SHAREHOLDERS' ADVISORY VOTE

Details of the compensation due or granted for the 2015/16 financial year to Mr Alexandre Ricard, Chairman & CEO, submitted to the shareholders' advisory vote at the Shareholders' Meeting of 17 November 2016 ("Say on Pay") are given in Section 7 "Combined (Ordinary and Extraordinary) Shareholders' Meeting of 17 November 2016" of this Registration Document.

OTHER ASPECTS OF THE COMPENSATION POLICY

Overall stock option and performance-based share allocation policy

During the 2015/16 financial year, the Board of Directors reaffirmed its desire to give the Group's key personnel an interest in the performance of Pernod Ricard shares, and during its meeting of 6 November 2015, it decided to introduce a combined allocation plan made up of stock options and performance-based shares.

The Board's aim is therefore to continue to align the interests of Pernod Ricard employees with those of the shareholders, by encouraging them to hold shares of the Company.

As in the past, more than 1,000 employees were rewarded, so that the Company could target not only senior managers but also foster the loyalty of young managers with potential (identified as "new talents") in the Group's affiliates worldwide.

The 6 November 2015 allocation plan consists of stock options with performance conditions and performance-based shares.

The Board of Directors confirmed the following plan features on the recommendation of the Compensation Committee:

- subject all allocations (stock options and performance-based shares) to performance criteria;
- change the external performance criterion applicable to stock options and a portion of the performance-based shares allocated to the Executive Director: positioning of the overall performance of Pernod Ricard shares compared to the overall performance of a panel of comparable companies over three years, only considering positioning on the median or higher;
- retain the internal performance criterion applicable to performance-based shares, *i.e.* the average level of achievement of annual objectives of profit from recurring operations, though this time assessed over three consecutive financial years;
- reintroduce a mixed award for managers in the most senior positions, comprising a balance between stock options and performance-based shares, which provides a fair reward when the external and internal criteria have been met;
- for staff at lower levels, the plan continues with performance-based share awards, with the number of shares varying depending on the classification of the employee's position within the Group.

Allocation of stock options with external performance conditions

The volume of performance-based stock options allocated by the Board of Directors' meeting of 6 November 2015 stood at 278,575 stock options (including 20,700 to Mr Alexandre Ricard).

All of the stock options under the plan are subject to an external performance condition and will become exercisable from November 2019 depending on the positioning of the overall performance of Pernod Ricard shares compared to the overall performance of a panel of 12 comparable companies. This condition will be evaluated over a three-year period following the plan allocation, *i.e.* from 6 November 2015 to 6 November 2018 inclusive.

The number of shares that will be ultimately granted to Mr Alexandre Ricard will be determined by comparing the performance of the Pernod Ricard share and the overall performance of a Panel from 6 November 2015 to 6 November 2018 inclusive (three years). Therefore, if the overall performance of the Pernod Ricard share (TSR) is:

- below the median (8th to 13th position): no options will be exercisable;
- at the median (7th position): 66% of the options will be exercisable;
- in 6th, 5th or 4th position: 83% of the options will be exercisable; and
- in 3rd, 2nd or 1st position: 100% of options will be exercisable.

At the grant date, the Board of Directors decided that the Panel shall comprise, in addition to Pernod Ricard, the following twelve companies: Diageo, Brown Forman, Rémy Cointreau, Campari, Constellation Brands, AB InBev, SAB Miller plc, Heineken, Carlsberg, Coca-Cola, PepsiCo and Danone.

The Panel's composition is subject to change, based on the above-mentioned companies' evolution. The Board of Directors shall, with a duly reasoned decision and following the recommendation of the Compensation Committee, exclude a company from or add a new company to the Panel, especially in the case of an acquisition, absorption, dissolution, spin-off, merger or change of business of one or more of the Panel's members, subject to maintaining the overall consistency of the Panel and enabling the application of the external performance condition in line with the performance objective set upon allocation.

The vesting period of the options is of four years followed by an exercise period of four years.

Allocation of performance-based shares with internal and external performance conditions

The volume of performance-based shares with internal and external performance conditions allocated by the Board of Directors' meeting of 6 November 2015 was 5,500 shares (allocated in full to Mr Alexandre Ricard).

All of the performance-based shares under the plan are subject to internal and external performance conditions and will be granted from November 2019 depending on the internal performance condition (see below) and the positioning of the overall performance of Pernod Ricard shares compared to the overall performance of a panel of 12 comparable companies (see above). This condition will be evaluated over a three-year period following the plan allocation, *i.e.* from 6 November 2015 to 6 November 2018 inclusive.

The volumes subject to the external performance condition will be those determined at the close of the 2017/18 accounts after applying the internal condition. The final volumes will be calculated at the end of the evaluation period of the external condition by applying the following formula:

- below the median (8th to 13th position), no options will be exercisable;
- at the median (7th position), 66% of the options will be exercisable;
- in 6th, 5th, or 4th position, 83% of the options will be exercisable; and
- in 3rd, 2nd or 1st position, 100% of the options will be exercisable.

Allocation of performance-based shares with internal condition

A total of 413,423 performance-based shares were awarded by the Board of Directors on 6 November 2015 (of which 3,000 were awarded to Mr Alexandre Ricard) subject to the internal performance condition described below.

The number of performance-based shares that will be ultimately granted will be determined based on the ratios of achievement of Group net profit from recurring operations realised, adjusted from foreign exchange and scope impacts, compared to the Group net profit from recurring operations forecast for three consecutive financial years (2015/16, 2016/17 and 2017/18).

The number of performance-based shares is determined according to the following conditions:

- if the average level of achievement is below or equal to 0.95: no performance-based shares will be acquired;
- if the average level of achievement is between 0.95 and 1: the number of performance-based shares acquired is determined by applying the percentage of linear progression between 0 and 100%; and
- if the average level of achievement is greater than or equal to 1: 100% of the performance-based shares may be acquired.

Performance-based shares allocated to all beneficiaries have a four-year vesting period, with no lock-in period.

In addition, beneficiaries must still be part of the Group on the vesting date, except in the case of retirement, death or invalidity.

History of allocations of stock options – Situation at 30 June 2016 (Table 8 AMF nomenclature)

	Plan dated 11.08.2005	Plan dated 14.06.2006	Plan dated 18.06.2008	Plan dated 24.06.2010	Plan dated 15.09.2010
Date of authorisation by Shareholders' Meeting	17.05.2004	17.05.2004	07.11.2006	02.11.2009	02.11.2009
Date of Board of Directors' meeting	25.07.2005	14.06.2006	18.06.2008	24.06.2010	01.09.2010
Type of options	Purchase	Purchase	Purchase	Purchase	Purchase
Total number of options that can be subscribed or purchased	981,206	2,279,214	1,273,556	901,603	70,000
of which by corporate officers of Pernod Ricard SA	115,945	205,140	141,258	-	70,000
of which by Mr Pierre Pringuet (1)	35,675	91,174	57,062	-	70,000
of which by Mr Alexandre Ricard (2)	N/A	N/A	N/A	N/A	N/A
Commencement date for exercise of options	12.08.2009	15.06.2010	19.06.2012	25.06.2014	16.09.2014
Expiry date	11.08.2015	14.06.2016	18.06.2016	24.06.2018	15.09.2018
Subscription or purchase price (in euro)	€52.59	€58.41	€66.16	€64.00	€64.00
Number of shares subscribed or purchased	906,566	2,145,531	1,170,908	402,494	2,500
Total number of stock options cancelled or lapsed (3)	74,640	133,683	102,648	51,495	-
of which allocated to Mr Pierre Pringuet (1)	-	-	-	-	-
of which allocated to Mr Alexandre Ricard (2)	N/A	N/A	N/A	N/A	N/A
Subscription or purchase options remaining	-	-	-	447,614	67,500

	Plan dated 15.06.2011	Plan dated 27.06.2012	Plan dated 06.11.2013	Plan dated 06.11.2015
Date of authorisation by Shareholders' Meeting	02.11.2009	02.11.2009	09.11.2012	06.11.2015
Date of Board of Directors' meeting	15.06.2011	27.06.2012	06.11.2013	06.11.2015
Type of options	Purchase	Purchase	Purchase	Purchase
Total number of options that can be subscribed or purchased	948,050	415,400	349,640	278,575
of which by corporate officers of Pernod Ricard SA	65,220	60,000	42,500	20,700
of which by Mr Pierre Pringuet (1)	65,220	60,000	26,000	0
of which by Mr Alexandre Ricard (2)	N/A	N/A	16,500	20,700
Commencement date for exercise of options	16.06.2015	28.06.2016	07.11.2017	07.11.2019
Expiry date	15.06.2019	27.06.2020	06.11.2021	06.11.2023
Subscription or purchase price (in euro)	€68.54	€78.93	€88.11	€102.80
Number of shares subscribed or purchased	272,129	-	-	-
Total number of stock options cancelled or lapsed (3)	50,852	415,400	1,000	-
of which allocated to Mr Pierre Pringuet (1)	978	60,000	-	-
of which allocated to Mr Alexandre Ricard (2)	N/A	N/A	-	-
Subscription or purchase options remaining	625,069	-	348,640	278,575

N/A: not applicable.

(1) Only options cancelled or allocated to Mr Pierre Pringuet in his capacity as an Executive Director (i.e. until 11 February 2015) are cited.

(2) Only options cancelled or allocated to Mr Alexandre Ricard in his capacity as an Executive Director are cited.

(3) Options cancelled after the beneficiaries failed to meet the continuous service and/or performance conditions.

On 30 June 2016, 1,767,398 stock options (all for share purchases) were in circulation, or approximately 0.67% of the Company's share capital; all these options were in the money (at the Pernod Ricard share closing price on 30 June 2016 = €100.10).

At present, there are no Pernod Ricard "subscription" stock options in circulation.

History of allocations of performance-based shares – Situation at 30 June 2016 (Table 10 AMF nomenclature)

	Plan dated 18.06.2008	Plan dated 24.06.2010	Plan dated 15.06.2011	Plan dated 27.06.2012	Plan dated 06.11.2013	Plan dated 06.11.2014	Plan dated 06.11.2015
Date of authorisation by Shareholders' Meeting	07.11.2007	07.11.2007	10.11.2010	10.11.2010	09.11.2012	06.11.2014	06.11.2015
Date of Board of Directors' meeting	18.06.2008	24.06.2010	15.06.2011	27.06.2012	06.11.2013	06.11.2014	06.11.2015
Number of performance-based shares allocated	411,634	572,119	578,759	654,750	570,880	583,240	418,923
of which to corporate officers of Pernod Ricard SA	N/A	N/A	N/A	N/A	15,600	29,800	8,500
of which to Mr Pierre Pringuet (1)	N/A	N/A	N/A	N/A	9,500	18,200	-
of which to Mr Alexandre Ricard (2)	N/A	N/A	N/A	N/A	6,100	11,600	8,500
Vesting date of the performance-based shares	18.06.2010 (FRA) 18.06.2012 (ROW)	24.06.2013 (FRA) 24.06.2014 (ROW)	15.06.2014 (FRA) 15.06.2015 (ROW)	27.06.2015 (FRA) 27.06.2016 (ROW)	06.11.2016 (FRA) 06.11.2017 (ROW)	06.11.2018	06.11.2019
End date for share lock-in period	19.06.2012 (FRA and ROW)	25.06.2015 (FRA) 25.06.2014 (ROW)	16.06.2016 (FRA) 16.06.2015 (ROW)	28.06.2017 (FRA) 28.06.2016 (ROW)	07.11.2018 (FRA) 07.11.2017 (ROW)	07.11.2018	07.11.2019
Presence of performance condition	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Number of performance-based shares cancelled (3)	237,110	89,751	114,711	245,968	231,219	155,027	7,200
of which allocated to Mr Pierre Pringuet (1)	-	-	-	-	2,850	4,004	-
of which allocated to Mr Alexandre Ricard (2)	-	-	-	-	1,830	2,552	-
Performance-based shares vested (4)	174,524	482,368	464,048	408,782	388	-	-
Unvested performance-based shares (5)	-	-	-	-	339,273	428,213	411,723

N/A: not applicable.

All performance-based shares are subject to performance conditions and the beneficiaries must still be working for the Company. Performance-based shares become available after four or five years on condition that the beneficiaries are still working for the Company on the vesting date. The vesting period is two years (for the 2008 plan) or three years (plans after 2008) for tax residents of France (FRA) (followed by a two-year lock-in period) and four years for non-tax residents of France (ROW) (no lock-in period). For the 2014 and 2015 plans, the vesting period is four years with no lock-in period for all beneficiaries.

(1) Only performance-based shares cancelled or allocated to Mr Pierre Pringuet in his capacity as an Executive Director (i.e. until 11 February 2015) are cited.

(2) Only performance-based shares cancelled or allocated to Mr Alexandre Ricard in his capacity as an Executive Director are cited.

(3) Performance-based shares cancelled after the beneficiaries ceased to meet the continuous service condition (through resignation or redundancy) or failed to meet the performance conditions (June 2008, June 2011, June 2012, November 2013 and November 2014 plans).

(4) Allocated shares that were vested and transferred to the beneficiaries. The 2013 plan shares were transferred early to heirs following the death of a beneficiary.

(5) For the November 2013, November 2014 and November 2015 plans, it consists of all performance-based shares under these plans for which the performance condition was evaluated in full for the November 2013 plan and the November 2014 plan and not evaluated at all for the November 2015 plan, since the condition is now based on an average achievement of annual targets, the achievement will only be determined at the close of the 2017/18 accounts.

Stock options granted to the Group's top 10 employees other than corporate officers and options exercised by the Group's top 10 employees other than corporate officers during the 2015/16 financial year (Table 9 AMF nomenclature)

	Number of options granted/shares subscribed or purchased	Weighted average price *(in euro)*	Plans
Options granted during the financial year by the Company and any companies within its Group granting options, to the top 10 employees of the Company and any such Group company, receiving the highest number of options	78,400	102.80	06.11.2015
Options exercised during the financial year by the top 10 employees of the Company and all companies within its Group granting options, with the highest number of options thus exercised	160,873	62.28	11.08.2005/ 14.06.2006/ 18.06.2008/ 24.06.2010/ 15.06.2011

Pernod Ricard has not issued any other option instruments granting access to shares reserved for its Executive Directors or the top 10 employees of the Company and all companies within its Group granting options.

Employee profit-sharing plans

All employees of the Group's French companies benefit from profit-sharing and incentive agreements based on the results of each specific entity. In line with the Group's decentralised structure, the terms and conditions of each of these agreements are negotiated at the level of each entity concerned.

Similarly, outside France, the Group encourages all affiliates to implement local agreements enabling employees to share in the profits of the entity to which they belong.

Profit-sharing agreements of this type exist in countries including Ireland and the United Kingdom: in each of these countries, employees may potentially receive Pernod Ricard shares based on their entity's annual results.

Provisions for pension benefits

Details of the total amount of provisions recorded or otherwise recognised by the Company for the payment of pensions are set out in Note 4.7 – *Provisions* of the Notes to the consolidated financial statements.

Compensation of Executive Committee members

The members of the Compensation Committee are kept regularly informed of changes in the compensation given to members of the Executive Committee, made up of the Executive Board (the Managing Directors, General Counsel and Global Business Development Director) and the Chairmen of the Group's direct affiliates.

In regularly reviewing the various aspects of compensation, the members of the Compensation Committee pay particular attention to ensuring that the policy applied to the Group's Executive Director is consistent with the policy applied to the members of the Group's Senior Management both in France and internationally.

The compensation of the members of the Executive Board (excluding the Chairman & CEO), which is set by the General Management, comprises a fixed annual portion, plus a variable portion representing an attractive incentive, for which the criteria are largely based, as is the case for the Executive Director, on the Group's financial performances and debt reduction. Qualitative criteria to evaluate individual performance are also applied to this variable financial portion.

The Chairmen of the Group's direct affiliates, who are members of the Executive Committee, also receive compensation comprising a fixed portion, which is set in proportion to individual responsibilities, plus a variable portion, for which the quantitative criteria depend firstly on the financial performance of the entity they manage and secondly on the Group's results, with a view to strengthening solidarity and collegiality. The Chairmen are also evaluated using individual qualitative criteria.

The same performance indicators thus apply to the key players in the Group's business development, through the structure of and the method for evaluating the variable portion of their annual compensation.

For a number of years, all members of the Executive Committee have also been evaluated on the basis of their people development and management performance and the implementation of Sustainability & Responsibility (S&R) projects.

The total amount of the fixed compensation allocated for the 2015/16 financial year to the members of the Executive Committee, including the Executive Director, stood at €7.6 million (vs. €8.2 million in N-1). In addition to this, variable compensation of €5.1 million (variable portion calculated for 2014/15) was also paid (vs. €5.2 million in N-1).

The total expense in respect of pension commitments for members of the Executive Committee, including the Executive Director, was €4.3 million in the financial statements for the year ended 30 June 2016 (vs. the same figure of €4.3 million at 30 June 2015).

TRANSACTIONS INVOLVING PERNOD RICARD SHARES MADE BY DIRECTORS IN THE 2015/16 FINANCIAL YEAR (ARTICLE 223-26 OF THE AMF GENERAL REGULATIONS)

First name, surname, Company name	Function	Financial instrument	Type of transaction	Date	Price *(in euro)*	Amount of transaction *(in euro)*
Mr Alexandre Ricard	Chairman & CEO	Stock options	Exercise of stock options	02.07.2015	68.54	828,786
		Shares	Acquisition	12.02.2016	92.85	19,777
		Shares	Acquisition	24.06.2016	93.50	129,310
Mr Pierre Pringuet	Vice Chairman of the Board of Directors	Stock options	Exercise of stock options	29.03.2016	66.16	3,775,222
Mr César Giron	Chairman & CEO, Martell Mumm Perrier-Jouët (MMPJ)	Stock options	Exercise of stock options	15.07.2015	68.54	828,786
		Shares	Disposal	15.07.2015	108.9072	1,316,906
Ms Kory Sorenson	Director	Shares	Acquisition	12.02.2016	93.35	4,667
		Shares	Acquisition	15.02.2016	96.20	24,050
		Shares	Acquisition	15.02.2016	96.00	19,200
		Shares	Acquisition	15.02.2016	95.842	47,921
Le Delos Invest II	Legal entity linked to Mr Alexandre Ricard, Chairman & CEO	Shares	Acquisition	30.09.2015	90.2015	7,216,120
		Shares	Acquisition	01.10.2015	90.84	7,783,807
		Stock options	Transfer of stock put options	04.12.2015	2.2316	273,255
		Stock options	Transfer of stock put options	22.04.2016	0.9602	126,620
Rigivar SL	Legal entity that is linked to Paul Ricard concert	Shares	Acquisition	01.09.2015	90.68	163,224

DIRECTORS' EQUITY INVESTMENTS IN THE SHARE CAPITAL OF THE COMPANY (POSITION AT 30 JUNE 2016)

Members of the Board of Directors	Number of shares at 30.06.2016	Percentage of share capital at 30.06.2016	Number of voting rights at 30.06.2016	Percentage of voting rights at 30.06.2016
Executive Directors				
Mr Alexandre Ricard (Chairman & CEO)	49,542	0.02%	49,542	0.02%
Mr Pierre Pringuet (Vice Chairman of the Board of Directors)	380,088	0.14%	439,072	0.15%
Directors				
Mr César Giron	8,711	N.M.	11,618	N.M.
Ms Martina Gonzalez-Gallarza	1,100	N.M.	1,100	N.M.
Société Paul Ricard represented by Mr Paul-Charles Ricard (1)	35,031,887	13.20%	55,930,570	19.16%
Veronica Vargas	5,420	N.M.	5,420	N.M.
Independent Directors				
Ms Nicole Bouton	1,150	N.M.	1,150	N.M.
Mr Laurent Burelle	1,000	N.M.	1,000	N.M.
Mr Wolfgang Colberg	1,076	N.M.	1,076	N.M.
Mr Ian Gallienne	1,000	N.M.	1,000	N.M.
Mr Gilles Samyn	1,000	N.M.	1,000	N.M.
Ms Kory Sorenson	1,000	N.M.	1,000	N.M.
Employee Director (2)				
Mr Manousos Charkoftakis	50	N.M.	50	N.M.
Mr Sylvain Carré	-	N.M.	-	N.M.

N.M.: Not meaningful.

(1) This includes the shares held by Société Paul Ricard and by Le Garlaban, Le Delos Invest I, Le Delos Invest II and Le Delos Invest III (the 8,392,096 Pernod Ricard shares held by Le Delos Invest III were transferred as collateral for the full performance of its obligations under the terms of a financial futures contract entered into on 10 April 2009), related to Société Paul Ricard as defined in article L. 621-18-2 of the French Monetary and Financial Code.

(2) In accordance with the law, Employee Directors are not obliged to hold a minimum number of shares of the Company.

Risk management

INTRODUCTION

Pernod Ricard faces a range of internal and external risks that may affect the achievement of its objectives. The main risks to which the Group considers itself exposed at this date of this document are set out below.

In view of these risks, Pernod Ricard has implemented a system of internal control and risk management to better forecast and control them. The principles and procedures of internal control and risk management are described in Section 2 "Corporate governance and internal control" of this document in the Report of the Chairman of the Board of Directors on internal control and risk management. As part of the Group's decentralised structure, each function and each affiliate continuously participates in the smooth running and improvement of this system. The coverage and insurance implemented by the Group to counter these risks is given below.

In the future, it may be the case that other risks not currently known or considered as insignificant could negatively affect the Group.

SUMMARY OF THE MAIN RISK FACTORS TO WHICH PERNOD RICARD CONSIDERS ITSELF EXPOSED AT THE DATE OF THIS REGISTRATION DOCUMENT

Risks relating to business activities	Risks relating to the global economic environment and location Risks relating to further consolidation in the Wines & Spirits segment Image risks relating to product quality Risks relating to competition Risks relating to innovation and consumer expectations Risks relating to personnel Risks relating to information systems Risks relating to raw materials and energy prices Risks relating to external growth operations Risks relating to seasonal trends
Industrial and environmental risks	Risks relating to industrial sites and inventory management Risks for consumers Industrial and environmental risks
Legal and regulatory risks	Risks relating to changes in the regulatory environment Risks relating to Intellectual Property Risks relating to litigation
Financial risks	Risks relating to the Group's indebtedness Market risks (currency and interest rates) Liquidity risks Counterparty risks in financial transactions Risks relating to the Group's pension plans

RISKS RELATING TO BUSINESS ACTIVITIES

Risks relating to the global economic environment and location

The Group's business is sensitive to general economic conditions in its key markets, in particular in the United States, China, India and France. In most countries, the consumption of Wines & Spirits, which is closely linked to the broader economic environment, tends to decline during periods of economic recession, unemployment, reductions in consumer spending, and increases in the cost of living.

Currency fluctuations against the euro may also impact the Group's results. Due to the geographic split of its business activity, the Group is specifically exposed to fluctuations in the US dollar, the pound sterling and emerging market currencies against the euro (see "Analysis of business activity and results" in this Management Report).

In addition, Wines & Spirits consumers, including consumers of Pernod Ricard's products, also have the option of trading down to less costly products ("standard" as opposed to "premium" products), particularly during economic downturns, or as a result of government measures. To this end, the Chinese government has established measures to dampen conspicuous consumption. This resulted in lower sales growth (at constant exchange rates and scope of consolidation) over the last three financial years, with Pernod Ricard recording -23% for the 2013/14 financial year, -2% for 2014/15, then -9% for 2015/16, even though the Group had been growing strongly in this market in previous years (+9% in 2012/13 and +24% in 2011/12).

Furthermore, the Group derives a considerable portion of its business (38% of sales in 2015/16) from emerging markets in Asia, Eastern Europe and Latin America (China, India, and Russia). Although any country in the world could be affected, the Group's activities in emerging markets are more particularly exposed to political and economic risks, including risks resulting from regulatory changes, protectionist measures or changes in government or monetary policy. These risks specifically include risks stemming from exchange rate controls, inflation, problems with the repatriation of foreign earnings, dividends and investment capital, exchange rate fluctuations, changes in tax regimes, implementation of restrictions on imports, and political instability. Moreover, the Group may find itself unable to defend its rights appropriately before the courts of some of these countries, particularly in litigation with the state or state-controlled entities. (See "Risks relating to litigation" in this management report.) In addition, acts of terrorism or a declaration of war, the impact on consumer sentiment and tourism from said acts, or any other adverse political event, or concerns relating to the threat of global pandemics could have a negative impact on consumers' propensity to make purchases in the more expensive product ranges of the Group's key product categories, in Travel Retail and in other markets.

Such disruptions or other economic and political upheavals in the Group's markets could spark heightened volatility in the Group's sales, with a negative impact on its results and outlook in these markets.

The diverse geographical distribution of the Group's businesses means that today it can seize every growth opportunity and help alleviate the difficulties encountered in a number of markets (see *"Analysis of business activity and results"* in this Management Report), although a global recession or marked or extended downturns in the Group's main markets may weigh down on the Group's overall sales and adversely affect its consolidated results and outlook.

Risks relating to further consolidation in the Wines & Spirits segment

The industry has witnessed a trend towards the consolidation of distributors and merchants, and a further consolidation among spirits producers and merchants in the Group's key markets could negatively impact the sale of the Group's products as a result of, for example, fewer resources allocated to its brands. As the retail trade consolidates, wholesalers and retailers will have greater resources and bargaining power and, as a result, could seek to have the Group and other producers reduce their prices, conduct product promotions and/or accept payment terms that could reduce margins. An increase in a distributor's market share could have an adverse impact on the Group's sales and profitability. Changes in merchants' strategies, including a reduction in the number of brands they carry, the allocation of shelf space for our competitors' brands or private label products may adversely affect the Group's sales, margin, outlook and market share.

Image risks relating to product quality

The success of the Group's brands depends upon the positive image that consumers have of those brands. The Group's reputation and image may at any time be significantly undermined by one-off incidents at an industrial facility or relating to a specific product. For example, contamination, whether arising accidentally, or through an act of malice, or other events that harm the integrity of or consumer support for their brands, could adversely affect the sales of the Group's products. The Group purchases most of the raw materials for the production of its Wines & Spirits from third-party producers or on the open market. Contaminants in those raw materials or defects in the distillation or fermentation process at one of our industrial facilities could lead to low beverage quality as well as illness among, or injury to, our consumers, which could subject the Group to liability and result in reduced sales of the affected brand or all its brands.

In addition, to the extent that third parties sell products that are either counterfeit versions of the Group's brands or inferior "lookalike" brands, consumers of the Group's brands could confuse its products with those brands. This could discourage them from purchasing the Group's products in the future, which could in turn adversely impact brand equity and the Group's results.

Although the Group has implemented protection and control systems to limit the risk of contamination and other industrial accidents and has a Group Intellectual Property Department devoted to protecting its brands (for more information, see the section on "Risks relating to Intellectual Property"), there can be no guarantee that problems arising from industrial accidents, contamination and other factors will not compromise the Group's reputation and image on a global scale. Reputational damage could potentially have negative effects on the Group's image, financial position, reported results and outlook.

The net carrying value of brands and goodwill recorded in the Group's balance sheet at 30 June 2016 was €17.5 billion.

Risks relating to competition

The Group operates in very competitive markets, where brand recognition, corporate image, price, innovation, product quality, the breadth of distribution networks and services provided to consumers are differentiating factors among competitors.

The Group constantly aims to strengthen the recognition of its brands, particularly its strategic brands, through advertising and promotional campaigns, enhancing the quality of its products and optimising its distribution and service networks. Nevertheless, it must also face heightened competition from major international players on its international brands and from smaller groups or local producers on its local brands, including the growing success of artisan production, as may be the case for vodka in the United States, the main market for Absolut vodka. This fierce competition prevailing in the mature markets and the increasingly competitive nature of the emerging markets could require the Group to boost its advertising and promotional expenditure, or even reduce or freeze its prices, in order to protect its market share.

Risks relating to innovation and consumer expectations

The Group's performance is dependent on its capacity to satisfy consumer expectations and desires. However, change in consumer expectations and desires is difficult to anticipate, and in many cases is beyond the Group's control. As a result, negative changes in consumer demands could affect its sales and market share.

In addition, the increasing number of campaigns aimed at discouraging the consumption of alcoholic beverages, as well as changes in lifestyle, means of distribution, consumer habits and consumers' approaches to health issues, could, over time, modify consumer habits and the general social acceptability of alcoholic beverages, and have an adverse impact on the Group's reputation, sales, financial position, results and outlook.

In order to properly cover these risks, the Group supports its brands, in particular as regards innovations (Chivas Extra, Jameson Caskmates, Absolut Elyx, etc.) and new growth opportunities (digital communications, Sub-Saharan Africa). Innovations accounted for half of all growth in sales in the 2015/16 financial year, *i.e.* around 1%.

Risks relating to personnel

The Group's success is dependent on the loyalty of its employees, and in particular of those in key roles, as well as its ability to continue to attract and retain highly qualified personnel. To date, no significant impacts have been identified in this regard. However, the Group is aware that difficulties hiring or retaining key personnel, or the unexpected departure of experienced employees, including among acquired companies, could potentially slow the implementation of the Group's strategic growth plans, and could have an adverse impact on its business, financial position and the results of its operations.

In compliance with freedom of association and the right to collective bargaining, strikes or other social action may take place. Any extended labour disputes could have an impact on the Group's sales. However, to date, Pernod Ricard has not had to face prolonged industrial action that could significantly impact Group sales.

Risks relating to information systems

IT and telecoms systems are fundamentally important in the daily performance of Group operations, in terms of the processing, transmission and storage of electronic data relating to the Group's operations and financial statements and of the communication between the personnel, customers and suppliers of Pernod Ricard.

At a time of constant changes in computer technology and its uses, Pernod Ricard, a decentralised group whose operation is increasingly digital and dematerialised, is exposed to the risk of failure of its IT systems, due to a malfunction or malicious intent, either internal and external, that may harm the availability of IT services, or to the integrity and confidentiality of sensitive data. The Group's information technology systems could be exposed to interruptions for reasons beyond its control, including, but not limited to, natural disasters, terrorist attacks, telecommunications breakdowns, computer viruses, hackers or other security issues. Although the Group invests a significant amount in the maintenance and protection of its IT systems, particularly in view of growing threats in terms of cybercriminality, any malfunctions, significant disruption, loss or disclosure of sensitive data could disrupt the normal course of the Group's business, and have financial, operational or image-related consequences.

A detailed description of the Group's image risks is given in the section "Image risks relating to product quality" of this Management Report.

Risks relating to raw materials and energy prices

Some of the raw materials that the Group uses for the production of its products are commodities that are subject to price volatility caused by changes in global supply and demand, weather conditions, agricultural uncertainty or governmental controls.

An unexpected rise in the cost of raw materials or packaging materials could significantly increase our operating costs. Similarly, shortages of such materials could have a negative effect on our business. Moreover, an increase in energy costs could result in higher transportation, freight, distillation and other operating costs.

The Group may not be able to increase its prices to offset these increased costs without suffering reduced volume, sales and operating profit, which could negatively impact the Group's results.

For farm raw materials, hedge agreements have been entered into with banks to secure the price of a portion of wheat supplies and to limit production cost volatility. These hedges involve no physical delivery (see Note 4.10 – *Interest rate, foreign exchange and commodity derivatives* of the Notes to the consolidated financial statements). Moreover, the Group has entered into physical supply contracts with some suppliers in order to secure the delivery price of *eaux-de-vie*, grapes, and certain grains (see Note 6.3 – *Off-balance sheet commitments* of the Notes to the consolidated financial statements).

Risks relating to external growth operations

The Group has made major acquisitions in the past (see the subsection "A responsible business with a spirit of adventure" of Section 1 "Overview of Pernod Ricard"). Pernod Ricard believes that it was able to successfully integrate these acquisitions.

In the event that Pernod Ricard decides to conduct a major acquisition in the future, successful integration of the target into the Group cannot be guaranteed. In addition to the fact that acquisitions require General Management to devote a significant amount of time to resolving organisational issues, they also require the integration of new businesses, employees and products belonging to newly acquired companies. The integration process involves a great many unknowns, including the impact of the integration of new entities into a new structure and the management of the Human Resources of merged businesses. The Group's financial position, reported results and outlook could be affected should it be unable to make a success of the integration of newly acquired companies.

The Group has made no major acquisitions since 2008.

Risks relating to seasonal trends

Pernod Ricard makes an above-average portion of its sales during the Christmas and New Year season and the Chinese New Year. The last quarter of the calendar year traditionally accounts for about a third of full-year sales. Any major unexpected adverse event occurring during this period, such as a natural disaster, pandemic, or economic or political crises, could lead to a reduction in the Group's revenues and, consequently, a deterioration in its full-year results.

INDUSTRIAL AND ENVIRONMENTAL RISKS

Risks relating to industrial sites and inventory management

The Group has a substantial inventory of aged product categories, principally Scotch whisky, Irish whiskey, cognac, rum, brandy and wines. The maturing periods can occasionally extend beyond 30 years. The Group's maturing inventories (representing 79% of work in progress, as cited in Note 4.4 – *Inventories and work in progress* of the Notes to the consolidated financial statements), are stored at numerous locations around the world (see map of main production sites in Section 1 "Presentation of the Pernod Ricard group").

The loss of all or part of the maturing inventories or the loss of all or some of the production, distilling, blending or packaging sites as a result of negligence, an act of malice, contamination, fire or natural disaster could lead to a significant fall in or prolonged interruption to the supply of certain products, precluding the Group from satisfying consumer demand for the said products. In addition, there is an inherent risk of forecasting error in determining the quantity of maturing stock to store in a given year for future consumption. This could lead to either an inability to meet future demand or a future surplus of inventory resulting in write-downs in the value of maturing stocks. Finally, there also can be no assurance that insurance proceeds would be sufficient to cover the replacement value of lost maturing inventories or assets in the event of their loss or destruction.

Risks for consumers

The Group has noted the health risk involved in the inappropriate consumption of alcoholic beverages and accordingly has a very strong ethical commitment to encouraging responsible drinking (see Section 3 "Sustainability & Responsibility").

The other risks for consumers relate to product quality: they mainly concern the presence of foreign bodies in bottles (glass fragments) or contamination by an undesirable component, occurring voluntarily or involuntarily. The control of these risks is based both on the application of the HACCP method, which aims to identify risks involved in the manufacturing process and to bring them under control, as well as on the implementation of specific internal guidelines. Active monitoring is also implemented on emerging risks, particularly those relating to components present in packaging, raw materials and water that are liable to pose a risk to consumer health.

This approach is also accompanied – as mentioned above – by the implementation of management systems compliant with the ISO 22000 standard for food safety management, which is aimed specifically at controlling such risks.

To date, Pernod Ricard is not aware of any litigation or significant incident involving consumer safety, connected with the quality of the Group's products.

Industrial and environmental risks

Pernod Ricard's management of industrial and environmental risks is based on a joint QSE (Quality/Safety/Environment) management approach implemented in all production affiliates worldwide.

Coordinated by the Group's Sustainable Performance Department, this risk management policy is based on internal Pernod Ricard standards and on systematic risk analysis. It is based on the guidelines setting out good practices and the minimum requirements needed in each of the relevant areas:

- product quality;
- safety of personnel;
- management of environmental impact;
- protection of insured capital (industrial risks).

It is also supported by an ambitious QSE certification process for production sites according to the following four international standards:

- ISO 9001 for quality management;
- ISO 22000 for food safety management;
- ISO 14001 for environmental management;
- OHSAS 18001 for occupational health and safety.

At the end of June 2016, 89% of sites were quadruple QSE-certified according to these four standards, representing 99% of total bottled production.

As part of the Group's decentralised organisation, this policy is implemented by all affiliates *via* a QSE correspondent network, with each affiliate being entirely responsible for identifying and controlling its risks and its environmental impact. At Group level, a "QSE Executive Committee", composed of experts from the main affiliates, is consulted regularly to identify and approve priority actions and develop joint requirements in terms of risk prevention. This is an essential approach to the definition and implementation of the Group's risk management policy. The prevention personnel working in the various QSE fields form an extremely active network, coordinated by the sustainable performance team at the Headquarters, notably *via* the internal social network, Chatter. It meets each year during a working seminar that brings together the entire network. The seminar helps participants come together, identifying and sharing best practices with a view to continuous improvement.

With specific regard to insured capital protection and major industrial risks, an Operations Risk Manager coordinates the work done by affiliates in the area of risk reduction. The Risk Manager mainly focuses on prevention measures (design and maintenance of facilities, training, operating procedures, etc.) and protection systems (automatic fire extinguishing systems, water retention facilities, emergency procedures, etc.). In cooperation with the insurer, more than 60 industrial sites are audited each year, leading to an appraisal of the quality of risk as well as action recommendations for each of them. In addition, a programme devoted to implementing Business Continuity Management Systems (BCMS) has been initiated as a priority for the most strategic affiliates.

It is aimed at protecting the Group's operations from the consequences of a major disaster with significant consequences, such as a fire. To this end, for each affiliate, the programme sets out the various scenarios liable to affect their organisation, and looks for ways to reduce the impact on business. In most cases, the approach leads to the preparation of a business recovery plan including the implementation of emergency solutions and access to alternative means of production. In 2013/14, the affiliates with the largest contributions for the Group (The Absolut Company, Martell & Co, Chivas Brothers, Irish Distillers) had their BCMSs audited. These audits, conducted by a third party, confirmed the good level of maturity of the systems in place and identified priority areas for improvement. Today, 19 industrial affiliates are monitored each year to assess the maturity of their BCMS.

Major risks identified and specific risk prevention measures

Various types of risks have been identified in relation to the level of the Group's industrial activities, for which specific preventive measures or monitoring procedures have been implemented.

Fire hazard

As alcohol is highly flammable, fire is one of the main risks to our staff and facilities, particularly at production sites where spirits are produced and stored. This risk is also present at sites where blending and bottling of alcohol take place. In certain cases, this fire risk may be accompanied by the risk of explosion, particularly if alcohol vapours come into contact with a heat source.

Of the 101 industrial sites operating as at 30 June 2016, eight sites (one in Ireland, one in France and six in Scotland) were classified as "high-threshold" under the Seveso Directive due to the volumes stored there, higher than 50,000 tonnes (classification by the European Seveso III Directive for the prevention of major accidents). In the rest of the world, only one site, in Canada, was above this threshold. These sites are systematically subject to a high level of protection and prevention, which can be seen in the use of fire-resistant materials, the presence of automatic fire-extinguishing systems (sprinklers) with water reserves and remote retention, training and the implementation of rigorous working procedures. Moreover, the recommendations of the ATEX Directive on explosive atmospheres have been reflected in the Group's internal guidelines, which are applicable to all affiliates.

Since May 2000, when a fire led to the loss of a bourbon cellar in Kentucky, no major fires have occurred on the Group's sites.

At the end of June 2015, extra surveillance measures were put in place at French sites subject to the Seveso Directive, following the attack on 26 June at a Seveso site belonging to another company in the Isère department.

Risk of accidental spillage

The accidental spillage of product (wine, alcohol or other) into the environment is liable to pollute the soil, a river or water tables. This risk is of particular concern in cases of fire following a leak or spillage of alcohol and its extinction using water and foam. This risk is identified in all risk analyses carried out on our sites, and is subject to significant preventive measures: water retention facilities in storage and unloading areas, construction of drainage systems, and drainage to storage tanks.

Risk of natural disasters

Several facilities are located in areas known to be at significant risk of earthquake. This includes facilities located in New Zealand, Armenia, California and Mexico. In July and August 2013, the Brancott wine production facility in New Zealand was hit by two successive earthquakes. This caused substantial material damage to storage vats, for which a claim has been lodged with the Group's insurer.

Some areas are exposed to hurricane risk. The San José plant in Cuba has taken preventive measures to cover this eventuality.

There is also a risk of flooding. For example, cellars were affected in Scotland in 2009, but there was no significant damage. All sites exposed to this risk are subject to the implementation of specific emergency plans approved by our insurer. Lastly, in January 2010, exceptionally heavy snowfalls in the northern part of Scotland caused the roofs of 40 ageing cellars at the Mulben facility to collapse. A weather event of this nature had never previously been seen in this region and was deemed extremely unlikely. The damage only concerned the buildings, as the collapse did not affect inventories of spirits. Since this claim, specific attention was paid to those sites likely to face similar weather events. Preventive measures were set out together with our insurer and implemented by the sites.

Risks relating to the environment and climate change

In 2015/16, the Group launched a specific study of its 26 production affiliates to ensure that all long-term environmental risks, whether physical, regulatory or reputational, were identified and managed. Risks relating to the procurement of raw materials and water resource management proved to be the most significant.

Thus in terms of physical consequences, the major risk relates to the impact of climate changes on the supply of farm raw materials. Increasingly irregular crop yields, climatic events such as frost, hail and drought and shifting climatic boundaries can affect the quality, availability and, to a greater extent, the price of raw materials. Where grains are concerned, this effect, coupled with rising global demand, is contributing to the increasing volatility of market prices, which must be taken into account in procurement strategies and economic supply models. As regards grapes – another of the Group's key raw materials – climate models reveal the risk of an increase in wine alcohol content, changes to certain qualitative parameters and, in the longer term, a gradual shift in favourable climate areas. The affected inter-professional organisations, such as those for Cognac and Champagne and the corresponding organisations in Australia and New Zealand, have incorporated this issue into their research programmes in order to adapt their practices to these changes (choice of vine sorts, vine training, vinification, etc.). A similar risk exists in relation to the water supply for production sites: a number of sites use underground water tables for their water needs and these can also be affected by climate change. The availability and quality of water are therefore key factors for the quality of our products, and are monitored very closely. Responsible water management is a significant component of the Group's environmental policy: every site has to ensure that the use of groundwater or river water and the release of waste water back into the environment do not cause harm to nature. Sites located in areas identified as high-risk in terms of their water supply are subject to enhanced monitoring so as to ensure the sustainability of the resources used (see the "Environment" paragraph in Section 3, "Sustainability & Responsibility"). Another related risk is that of the increasingly frequent occurrence of extreme weather events liable to damage production facilities or affect the supply chain, such as cyclones, floods or exceptional levels of snowfall. This risk is taken into account in the Group's insurance strategy and in the critical scenarios for our Business Continuity Management Systems.

From a regulatory point of view, environmental issues, and in particular climate-related issues, are leading to stricter regulations on carbon emissions. In Europe, the Group's three largest distilleries are subject to the CO_2 emission quota system (EU-ETS). The direct financial impact for Pernod Ricard is negligible. However, the economic impact of regulations on energy and carbon is also felt through indirect consumption *via* our suppliers (especially with respect to glass, alcohol and transportation) and is likely to increase over the coming years.

Finally, in terms of reputation, the environment also represents a challenge due to growing awareness among consumers and public opinion, whose expectations in terms of sustainable consumption are changing rapidly: this reality is taken into account by the marketing teams and is becoming one of the elements of the Group's marketing strategy. It is reflected mainly in the focus on eco-design of products, and incorporating the CSR dimension into brand platforms.

The existence of risks associated with various environmental aspects is reflected in the Group's environmental roadmap through specific actions in the fields of energy, carbon, water, and farm raw materials. The actions undertaken are set out in the paragraph on "Environment" in Section 3 of this Registration Document, "Sustainability & Responsibility". It should also be noted that in each year since 2006, on the Carbon Disclosure Project website, Pernod Ricard has published information relating to carbon emissions, water resource management and related issues.

LEGAL AND REGULATORY RISKS

Risks relating to changes in the regulatory environment

The Group's businesses throughout the world are subject to a growing number of bodies of regulations, in particular with respect to the sale of alcoholic beverages. The regulatory environment governing the production and marketing of alcoholic beverages could undergo change in France, in the European Union or in the rest of the world. Similarly, advertising and promotions of alcoholic beverages are subject to increasingly stringent rules aimed at changing consumer behaviour and reducing alcohol consumption.

In particular, in its capacity as a distributor of international beverage brands, the Group is subject, in the various countries in which it trades, to numerous regulatory requirements concerning production, product responsibility, distribution, marketing, advertising, labelling and imports. More broadly speaking, it is also subject to issues relating to competition and consolidation, commercial and pricing policies, pensions, labour law and environmental concerns. In addition, the Group's products are subject to import and indirect taxes in the various countries in which it trades.

Regulatory decisions and changes in legal and regulatory requirements in these markets could have a negative impact on Pernod Ricard's business:

- **product recalls:** regulatory authorities in the countries in which the Group trades could be given coercive powers and subject the Group to measures including product recalls, product seizures and other sanctions, any of which could have an adverse effect on its trading or harm its reputation, with subsequent negative consequences on its operating profit;
- **advertising and promotions:** regulatory authorities in the countries in which the Group trades could impose restrictions on advertising for alcoholic beverages, for instance by banning television advertisements or the sponsoring of sporting events, or by restricting the use of these media. Furthermore, the Group has signed several voluntary self-regulation codes, which impose restrictions on the advertising of and promotions for alcoholic beverages. These limits could have the effect of hindering or restricting the Group's capacity to maintain or reinforce consumer behaviour in relation to its brands and their recognition on major markets and significantly affecting the Group's trading environment;
- **labelling:** regulatory authorities in the countries in which the Group trades could impose new or different requirements in terms of labelling and production. Changes to labelling requirements for alcoholic beverages, including the Group's brand portfolio of Premium Wines & Spirits, could diminish the appeal of these products in the eyes of consumers, thereby leading to a fall in the sales of these beverages. Furthermore, such changes could have the consequence of increasing costs, thereby affecting the Group's results;
- **import taxes and excise duties:** the Group's products are subject to import taxes and excise duties in most markets. An increase in import taxes and excise duties or a change in the legislation relative to duty free sales could lead to an increase in the price of its products as well as a reduction in the consumption of its Premium Wines & Spirits brands or an increase in costs for the Group;
- **access to distribution:** regulatory authorities in the countries in which the Group trades could seek to restrict consumers' access to Group products, for instance by limiting the trading hours of establishments serving alcoholic beverages or increasing the legal age for alcohol consumption.

Aside from the fact that change in local laws and regulations could in some cases restrict the Group's growth capacity by changing consumer behaviour, compliance with new laws and regulations could also require substantial investments. This could potentially have a significant negative impact on the Group's reported results and outlook.

Similar to other businesses, the Wines & Spirits business is highly sensitive to changes in tax regulations. In addition, in the current macroeconomic climate, regulatory authorities may resort to increasing taxes on alcoholic beverages. The effect of any future tax increases on the Group's sales in a given jurisdiction cannot be precisely measured. However, a significant increase in import and excise duties on alcoholic beverages and other taxes could have an adverse effect on the Group's financial position and operating profit. Furthermore, the Group's net profit is calculated on the basis of extensive tax and accounting requirements in each of the jurisdictions in which the Group operates. Changes in tax regulations, specifically led by the OECD, the European Union and national governments (including tax rates), accounting policies and accounting standards could have a material impact on the Group's results.

In addition, as an international group, Pernod Ricard can be subject to tax audits in several jurisdictions. The Group takes tax positions that it believes are correct and reasonable in the course of its business with respect to various tax matters. However, there is no assurance that tax authorities in the jurisdictions in which the Group operates will agree with its tax positions. In the event that the tax authorities successfully challenge the Group on any material positions, the Group may be subject to additional tax liabilities that may have an adverse effect on the Group's financial position if they are not covered by provisions or if they otherwise trigger a cash payment.

Risks relating to Intellectual Property

Recognition of the Group's brands is a fundamental element of its competitiveness. The management of the Group's brands and other owned intellectual property rights requires substantial investments both for their protection and defence.

The Group has taken very strict actions in this area. At the end of 2014, it set up a core team of 16 people (the "Group Intellectual Property Hub" or GIPH) coordinated by the Intellectual Property Department, and located at the Group's Headquarters. This team is responsible for the administrative management of all portfolios of intellectual property rights on behalf of the Brand Companies. This new organisational structure responds to a need to pool the Group's resources while implementing a consistent and uniform protection policy across all portfolios of intellectual property rights.

In particular, the GIPH defends the Group's intellectual property rights against any attempt by others to lodge rights similar to ours (specifically through objections). The Brand Companies remain in charge of proceedings brought against any counterfeit goods and/or imitations that may be present on the markets.

The defence of such property is a mission involving all of the Group's personnel, who are aware of the importance of these crucial assets. For instance, sales forces are called on to identify any third party imitation of the products and brands of the Group and to transmit all information to the Legal Department responsible for intellectual property so that the Group can respond efficiently to those actions.

However, the Group, as any owner of intellectual property rights, is not in a position to guarantee that such measures will be fully sufficient to force third parties to respect its rights. In some non-European Union countries, particularly in Asia (China, Thailand, Vietnam, etc.), even though satisfactory legal options generally exist, it can be difficult to persuade the local authorities to apply dissuasive sanctions on counterfeiters that reproduce in full or in part the Group's most popular brands in these countries. Yet those illicit acts are likely to have unfavourable consequences for the image of the relevant products. The Group therefore takes specific action, with objectives determined on the basis of the market and the brand, bringing together various internal departments so as to take a cross-functional approach to the problem of counterfeiting. These actions include coordinated legal responses and operations aimed at raising awareness among local authorities, field and online surveys, and technical and technological measures aimed at improving the protection of the Group's products.

Third parties can also contest the Group's ownership of certain brands.

Legal decisions could therefore affect the Group's brand portfolio, potentially having negative effects on its financial position, reported results and outlook.

The Group is currently involved in litigation regarding the "Havana Club" brand (see Note 6.5 – *Disputes* of the Notes to the consolidated financial statements). In this case, an unfavourable ruling would not adversely impact the Group's current financial position, as the brand is not currently marketed in the United States, but it could constitute a lost opportunity if the embargo against Cuba is lifted.

Risks relating to litigation

In common with other companies in the Wines & Spirits segment, the Group is occasionally subject to class action or other litigation and complaints from consumers or government authorities. In addition, the Group routinely faces litigation in the normal course of business. If such litigation were to result in fines, monetary damages or reputational damage to the Group or its brands, its business could be materially adversely affected.

The provisions recorded by Pernod Ricard at 30 June 2016, for all litigation and risks in which it is involved, amounted to €526 million, compared with €508 million at 30 June 2015 (see Note 4.7 – *Provisions* of the Notes to the consolidated financial statements). Pernod Ricard provides no further details (other than in exceptional circumstances), as disclosing the amount of any provision for ongoing litigation could cause the Group serious harm.

To the best of the Company's knowledge, there are no other government, legal or arbitration procedures pending or threatened, including any procedure of which the Company is aware, which may have or have had a significant impact on the profitability of the Company and/or the Group over the last 12 months, other than those described in Note 6.5 – *Disputes* of the Notes to the consolidated financial statements.

FINANCIAL RISKS

Risks relating to the Group's indebtedness

The average Net Debt/EBITDA was 3.4 [(1)] on 30 June 2016, a decline compared to the rate of 3.5 at 30 June 2015 (net debt, converted at the average rate). For more information on the Group's indebtedness, see Note 4.8 – *Financial liabilities* of the Notes to the consolidated financial statements.

The risks related to indebtedness are:

- limiting of the Group's ability to obtain additional financing for working capital, capital expenditure, acquisitions or general corporate purposes, and increasing the cost of such financing;
- a reduction in the cash available to finance working capital requirements, capital expenditure, acquisitions or corporate projects, a significant part of the Group's operating cash flow being put towards the repayment of the principal and interest on its debt;
- increasing the Group's vulnerability to, and reducing its flexibility to respond to, general adverse economic and industry conditions;
- the occurrence of a breach of one of the commitments made by the Group pursuant to the contracts bearing on its financing could require it to accelerate the repayment of its debt, thereby potentially sparking a liquidity crisis.

Additional information regarding liquidity risks is provided in Notes 4.8 – *Financial liabilities* and 4.9 – *Financial instruments* of the Notes to the consolidated financial statements, and in the Significant contracts section of this management report.

Market risks (currency and interest rates)

Currency risk

As the Group consolidates its financial statements in euros, it is exposed to fluctuations against the euro by the currencies in which its assets and liabilities are denominated (asset risk) or in which transactions are carried out (transaction risk and translation risk).

While some hedging strategies allow exposure to be limited, there is no absolute protection against exchange rate fluctuations.

For **asset risk**, financing foreign currency denominated assets acquired by the Group with debt in the same currency provides natural hedging. This principle was applied for the acquisition of assets from Seagram, Allied Domecq and Vin&Sprit, with part of the debt being in USD, reflecting the importance of cash flows generated in dollars or linked currencies.

Currency movements against the euro (notably in the USD) may impact the nominal amount of these debts and the financial costs published in euros in the consolidated financial statements, and this could affect the Group's reported results.

For **operational currency risk**, the Group's international operations expose it to currency risks bearing on transactions carried out by affiliates in a currency other than their operating currency (transaction accounting risk).

In all cases, it is Group policy to invoice end customers in the functional currency of the distributing entity. Exposure to currency risk on invoicing between producer and distributor affiliates is managed *via* a monthly payment centralisation procedure involving most countries with freely convertible and transferable currencies and whose internal legislation allows this participation. This system hedges against net exposure using forward exchange contracts.

Residual risk is partially hedged using financial derivatives (forward purchases, forward sales or options) to hedge certain or highly probable non-Group operating receivables and payables.

In addition, the Group may use firm or optional hedges with the aim of reducing the impact of currency fluctuations on its operating activities in some Brand Companies that make significant purchases in currencies other than the euro – especially USD, GBP or SEK – or in order to secure the payment of dividends back to the parent.

Interest rate risk

On 30 June 2016, the Pernod Ricard group's debt comprised floating-rate debt (mainly the syndicated loan and other bank loans) and fixed-rate debt (mainly bonds), in addition to a hedging portfolio including swaps in EUR and USD.

The Group cannot guarantee that these hedges will prove sufficient, or that it will be able to maintain them on acceptable terms.

Additional information on currency and interest rate risks is provided in Notes 4.8 – *Financial liabilities*, 4.9 – *Financial instruments* and 4.10 – *Interest rate, foreign exchange and commodity derivatives* of the Notes to the consolidated financial statements.

Liquidity risks

On 30 June 2016, the Group's cash and cash equivalents totalled €569 million (compared with €545 million at 30 June 2015). An additional €2,760 million of medium-term credit facilities with banks was confirmed and remained undrawn at that date. Group funding is provided in the form of long-term debt (syndicated loans, bonds, etc.) and short-term financing (commercial paper, bank overdrafts) as well as factoring and securitisation, which provide adequate financial resources to ensure the continuity of its business. Short-term financial debt after hedging was €2,027 million (compared with €2,159 million at 30 June 2015).

While the Group has not identified any other significant short-term cash requirement, it cannot be fully guaranteed that it will be able to continue to get the funding and refinancing needed for its day-to-day operations and investments on satisfactory terms, given the uncertain economic climate.

(1) Average EUR/US dollar exchange rate of 1.11 over the 2015/16 financial year compared to 1.20 over the 2014/15 financial year.

The credit ratings sought by Pernod Ricard from rating agencies on its long- and short-term debt are Baa2/P2 from Moody's and BBB-/A3 from Standard & Poor's respectively.

The Group's bank and bond debt contracts include covenants. Breaches of these covenants could force the Group to make accelerated payments. At 30 June 2016, the Group was in compliance with the covenants under the terms of its syndicated loan, with a solvency ratio (total net debt converted at the average rate/consolidated EBITDA) of 5.25 or less.

Furthermore, while the vast majority of the Group's cash surplus is placed with branches of global banks enjoying the highest agency ratings, it cannot be ruled out that these Group investments may lose some of their liquidity and/or value.

The currency controls in place in certain countries limit the Group's ability to use cash (prohibition on investment with Pernod Ricard Finance), and in some cases, the possibility of paying dividends (authorisation is required from the relevant authorities in Cuba).

Additional information regarding liquidity risks is provided in Notes 4.8 – *Financial liabilities* and 4.9 – *Financial instruments* of the Notes to the consolidated financial statements, and in the Significant contracts section of this Management Report.

Counterparty risks in financial transactions

The Group could be exposed to counterparty default *via* its cash investments, hedging instruments or the availability of confirmed but undrawn financing lines. In order to limit this exposure, the Group performs a rigorous selection of counterparties according to several criteria, including credit ratings, and depending on the maturity dates of the transactions.

However, no assurance can be given that this rigorous selection will be enough to protect the Group against risks of this type, particularly in the current economic climate.

Risks relating to the Group's pension plans

The Group's unfunded pension obligations amounted to €292 million on 30 June 2016. During the 2015/16 financial year, the Group made total contributions to Group pension plans of €84 million. For more information on the Group's pension and other post-employment liabilities, see Note 4.7 – *Provisions* of the Notes to the consolidated financial statements.

The Group's pension obligations are for the most part covered by balance sheet provisions and partially covered by pension funds or by insurance. The amount of these provisions is based on certain actuarial assumptions, including, for example, discounting factors, demographic trends, pension trends, future salary trends and expected returns on plan assets. If actual developments were to deviate from these assumptions, this could result in an increase in pension obligations on the Group's balance sheet and require a substantially higher allocation to pension provisions, which could have a material adverse effect on the Group's financial results.

It may be possible to fund the increase in the Group's future obligations under its pension plans from its cash flow from operations. If the assets in the Group's funded pension plans perform less well than expected or if other actuarial assumptions are modified, the Group's contributions to these plans could be materially higher than expected, which would reduce the cash available to the Group for its business.

INSURANCE AND RISK COVERAGE

For Pernod Ricard, use of insurance is a solution for the financial transfer of the major risks facing the Group. This transfer is accompanied by a policy of prevention for the purpose of reducing risk as far as possible. The Group evaluates its risks with care in order to fine-tune the level of coverage of the risks it incurs.

The Group has two types of cover: Group insurance programmes and local policies. The programmes at Group level are monitored by an insurance manager, who coordinates the insurance and risk management policy, and also by a person in charge of monitoring industrial risk prevention.

Insurance policies

In order to cover the main risks, Pernod Ricard has set up international insurance programmes for all Group affiliates, barring exceptions due to local regulatory constraints in certain countries or as a result of more attractive conditions offered by the local market. These programmes provide the following cover:

- property damage and business interruption losses;
- operating and product liability;
- environmental liability;
- costs and losses incurred by the Group due to accidental and/or criminal contamination;
- Directors' civil liability;
- damage during transport (and storage);
- fraud.

Moreover, credit insurance programmes are in place, aimed at reducing the risks associated with trade receivables.

Some affiliates have contracted additional insurance to meet *ad hoc* needs (for example, vineyard insurance in Spain, car fleet insurance, etc.).

Coverage

Type of insurance	Coverage and limits on the main insurance policies [1]
Property damage and business interruption losses	◆ Coverage: fully comprehensive (except exclusions) ◆ Basis of compensation: – new value for moveable property and real estate, except for certain affiliates, which have exceptionally chosen, with the contractual agreement of the insurers, to provide for another basis of compensation, – cost of sale for inventories, except for certain maturing stocks that are insured at replacement value or net carrying amount plus a fixed margin (tailored to each company), – business operating losses with a compensation period of between 12 and 36 months depending on the company. ◆ Limits on compensation: – main compensation limit of €900 million, covering all damage and business interruption losses. The programme includes additional limits, for example to cover natural events. ◆ Furthermore, a captive insurance company provides insurance cover for an amount of €3 million per claim with a maximum commitment of €5 million *per annum.*
General civil liability (operating and product liability)	Fully comprehensive coverage (except for exclusions) for damage caused to third parties for up to €220 million per year of insurance.
General environmental liability	Coverage for environmental damage of €35 million.
Product contamination	Coverage in the general civil liability programme for recall outlay, the cost of the relevant products, loss of business and outlay on rebuilding Pernod Ricard's image following accidental or criminal contamination of products delivered that present a threat of harm to persons or property: coverage of up to €45 million per year.
Directors' civil liability	Coverage of up to €150 million per year of insurance.
Transport	Coverage of up to €20 million per claim.
Computer fraud/hacking	Coverage of up to €35 million per year.
Credit	Coverage differs depending on the affiliate and the programme, with total cover rising to a maximum of €180 million. It can also be partially transferred under a programme to sell receivables.

(1) The figures shown are the main limits for the year ended 30 June 2016. Changes may have been negotiated for the 2016/17 financial year. Some contracts provide specific limits for certain aspects of coverage.

Resources provided by the Group to manage the consequences of a claim, especially in the case of an industrial accident

If a claim were to be filed affecting Pernod Ricard or a Group company, especially in the case of an industrial accident, it would rely on its brokers and insurers and all service providers as required to ensure the effective management and resolution of the claim. All these players have the experience and means required for managing exceptional situations.

RISKS AND DISPUTES: PROVISIONING PROCEDURE

As part of its commercial activities, the Pernod Ricard group is involved in legal actions and subject to tax, customs and administrative audits. The Group only records provisions for risks and charges when it is likely that a current obligation stemming from a past event will require the payment of an amount that may have been underestimated. The amount of the provision is the best estimate of the outflow of resources required to extinguish this liability. Provisions accordingly involve an assessment by Group Management.

Significant contracts

SIGNIFICANT CONTRACTS NOT RELATED TO FINANCING

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.

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

Sale and repurchase agreements

During the 2015/16 financial year, Pernod Ricard did not conclude any sale and repurchase agreements.

FINANCING CONTRACTS

Credit Agreement of November 2010

Pernod Ricard signed a Credit Agreement for €150 million with a banking institution, with effect from 26 November 2010, the amount of which was allocated in full to the repayment of the 2008 syndicated loan. This was partially repaid on 26 November 2015 (15%), and another partial repayment is scheduled for 26 November 2016 (20%); the remainder is due on 26 November 2017. This Credit Agreement contains the customary representations, warranties and early repayment undertakings, as well as the usual restrictive covenants and commitments contained in such contracts. It also requires compliance with a solvency ratio at each half-year end – *i.e.* total consolidated net debt/consolidated EBITDA, this being a more flexible indicator than the ratio applied to the syndicated loan.

2012 Credit Agreement (syndicated credit)

In relation to the refinancing of the 2008 bank debt, Pernod Ricard and a number of its affiliates signed a new, five-year €2.5 billion revolving credit facility (the "Credit Agreement") on 25 April 2012. The initial term of the Credit Agreement was extended by 18 months by an addendum dated 23 October 2013, with the effect of reducing its interest rate and extending its maturity.

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).

Solvency ratio (total consolidated net debt/consolidated EBITDA)

The Solvency Ratio must be less than or equal to 5.25. At 30 June 2016, the Group was compliant with this solvency ratio (see "Liquidity risks" in this management report).

The Credit Agreement incorporates the main terms of the 2008 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.

Bond issue of March 2010

In March 2010, Pernod Ricard issued €1.2 billion of fixed-rate bonds. The Bonds had a nominal value of €50,000 and were traded on the Luxembourg stock exchange regulated market.

The Bonds bore interest at an annual fixed rate of 4.875%, payable annually in arrears on 18 March.

The proceeds of this bond issue were allocated to the repayment of the shortest-term facilities of the 2008 syndicated loan.

They were fully repaid on 18 March 2016.

Bond issue of December 2010

At the end of December 2010, Pernod Ricard issued US$201 million of floating-rate bonds. The Bonds had a nominal value of US$1 million and were subscribed in full by a single counterparty.

The Bonds bore floating-rate interest, payable quarterly as from 21 March 2011.

The proceeds of this bond issue were allocated to the repayment of the shortest-term facilities of the 2008 syndicated loan in order to extend the Group's debt maturity.

They were fully repaid on 21 December 2015.

Bond issue of March 2011

In March 2011, Pernod Ricard issued €1 billion of fixed-rate bonds, maturing on 15 March 2017. The Bonds have a nominal value of €100,000 and are traded on the Luxembourg stock exchange regulated market.

The Bonds bear interest at an annual fixed rate of 5%, payable annually in arrears on 15 March.

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.

The net proceeds of this bond issue were allocated to the repayment of the 2008 syndicated loan in order to extend the Group's debt maturity.

This bond issue includes 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 (benefiting 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.

Bond issue of April 2011

In April 2011, Pernod Ricard issued US$1 billion of fixed-rate bonds, maturing on 7 April 2021, through a private placement for institutional investors, and subject to New York State (United States) law. The Bonds have a nominal value of US$150,000 (with multiples of US$1,000 in excess of this amount).

The Bonds bear interest at an annual fixed rate of 5.75%, payable semi-annually in arrears on 7 April and 7 October as from 7 October 2011.

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.

The net proceeds of this bond issue were allocated to the repayment of part of the 2008 syndicated loan denominated in US dollars.

This bond issue includes 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 (benefiting 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.

Bond issue of October 2011

In October 2011, Pernod Ricard issued US$1.5 billion of fixed-rate bonds, maturing on 15 January 2022, through a private placement for institutional investors, and subject to New York State (United States) law. The Bonds have a nominal value of US$150,000 (with multiples of US$1,000 in excess of this amount).

The Bonds bear interest at an annual fixed rate of 4.45%, payable semi-annually in arrears on 15 January and 15 July as from 25 October 2011.

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.

The net proceeds of this bond issue were allocated to the repayment of part of the 2008 syndicated loan denominated in US dollars.

This bond issue includes 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 (benefiting 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.

Bond issue of January 2012

In January 2012, Pernod Ricard issued US$2.5 billion of bonds through a private placement for institutional investors, and subject to New York State (United States) law. This issue involves three tranches: a 5-year facility of US$850 million, a 10.5-year facility of US$800 million and a 30-year facility of US$850 million. The Bonds have a nominal value of US$150,000 (with multiples of US$1,000 in excess of this amount).

The Bonds for the first facility bear interest at an annual fixed rate of 2.95%, payable semi-annually in arrears on 15 January and 15 July, as from 12 January 2012.

The Bonds for the second facility bear interest at an annual fixed rate of 4.25%, payable semi-annually in arrears on 15 January and 15 July, as from 12 January 2012.

The Bonds for the third facility bear interest at an annual fixed rate of 5.50%, payable semi-annually in arrears on 15 January and 15 July, as from 12 January 2012.

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.

The net proceeds of this bond issue were allocated to the repayment of part of the 2008 syndicated loan denominated in US dollars.

This bond issue includes 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 (benefiting 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.

Bond issue of March 2014

In March 2014, Pernod Ricard issued €850 million of fixed-rate bonds, maturing on 22 June 2020. The Bonds have a nominal value of €100,000 and are traded on the Euronext Paris regulated market.

The Bonds bear interest at an annual fixed rate of 2%, payable annually in arrears on 20 March.

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.

The net proceeds of this bond issue were allocated to the repayment of the bond debt in order to extend the Group's debt maturity.

This bond issue includes 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 (benefiting 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.

Bond issue of September 2014

In September 2014, Pernod Ricard issued €650 million of fixed-rate bonds, maturing on 27 September 2024. The Bonds have a nominal value of €100,000 and are traded on the Euronext Paris regulated market.

The Bonds bear interest at an annual fixed rate of 2.125%, payable annually in arrears on 27 September.

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.

The net proceeds of this bond issue were allocated to the repayment of the bond debt in order to extend the Group's debt maturity.

This bond issue includes 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 (benefiting 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.

Bond issue of September 2015

In September 2015, Pernod Ricard issued €500 million of fixed-rate bonds, maturing on 28 September 2023. The Bonds have a nominal value of €100,000 and are traded on the Euronext Paris regulated market.

The Bonds bear interest at an annual fixed rate of 1.875%, payable annually in arrears on 28 September.

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.

The net proceeds of this bond issue were allocated to the repayment of the bond debt in order to extend the Group's debt maturity.

This bond issue includes 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 (benefiting 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.

Bond issue of January 2016

In January 2016, Pernod Ricard issued US$201 million of floating-rate bonds, maturing on 26 January 2021. The Bonds have a nominal value of US$1 million and were subscribed in full by a single counterparty.

The Bonds bear floating-rate interest, payable quarterly as from 26 July 2016.

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.

The net proceeds of this bond issue were allocated to the repayment of the bond debt in order to extend the Group's debt maturity.

This bond issue includes 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 (benefiting 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 upon the occurrence of certain customary events of default as well as at the request of the Company or the holder, as appropriate, in particular in certain cases of a change in the Company's situation or a change in taxation.

Bond issue of May 2016

In May 2016, Pernod Ricard issued €600 million of fixed-rate bonds, maturing on 18 May 2026. The Bonds have a nominal value of €100,000 and are traded on the Euronext Paris regulated market.

The Bonds bear interest at an annual fixed rate of 1.50%, payable annually in arrears on 18 May.

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.

The net proceeds of this bond issue were allocated to the repayment of the bond debt in order to extend the Group's debt maturity.

This bond issue includes 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 (benefiting 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.

Bond issue of June 2016

In June 2016, Pernod Ricard issued US$600 million of fixed-rate bonds, maturing on 8 June 2026, through a private placement for institutional investors, and subject to New York State (United States) law. The Bonds have a nominal value of US$150,000 (with multiples of US$1,000 in excess of this amount).

The Bonds bear interest at an annual fixed rate of 3.250%, payable semi-annually in arrears on 8 June and 8 December as from 8 December 2016.

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.

The net proceeds of this bond issue were allocated to the repayment of the short-term debt and the bond debt in order to extend the Group's debt maturity.

This bond issue includes 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 (benefiting 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.

Factoring agreement Europe

On 15 December 2008, certain affiliates of Pernod Ricard and Pernod Ricard Finance entered into a “Factoring Framework Agreement” with BNP Paribas Factor, for the purpose of setting up a pan-European factoring programme for a gross amount of €350 million, increased to €400 million by an addendum dated 23 June 2009. The factoring programme, which was initially for a three-year period, was extended by an addendum dated 16 December 2011 for a further three-year period and was then renewed by an addendum dated 25 June 2014 for a four-year period from 1 January 2015. This programme was agreed in the amount of €400 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.

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 19 June 2014 under the terms of an addendum to the framework agreement. The initial amount assigned to the programme was €45 million, US$130 million and £120 million.

This five-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.

Factoring agreement Pacific

On 18 March 2013, a new agreement for the sale of receivables was signed between Premium Wine Brands Pty [1], 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 agreements on the Group’s financial statements is disclosed in Note 4.8.1 – *Breakdown of net financial debt by nature and maturity* and Note 4.8.7 – *Bonds* of the Notes to the consolidated financial statements.

(1) Renamed Pernod Ricard Winemakers Pty.