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Management Report

KEY FIGURES FROM THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

INCOME STATEMENT

€ million	30.06.2015	30.06.2016	30.06.2017
Net sales	8,558	8,682	9,010
Gross margin after logistics expenses	5,296	5,371	5,602
Advertising and promotion expenses	(1,625)	(1,646)	(1,691)
Contribution after advertising and promotion investments	3,671	3,725	3,912
Profit from Recurring Operations	2,238	2,277	2,394
Operating Profit	1,590	2,095	2,232
Financial Income/(expense)	(489)	(432)	(374)
Corporate income tax	(221)	(408)	(438)
Share of Net Profit/(loss) of associates	0	0	1
NET PROFIT	**880**	**1,255**	**1,421**
Including:			
▪ Non-controlling interests	19	20	28
▪ Group share	861	1,235	1,393
Earnings per share – basic *(€)*	3.26	4.68	5.27
Earnings per share – diluted *(€)*	3.24	4.65	5.25

BALANCE SHEET

€ million	30.06.2015	30.06.2016	30.06.2017
Assets			
Non-current assets	22,978	23,310	22,557
Of which intangible assets	*17,706*	*17,572*	*17,152*
Current assets	7,419	7,282	7,521
Assets held for sale	1	6	10
TOTAL ASSETS	**30,398**	**30,598**	**30,088**
Liabilities and shareholders' equity			
Consolidated shareholders' equity	13,288	13,506	13,886
Non-current liabilities	11,972	12,137	11,946
Current liabilities	5,138	4,955	4,256
Liabilities held for sale	-	-	-
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**30,398**	**30,598**	**30,088**

NET FINANCIAL DEBT

€ million	30.06.2015	30.06.2016	30.06.2017
Gross non-current financial debt	7,459	7,335	7,379
Gross financial debt from Recurring Operations	2,052	2,027	1,165
Non-current hedging instruments – assets	(51)	(77)	(9)
Hedging Instruments from Recurring Operations – assets	(15)	-	(6)
Non-current derivative instruments – liabilities	-	-	-
Derivative instruments from recurring operations – liabilities	121	-	(2)
Cash and cash equivalents	(545)	(569)	(677)
NET FINANCIAL DEBT	**9,021**	**8,716**	**7,851**
Free Cash Flow (1)	808	1,061	1,299

(1) The calculation of Free Cash Flow is set out in the subsection "Net debt" hereafter.

CASH FLOW STATEMENT

€ million	30.06.2015	30.06.2016	30.06.2017
Self-financing capacity before financing interest and taxes	2,220	2,315	2,493
Net interest paid	(455)	(408)	(363)
Net income tax paid	(538)	(393)	(408)
Decrease/(increase) in working capital requirements	(193)	(178)	(79)
Net change in cash flow from operating activities	**1,035**	**1,336**	**1,642**
Net change in cash flow from investment activities	**(264)**	**(359)**	**(293)**
Net change in cash flow from financing activities	**(735)**	**(928)**	**(1,156)**
Cash flow from discontinued operations	-	-	-
Foreign currency translation adjustments	32	(25)	(86)
Cash and cash equivalents at start of period	**477**	**545**	**569**
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**545**	**569**	**677**

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 97.

In 2016/17, Pernod Ricard delivered a strong year with business accelerating, on track to deliver mid-term roadmap with:

- an organic top line growth accelerating: +3.6% [1], getting closer to the mid-term objective of +4% to +5%;
- a solid Profit from Recurring Operations (PRO) organic growth: +3.3% [1], in higher part of +2% to +4% guidance bracket, despite unexpected regulatory changes in India;
- operating margin up +35bps thanks to FX;
- an increase of +13% [2] in Net Profit [2];
- very significant improvement in cash flow generation and deleveraging:
  - very strong Free Cash Flow: +22%, reaching historic high, with +61% in two years, particulary thanks to operational efficiency initiatives,
  - significant deleveraging: Net Debt/EBITDA ratio at 3.0, -0.4 down vs. FY16,
  - Net Debt down -€0.9bn to €7.9bn,

Furthermore, in 2016/17, there was:

- an increase in Profit from Recurring Operations growth of +8% [1] in the Americas, +1%[1] in Asia/Rest of World and +1% [1] in Europe;
- a stability [1] of the gross margin: the mix turned positive (mainly due to Jameson and Martell), pricing was still muted and Costs of Goods Sold were thightly managed thanks to operational efficiency inititiaves ;
- a proposed dividend per share of €2.02, a +7% increase compared with the previous year. This represents a pay-out ratio of 36%, in line with the customary distribution policy in cash of approximately one-third of Group Net Profit from Recurring Operations.

PRESENTATION OF RESULTS

Group Net Profit per share from Recurring Operations – diluted

€ million	30.06.2016	30.06.2017
Number of shares in circulation – diluted	265,632,528	265,477,729
Profit from Recurring Operations	2,277	2,394
Operating margin	26.2%	26.6%
Financial income/(expense) from Recurring Operations	(422)	(376)
Corporate income tax on Recurring Operations	(455)	(509)
Profit from non-controlling interests, from discontinued operations and from share of net profit from equity associates	(20)	(27)
GROUP NET PROFIT FROM RECURRING OPERATIONS [1]	**1,381**	**1,483**
GROUP NET PROFIT PER SHARE FROM RECURRING OPERATIONS – DILUTED *(€)*	**5.20**	**5.58**

(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.

(1) Organic growth is defined on page 97.
(2) Face value attributable to equity holders of the parent.

Profit from Recurring Operations

Group *€ million*	30.06.2016	30.06.2017	Reported growth		Organic growth [(1)]	
Net sales	8,682	9,010	327	4%	310	4%
Gross margin after logistics expenses	5,371	5,602	231	4%	192	4%
Advertising and promotion	(1,646)	(1,691)	(44)	3%	(47)	3%
Contribution after advertising and promotion expenses	3,725	3,912	187	5%	145	4%
PROFIT FROM RECURRING OPERATIONS	**2,277**	**2,394**	**118**	**5%**	**76**	**3%**

Americas *€ million*	30.06.2016	30.06.2017	Reported growth		Organic growth [(1)]	
Net sales	2,476	2,661	185	7%	171	7%
Gross margin after logistics expenses	1,639	1,790	151	9%	114	7%
Advertising and promotion	(509)	(551)	(42)	8%	(39)	8%
Contribution after advertising and promotion expenses	1,130	1,239	109	10%	75	7%
PROFIT FROM RECURRING OPERATIONS	**706**	**790**	**84**	**12%**	**55**	**8%**

Asia/Rest of World *€ million*	30.06.2016	30.06.2017	Reported growth		Organic growth [(1)]	
Net sales	3,498	3,568	70	2%	48	1%
Gross margin after logistics expenses	2,071	2,102	31	2%	22	1%
Advertising and promotion	(621)	(618)	3	-1%	3	0%
Contribution after advertising and promotion expenses	1,450	1,484	35	2%	25	2%
PROFIT FROM RECURRING OPERATIONS	**982**	**1,000**	**18**	**2%**	**13**	**1%**

Europe *€ million*	30.06.2016	30.06.2017	Reported growth		Organic growth [(1)]	
Net sales	2,709	2,781	72	3%	91	3%
Gross margin after logistics expenses	1,662	1,710	49	3%	56	3%
Advertising and promotion	(516)	(522)	(5)	1%	(11)	2%
Contribution after advertising and promotion expenses	1,145	1,188	43	4%	45	4%
PROFIT FROM RECURRING OPERATIONS	**588**	**604**	**16**	**3%**	**8**	**1%**

(1) Organic growth is defined on page 97.

ORGANIC GROWTH OF STRATEGIC INTERNATIONAL BRANDS

In millions of 9-litre cases	Volume 30.06.2016	Volume 30.06.2017	Organic growth [(1)] in net sales	Including Volume growth	Including Price/mix
Absolut	10.9	11.2	2%	3%	-1%
Chivas Regal	4.3	4.2	-3%	-2%	-1%
Ballantine's	6.5	6.7	3%	4%	-2%
Ricard	4.5	4.8	4%	5%	-1%
Jameson	5.7	6.5	15%	13%	2%
Havana Club	4.0	4.3	6%	7%	-1%
Malibu	3.4	3.6	5%	4%	1%
Beefeater	2.7	2.8	5%	4%	1%
Martell	2.1	2.1	6%	5%	1%
The Glenlivet	1.0	1.0	2%	1%	1%
Royal Salute	0.2	0.2	-3%	2%	-5%
Mumm	0.7	0.8	3%	2%	0%
Perrier-Jouët	0.3	0.3	11%	8%	3%
STRATEGIC INTERNATIONAL BRANDS	**46.4**	**48.6**	**4%**	**5%**	**0%**

(1) Organic growth is defined on page 97.

Full-year sales [(1)] were €9,010 million, representing reported growth of +4%, as a result of:

- organic growth of +3.6% [(2)], an acceleration from the previous year, driven by Strategic International Brands;
- a currency effect of +€19 million over the year, linked to the strengthening of the US dollar and Russian Ruble against the euro, offset by weakening in the UK Pound Sterling and Chinese Renminbi;
- a slightly negative scope effect of €(2) million;

All Regions grew and improved their Sales growth [(2)]:

- Americas were up 7% [(2)], with the acceleration [(2)] driven by good performance in the USA and across South America. The performance of the Group in the USA was driven in particular by strong results from Jameson, Martell, Malibu and Altos [(2)], while Absolut, in a worsening category, remained in decline. Very dynamic growth of +11% [(2)] was reported in other markets in the region;
- Asia/Rest of World saw modest growth of +1% [(2)] with a return to growth [(2)] in China and Travel Retail Asia, but a temporary deceleration [(2)] in India due to the regulatory changes (demonetisation and highway ban), and continued strong decline in Korea. The rebound in China, returning to growth [(2)] for the first time since FY13, was driven by Martell, which delivered +6% [(2)], with growth across the whole range;
- Europe posted +3% [(2)] with solid growth [(2)] in Western Europe (+2% [(2)]) and very dynamic growth in Eastern Europe (+11% [(2)]).

(1) Net sales less excise duties (see Accounting Policies in the Notes to the consolidated financial statements, Note 2: Segment information – *"Net sales").*
(2) Organic growth is defined on page 97.

CONTRIBUTION AFTER ADVERTISING & PROMOTION INVESTMENTS

The gross margin (after logistics expenses) amounted to €5,602 million, with an increase of +4% [(1)], due to:

- mix turning positive due mainly to Jameson and Martell;
- pricing still muted;
- tight management of Costs of Goods Sold (COGS) thanks to operational efficiency initiatives but some adverse one-offs (Grain Neutral Spirit and agave cost increases...)

Advertising and Promotion investments were up +3% [(1)] to €1,691 million, with an A&P/Sales ratio stable at c.19%. The operational excellence initiatives are driving stronger efficiency.

PROFIT FROM RECURRING OPERATIONS

Profit from Recurring Operations was up +3.3% [(1)], broadly in line with the increase [(1)] in net sales, to reach €2,394 million. Structure costs were thightly managed with an increase of 5% [(1)], (+3% [(1)] excluding Other income and expenses) thanks to operational excellence inititives. The currency effect (+2%, or +€47 million) was from the positive impact of the US Dollar, UK Pound Sterling and Russian Ruble but offset by the Chinese Renminbi. The scope effect remained limited (-0%, or €(6) million).

FINANCIAL INCOME/(EXPENSE)

Financial expenses from recurring operations were €(376) million, compared with €(422) million the previous period. The cost of debt stood at 3.8% for the year, compared with 4.1% for the 2015/16 financial year. For 2017/18, the average cost of debt should remain stable at c. 3.8%.

The debt structure at 30 June 2017 was as follows:

- the bond portion was approximately 82% of gross debt;
- the fixed rate portion was 68% of total debt;
- the maturity of gross debt at the end of June 2017 was six years and 11 months;
- the Group had €0.7 billion in cash and €2.2 billion in available credit facilities (undrawn syndicated loan at 30 June 2017);
- structuring the debt by currency (USD: 55%) 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 €(509) million, giving a current effective rate of tax of 25.2% (compared with 24.5% at 30 June 2016). Non-controlling interests amounted to €(28) million.

Group Net Profit from Recurring Operations reached €1,483 million, up by +7% compared to the 2015/16 financial year. Diluted Net Profit per share from Recurring Operations stood at €5.58, up +7%.

GROUP NET PROFIT

Other non-recurring operating income and expenses amounted to €(163) million. Non-current financial income (expense) amounted to a net income of €3 million. Corporate income tax on non-recurring item as amounted to Net income of €71 million.

Accordingly, Group Net Profit stood at €1,393 million, up +13% on 2015/16.

(1) Organic growth is defined on page 97.

NET DEBT

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

€ million	30.06.2016	30.06.2017
Profit from Recurring Operations	**2,277**	**2,394**
Other operating income and expenses	(182)	(163)
■ Depreciation of fixed assets	219	219
■ Net change in impairment of goodwill, property, plant and equipment and intangible assets	107	75
■ Net change in provisions	(76)	(59)
■ Restatement of contributions to pension funds acquired from Allied Domecq	43	7
■ Fair value adjustments on commercial derivatives and biological assets	(4)	(14)
■ Net (gain) loss on disposal of assets	(59)	6
■ Share-based payments	32	34
Sub-total of depreciation of fixed assets, change in provisions and others	**263**	**268**
SELF-FINANCING CAPACITY BEFORE FINANCING INTEREST AND TAX (1)	**2,358**	**2,499**
Decrease/(increase) in working capital requirements	(178)	(79)
Net interest and tax payments	(801)	(771)
Net acquisitions of non-financial assets and other	(317)	(350)
FREE CASH FLOW	**1,061**	**1,299**
of which Free Cash Flow from recurring operations	1,200	1,471
Net disposals of financial assets and activities, contributions to pension funds acquired from Allied Domecq	(85)	50
Change in the scope of consolidation	-	-
■ Capital increase and other changes in shareholders' equity	-	-
■ Dividends and interim dividends paid	(497)	(511)
■ (Acquisition)/Disposal of treasury shares	(18)	(36)
Sub-total of dividends, purchase of treasury shares and other	**(515)**	**(547)**
DECREASE/(INCREASE) IN DEBT (BEFORE FOREIGN CURRENCY TRANSLATION ADJUSTMENTS)	**461**	**802**
Foreign currency translation adjustments	(157)	62
DECREASE/(INCREASE) IN DEBT (AFTER FOREIGN EXCHANGE IMPACT)	**305**	**865**
Net debt at beginning of period	(9,021)	(8,716)
Net debt at end of period	(8,716)	(7,851)

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

OUTLOOK

Continued execution of consistent strategy, as outlined during the June 2015 Capital Market Day, and confidence in ability to deliver medium-term objectives:

- Organic top line growth +4% to +5%;
- Profit from Recurring Operations organic margin improvement.

For 2017/18, the Group expects:

- good sales growth to continue in USA, China, Europe, Jameson and innovation;
- sales to improve vs. FY17 in India and for Chivas;
- continued focus on operational efficiency with new initiatives ramping up;
- continued strong cash generation.

For 2017/18, the FX impact on Profit from Recurring Operations is estimated at c. €(125) million, based on average FX rates for full FY18 projected on 22 August 2017, particularly a EUR/USD rate of 1.18.

The guidance for 2017/18 is organic growth in Profit from Recurring Operations between +3% and +5%.

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

Where a business, brand, brand distribution right or agency agreement was disposed of, or terminated, in the prior year, the Group, 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 chapter has been drawn up under the supervision 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 attendance 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 a fixed annual sum of €15,000 in the form of Directors' fees 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 €970,000 allocated by the Shareholders' Meeting of 17 November 2016, a total of €884,208 in Directors' fees was paid to members of the Board of Directors in the 2016/17 financial year, in accordance with the rules set out above.

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

Members of the Board	Amounts paid in 2015/16	Amounts paid in 2016/17
Ms Nicole Bouton	99,500	83,500
Mr Laurent Burelle (1)	38,500	5,208
Mr Wolfgang Colberg	110,000	113,500
Mr Ian Gallienne	92,500	87,000
Mr César Giron	73,500	69,500
Ms Martina Gonzalez-Gallarza	55,500	44,500
Ms Anne Lange (2)	N/A	68,000
Mr Anders Narvinger (3)	59,583	N/A
Mr Pierre Pringuet	104,500	113,500
Société Paul Ricard represented by Mr Paul-Charles Ricard (4)	39,500	39,500
Mr Gilles Samyn	71,500	78,500
Ms Kory Sorenson (5)	50,834	97,500
Ms Veronica Vargas	55,500	54,000
Mr Sylvain Carré	15,000	15,000
Mr Manousos Charkoftakis	15,000	15,000
TOTAL	**880,917**	**884,208**

N/A: Not applicable.
(1) Until 20 July 2016.
(2) From 20 July 2016, date of her co-option as a Director to replace Mr Laurent Burelle.
(3) Until 6 November 2015.
(4) Permanent representative of Société Paul Ricard, Director.
(5) From 6 November 2015, the date on which she was appointed as a Director by the Shareholders' Meeting.

Other elements of the compensation of Executive Directors performing management or executive positions within the Group

In addition to Directors' fees, Messrs César Giron and Paul-Charles Ricard also received compensation in their respective capacities as Chairman and CEO of Martell Mumm Perrier-Jouët and Innovation Manager of Martell Mumm Perrier-Jouët.

A summary statement of the compensation and benefits of all kinds received by each of these Non-Executive Directors from the companies controlled by Pernod Ricard SA, under article L. 233-16 of the French Commercial Code, is drawn up pursuant to article L. 225-102-1, paragraph 2 of the same Code.

Mr César Giron, member of the Board of Directors and Chairman and CEO of Martell Mumm Perrier-Jouët

Fixed compensation

Mr César Giron receives gross fixed compensation for his duties as Chairman and CEO of Martell Mumm Perrier-Jouët which reached €444,960 for the year 2016/17.

Variable compensation

In his capacity as Chair of a direct affiliate and member of the Executive Committee, Mr César Giron receives gross variable remuneration for which the quantitative criteria depend firstly on the financial performance of the entity he manages and secondly on the Group's results, with a view to strengthening solidarity and collegiality between the Chairs of the Executive Committee.

Mr César Giron is also assessed on the basis of individual qualitative criteria.

This variable portion is expressed as a percentage of the annual fixed portion. It may reach 70% of his gross fixed compensation if the quantitative and qualitative targets are achieved (target level), and can rise to a maximum of 100% if the Group records exceptional financial performance in relation to the targets. The criteria are reviewed regularly and may be modified on an occasional basis.

In this respect, during the financial year 2016/17, he received gross variable compensation in October 2016 of €301,234 relating to the financial year 2015/16, *i.e.* 69.7% of his fixed compensation for 2015/16.

Special bonus

No special bonuses were awarded or paid in respect of 2016/17.

Stock option and performance-based share allocation

On 17 November 2016, the Board of Directors authorised a combined stock option and performance-based share allocation plan.

Under this plan, Mr César Giron received the following allocation:

- 8,045 stock options with an external performance condition (€122,123 at IFRS value);
- 2,615 performance-based shares with an internal performance condition (€247,327 at IFRS value).

The details of the overall stock option and performance-based share allocation policy are shown below (page 110 of this Registration Document).

Indemnity payments for termination of service

Mr César Giron receives no compensation for termination of service.

Supplementary pension scheme

Mr César Giron has a conditional defined-benefit supplementary pension scheme (article 39) under article L. 137-11 of the French Employment Code, provided that recipients:

- 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);
- permanently put an end to his 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 aim of the scheme is to make it possible 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 and, when the beneficiary claims his or her pension, the capital is transferred to an insurer and thus entirely outsourced.

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 2017, the estimated gross amount of the annuity potentially paid under the supplementary defined-benefit pension scheme for Mr César Giron would be €188,400 per year.

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

Collective healthcare and welfare schemes

Mr César Giron qualifies for the collective healthcare and welfare schemes offered by Martell Mumm Perrier-Jouët under the same terms as those applicable for the category of employees to which he belongs for the determination of his employee benefits and other additional elements of his compensation.

Other benefits

During the financial year 2016/17, Mr César Giron qualified for a company car and a part-time chauffeur.

Mr Paul-Charles Ricard, permanent representative of Société Paul Ricard, member of the Board of Directors and Innovation Manager at Martell Mumm Perrier-Jouët

Fixed compensation

Mr Paul-Charles Ricard receives gross fixed compensation for his duties as Innovation Manager of Martell Mumm Perrier-Jouët which reached €57,060 for the year 2016/17.

Variable compensation

This variable portion is expressed as a percentage of the annual fixed portion. It may reach 12% of his gross fixed compensation if the (individual) qualitative targets are achieved.

In this respect, during the financial year 2016/17, he received gross variable compensation of €6,847 relating to the financial year 2015/16.

Amounts received in respect of employee incentive agreement and profit-sharing plans

Under the employee profit-sharing plans in effect within Martell Mumm Perrier-Jouët, Mr Paul-Charles Ricard received €4,913 from incentive agreements and €3,264 from profit-sharing.

Collective healthcare and welfare schemes

Mr Paul-Charles Ricard qualifies for the collective healthcare and welfare schemes offered by Martell Mumm Perrier-Jouët under the same terms as those applicable for the category of employees to which he belongs for the determination of his employee benefits and other additional elements of his compensation.

Other elements of compensation

No special bonus/No allocation of stock options and/or performance-based shares/No compensation for termination of service/No supplementary pension scheme/No benefits in kind.

Compensation policy for the Executive Director

Presented below, in accordance with new article L. 225-37-2 of the French Commercial Code introduced by the "Sapin 2" Law of 9 December 2016 relating to transparency, the fight against corruption and modernisation of the economy, is the report of the Board of Directors on the compensation policy for the Chairman and CEO (hereinafter "Executive Director"), which will be subject to the approval of shareholders pursuant to new article L. 225-82-2 of the French Commercial Code.

Consequently, the Shareholders' Meeting of 9 November 2017 (in its 10th resolution) is called upon to issue a favourable opinion on the following elements of the compensation policy for the Executive Director.

It is specified that this report has been drawn up under the supervision of the Compensation Committee.

1. Principles and rules for determining the policy

Principles

The compensation policy for the Executive Director is set by the Board of Directors based on the recommendations of the Compensation Committee and the following principles for determination:

Compliance

In its analysis and proposals to the Board of Directors, the Compensation Committee is particularly careful to follow the recommendations of the AFEP-MEDEF Code, which the Company uses as reference.

Overview and balance

All elements of compensation and benefits in kind are analysed exhaustively each year using an element-by-element approach and then an analysis of overall consistency to achieve the best balance between fixed and variable, individual and collective and short- and long-term compensation.

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 with that of the Group's senior executives.

Motivation and performance

In its recommendations to the Board of Directors, the Compensation Committee seeks to propose a compensation policy commensurate with the responsibilities of each recipient and in line with the practices of comparable large international corporations, and seeks to maintain a good balance between fixed compensation, variable annual compensation and long-term remuneration.

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

Role of the Compensation Committee

The Compensation Committee oversees the strict application of all these principles in the context of its work and its recommendations to the Board of Directors, both for drawing up the compensation policy for the Executive Director and for determining the amounts of compensation allocated.

Potential change of governance

Where a new Chairman and CEO, a new Chief Executive Officer or Deputy Chief Executive Officer(s) are appointed, the elements of compensation and the policy and criteria set out in the Compensation Policy for the Chairman and CEO shall also apply to them. The Board of Directors, on the recommendation of Compensation Committee, shall then, by means of adaptation to the situations of the interested parties, determine the objectives, performance levels, parameters, structure and maximum percentages compared to their annual fixed compensation, which may not be higher than those of the Chairman and CEO.

2. Fixed annual compensation

The fixed portion of the compensation of the Executive Director is determined based on:

- the level and complexity of their responsibilities;
- their experience and their career history, particularly within the Group;
- market analyses for comparable functions.

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 international companies in the beverage sector and also of CAC 40-listed companies for similar positions.

The Board of Directors has decided that changes to the fixed compensation of the Executive Director might only be subject to review over a relatively long time frame, in accordance with the AFEP-MEDEF Code. However, an early review might occur in the event of significant changes to their scope of responsibilities or a major deviation compared to the market positioning. In these specific situations, the adjustment of the fixed compensation and the reasons for it will be made public.

Finally, the Board of Directors has decided that, in the event of the appointment of a new Chairman and CEO, a new Chief Executive Officer or Deputy Chief Executive Officer(s), these same principles will apply.

3. Directors' fees

The Executive Director does not receive Directors' fees in respect of offices they hold in the Company or in Group companies.

4. Variable annual portion

The purpose of variable annual compensation is to encourage the Executive Director to achieve the annual performance objectives set by the Board of Directors in accordance with the corporate strategy. Pursuant to the provisions of article L. 225-37-2 of the French Commercial Code, the payment of variable annual compensation is conditional upon its prior approval by the Ordinary Shareholders' Meeting (voting "ex post").

More specifically, this variable portion is based on performance levels applying to financial and non-financial parameters, representative of expected overall 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 objectives are achieved (target level), and may rise to a maximum of 180% if the Group records exceptional financial and non-financial performance in relation to the objectives.

4.1 Performance criteria

The criteria are reviewed regularly and may be modified on an occasional basis. For the 2017/18 financial year, the Board of Directors, on the recommendation of the Compensation Committee, wished to maintain the following elements:

- **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 provide an incentive to exceed the target for Profit from Recurring Operations, restated for foreign exchange impact and changes in the scope of consolidation, 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 foreign exchange impact 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;
- **non-financial criteria:** these criteria vary between 0% and 30% of fixed annual compensation if the objectives are achieved and up to 45% for an exceptional performance. 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 may only be made public after the event and after assessment by the Compensation Committee and the Board of Directors.

In any event, variable compensation (quantitative and qualitative criteria) may not exceed 180% of the annual fixed compensation.

4.2 Performance levels

The performance achievement level shall be communicated, criterion by criterion, once the performance assessment has been prepared.

4.3 Termination of office

If the Executive Director leaves during the financial year, the amount of the variable portion of their compensation for the current year will be determined prorata to attendance time for the year in question, depending on the performance level observed and assessed by the Board of Directors for each of the criteria initially adopted. However, it should be noted that no compensation shall be paid if the Executive Director is dismissed for gross negligence or with good cause.

4.4 Payment method

In accordance with the law, the payment of variable annual compensation, starting from that relating to the 2017/18 financial year payable in November 2018, will be conditional upon prior approval by the Ordinary Shareholders' Meeting.

5. Multi-year compensation

The Board of Directors has decided not to use this type of compensation mechanism in the long term, wishing to favour a share-based instrument more aligned with shareholders' interests.

However, such a mechanism might be envisaged if regulatory changes or any other circumstance were to make the use of a share-based instrument restrictive or impossible. In this event, the principles and criteria for the determination, distribution and maximum allocation of shares stipulated in the policy relating to share plans will be used in the structuring of such variable multi-year compensation using the most similar appropriate procedures.

6. Special bonus

In accordance with the AFEP-MEDEF Code (article 24.3.4), the Board of Directors has adopted the principle by which the Executive Director may receive a special bonus in certain circumstances (particularly in the case of transformational operations), which must be explicitly disclosed and justified.

Also in accordance with the AFEP-MEDEF Code (article 24.4), in the case of external recruitment of a new Executive Director, the Board of Directors may also decide to pay an amount (in cash or in shares) to compensate the new Executive Director for loss of compensation (excluding retirement benefits) related to leaving their previous position.

In all cases, the payment of such compensation may only be made subject to the prior approval of the Shareholders' Meeting pursuant to article L. 225-37-2 of the French Commercial Code.

7. Stock option and performance-based share allocation policy

The Board of Directors considers that share-related mechanisms, which also benefit other key functions of the Company, are particularly appropriate for the Executive Director, given the level of responsibility of this function and their ability to contribute directly to long-term corporate performance in a way that is aligned with shareholders' interests.

In the context of authorisations granted by the Shareholders' Meeting of 5 November 2015 (resolutions 22 and 23), the General Shareholders' Meeting has authorised the following external and internal performance conditions:

7.1 Allocation of stock options

All stock options under the plan are subject to an external performance condition and may be exercised depending on the positioning of the overall performance of the Pernod Ricard share (Total Shareholder Return) compared to the overall performance of a Panel of 12 peers (see below). This condition will be assessed over a period of three years following allocation of the plan, and this three-year minimum performance assessment period will be maintained for all options allocated to the Executive Director during the term of his or her current mandate.

The number of options that may be exercised will be determined by the positioning of the overall performance of the Pernod Ricard share compared to that of the Panel over a period of three years, as follows:

- 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.

The Board of Directors has decided that, in addition to Pernod Ricard, the Panel shall comprise the following 12 companies: AB InBev, Brown Forman, Campari, Carlsberg, Coca-Cola, Constellation Brands, Danone, Diageo, Heineken, LVMH, PepsiCo and Rémy Cointreau.

The composition of the Panel may be modified depending on changes in the companies, particularly in the event of acquisition, absorption, dissolution, spin-off, merger or change of activity, subject to maintaining the overall consistency of the sample and enabling application of the external performance condition in accordance with the performance objective set on allocation.

Provided that the conditions are fulfilled, stock options may be exercised four years after their allocation and also for a period of four years.

7.2 Allocation of performance-based shares

Performance-based shares allocated have a vesting period of four years and are subject in their entirety and over a period of three financial years to:

- internal performance conditions representing, in value, 50% of the allocation of performance-based shares;
- internal and external performance conditions representing, in value, 50% of the allocation of performance-based shares.

As in the case of stock options, this three-year minimum performance assessment period will be maintained for all performance-based shares allocated to the Executive Director during the term of his or her current mandate.

Internal condition

The number of performance-based shares finally vested will be determined according to the ratio of achieved Group Profit from Recurring Operations, restated for currency effects and changes in the scope of consolidation, as compared to Group budgeted Profit from Recurring Operations over three consecutive financial years.

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

- if the average level of achievement is 0.95 or below: 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 1 or more: 100% of performance-based shares will be vested.

Internal and external condition

The number of performance-based shares finally vested will be determined according to the internal performance condition defined above and will then be subject to the external performance condition applicable to stock options, as described in 7.1 *"Allocation of stock options"*.

7.3 Maximum allocation amount

Throughout the current term of office of the Executive Director, the maximum annual allocation, in value, of stock options and performance-based shares allocated to the Executive Director may not represent more than 150% of their gross fixed annual compensation. This maximum allocation has been determined by taking into account:

- the practices of beverage sector companies (external condition panel) and the practices of CAC 40 companies;
- the demanding nature of the performance conditions of plans.

Furthermore, the maximum amount of stock options and performance-based shares allocated to the Executive Director may not represent more than 5% of the plan's total economic value (the plan's total economic value comprises all elements distributed). Lastly, and as indicated in the context of resolutions approved by the Shareholders' Meeting of 6 November 2015, the maximum amount of stock options and performance-based shares allocated to the Executive Director may not represent more than:

- 0.21% of the share capital on the date of allocation of the stock options (in accordance with the 23rd resolution);
- 0.06% of the share capital on the date of allocation of the performance-based shares (in accordance with the 22nd resolution).

7.4 Lock-in period

The Board of Directors requires the Executive Director:

- to retain in registered form until the end of their term of office a quantity of shares corresponding to:
  - 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
  - in respect of performance-based shares: 20% of the volume of performance-based shares that will actually be vested;
- to undertake to buy a number of additional shares equal to 10% of the performance-based shares vested at the time that the performance-based shares are actually vested;
- once the Executive Director holds a number of registered Company shares that correspond to more than three times their 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, their registered holdings fall below the three-times ratio, the lock-in and acquisition requirements cited above will again apply.

7.5 Presence condition and termination of office

The definitive allocation is subject to a presence condition (at the date on which the options are exercised or the shares vested) for all beneficiaries including the Executive Director, with the exceptions specified in the plan regulations (notably in cases of death or disability) or decided by the Board of Directors; in the case of the Executive Director, the Board of Directors may decide to remove the presence condition *prorata temporis* where appropriate, issuing a notification of and justification for any such decision. The stock options and performance-based shares held shall remain subject to all applicable plan regulations, particularly with regard to the calendar and performance conditions.

7.6 Hedging

In accordance with the Code of Conduct approved by the Board of Directors and the AFEP-MEDEF Code, the Executive Director is formally committed to refrain from using hedging mechanisms for any stock options and performance-based shares received from the Company.

8. Policy on deferred commitments

8.1 Imposed departure clause

A maximum allowance of 12 months' compensation (last fixed and variable annual compensation, determined by the Board of Directors) would be paid under performance conditions in the event of imposed departure as a result of a change in the Group's control or strategy; however, there would be no payment in the event of i) non-renewal of their term of office, ii) departure initiated by the Executive Director, iii) a change of functions within the Group or iv) if they are able to benefit in the near future from their 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 eight months' compensation [(1)];
- if one of the three criteria is met: payment of four months' compensation [(1)];
- if no criterion is met: no compensation paid.

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

8.2 Non-compete clause

The signing of this non-compete clause for a period of one year is intended to protect the Group by preventing of the Executive Director to perform duties for a competitor, in return for an allowance of 12 months' compensation (last fixed and variable annual compensation, determined by the Board of Directors). 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.

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 17 November 2016 (5th resolution).

9. Supplementary pension scheme

In return for the removal of the defined-benefit supplementary pension scheme determined by the Board of Directors on 31 August 2016 and approved by the Shareholders' Meeting of 17 November 2016, the Board of Directors, on the recommendation of the Compensation Committee, has decided, insofar as the Executive Director should be personally responsible for establishing their own supplementary pension, to award the Executive Director additional annual compensation equal to 10% of their fixed and variable annual compensation paid each year 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, continuous service 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 specified that the Executive Director will undertake 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.

10. Other benefits

10.1 Company car

For fulfilling their duties as a representative of the Company, the Executive Director has a company car. Insurance, maintenance and fuel costs are borne by the Company. The Executive Director is also entitled to the services of a chauffeur.

10.2 Collective healthcare and welfare schemes

The Executive Director enjoys the benefit of the collective healthcare and welfare schemes offered by the Company under the same terms as those applicable to the category of employees to which they belong for the determination of their welfare benefits and other additional elements of their compensation.

Pursuant to the regulated agreements and commitments procedure, this commitment was approved by the Shareholders' Meeting of 17 November 2016 (5th resolution).

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

	Contract of employment		Supplementary defined-benefit pension scheme		Indemnities or benefits due or liable to be due by virtue of termination or change of his or her duties		Indemnities relating to a non-compete clause	
Executive Directors	**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.

Summary of elements of compensation due or granted to Mr Alexandre Ricard, Chairman and CEO, for the financial year

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

in euros	2015/16	2016/17
Compensation due for the financial year	1,833,649	2,193,075
Value of multi-year variable compensation allocated during the financial year	N/A	N/A
Value of options granted during the financial year	332,028	476,652
Value of performance-based shares allocated during the financial year	593,290	947,472
TOTAL	**2,758,967**	**3,617,199**

N/A: not applicable.

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)

	2015/16		2016/17	
in euros	Amounts due	Amounts paid	Amounts due	Amounts paid
Fixed compensation	950,000	950,000	950,000	950,000
Variable annual compensation (1)	913,900	883,649	1,243,075	913,900
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 (2)	3,260	3,260	4,110	4,110
TOTAL	**1,867,160**	**1,836,909**	**2,197,185**	**1,868,010**

N/A: not applicable

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

(2) 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
Financial year 2016/17	17.11.2016	Purchase	€476,652	31,400	€105.81	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 18.11.2020 to 17.11.2024

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
Mr Alexandre Ricard exercised no options during the financial year 2016/17		

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 financial year	Value of shares according to the method used for the consolidated financial statements (IFRS)	Acquisition date	Vesting date	Performance conditions
17.11.2016	5,000	€474,250	18.11.2020	18.11.2020	Average ratio of achievement of the Group budgeted Profit from Recurring Operations.
17.11.2016	8,200	€473,222	18.11.2020	18.11.2020	* Average ratio of achievement of the Group budgeted Profit from Recurring Operations. * 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
06.11.2013	0 (1)	Achievement of Group budgeted Profit from Recurring Operations in N and N+1 * Stock market performance of Pernod Ricard shares (TSR) compared with that of the Food & Beverage Eurostoxx 600 index over 3 years

(1) External performance condition not achieved: no action acquired.

COMPENSATION ELEMENTS DUE OR GRANTED IN RESPECT OF THE 2016/17 FINANCIAL YEAR TO MR ALEXANDRE RICARD, CHAIRMAN & CEO, SUBMITTED TO THE SHAREHOLDERS' ADVISORY VOTE

In accordance with the recommendations of the AFEP-MEDEF Code revised in November 2016 (article 24.3), to which the Company refers in line with article L. 225-37 of the French Commercial Code, the following elements of compensation due or granted to each of the Company's Executive Directors in respect of the previous financial year are submitted to the shareholders' advisory vote:

- the fixed portion;
- the annual variable portion and, if applicable, any multi-year variable portion with objectives contributing to the determination of this variable portion;
- special bonuses;
- stock options, performance-based shares and any other element of long-term compensation;
- welcome bonus or compensation for termination of service;
- supplementary pension schemes;
- any other benefits.

Consequently, the Shareholders' Meeting of 9 November 2017 (in its **11th resolution**) is called upon to give **a favourable opinion on the following elements of compensation due or granted in respect of the 2016/17 financial year to Mr Alexandre Ricard, Chairman and CEO**:

Elements of compensation	Amounts	Remarks
Fixed compensation	€950,000	■ At its meeting held on 31 August 2016, the Board of Directors, on the recommendation of the Compensation Committee, decided to maintain the amount of Mr. Alexandre Ricard's gross annual fixed compensation at €950,000 for the 2016/17 financial year.
Variable compensation	€1,243,075	■ At its meeting held on 30 August 2017, the Board of Directors, on the recommendation of the Compensation Committee and after approval of the financial elements by the Audit Committee, assessed the amount of the variable portion of Mr Alexandre Ricard's compensation for the 2016/17 financial year. ■ Considering the quantitative and qualitative criteria set by the Board meetings on 31 August 2016 and 18 October 2016 and the achievements recognized as of 30 June 2017, the amount of the variable portion was evaluated as follows: – as per the quantitative criteria, the variable portion amounted to 93.85% of Mr. Alexandre Ricard's annual fixed compensation, versus a target at 80% and a maximum at 150%, evaluated as follows: - achievement of the budgeted Profit from Recurring Operations (target 30%, maximum 55%): 31.01%, - achievement of the budgeted Group Net Profit from Recurring Operations (target 20 %, maximum 40%): 22.84%, - deleveraging (net debt/EBITDA) (target 30%, maximum 55%): 40%; – as per the qualitative criteria, the amount decided by the Board of Directors was 37% of Mr. Alexandre Ricard's annual fixed compensation, versus a target at 30% with possibility of exceeding up to 45% maximum, consisting of : - Continued improvement of the Group' performance in the USA and successfully rollout the new organization: · 6% Target – 9% Maximum · Achieved: 7% - Growth of Profit from Recurring Operations in excess of budget and new organisation implemented - Improvement of the Group's performance in China and enforcement of the new portfolio and sales approach: · 6% Target – 9% Maximum · Achieved: 7% - Growth of Profit from Recurring Operations in excess of budget and successful rollout of the new sales & marketing approach on premium brands - Implementation of the operational efficiency plan: · 6% Target – 9% Maximum · Achieved: 8% - Accelerated implementation of the roadmap and development of new initiatives, such as promotional effectiveness and brand equity monitoring - Secure a high level of staff engagement: · 6% Target – 9% Maximum · Achieved: 8% - Employee Engagement Rate rising (measured every two years through an internal survey) and higher than FMCG benchmarks (engagement rate of 88%) - Play an instrumental role in the Group's Corporate Social Responsibility policy: · 6% Target – 9% Maximum · Achieved: 7% - A leading contributor in defining the implementation framework of the United Nations Sustainable Development Goals - Taking a leading and active role through the International Alliance for Responsible Drinking (IARD) - Spearheading Responsib'ALL Day and ensuring employees and senior management engagement and commitment. ■ In any case, the variable compensation (quantitative + qualitative criteria) may not exceed 180% of the fixed compensation. ■ Consequently, the total amount of Mr Alexandre Ricard's variable compensation for the 2016/17 financial year as Chairman & CEO was set at €1,243,075, i.e. 130.85% of his annual fixed compensation for 2016/17 (versus a target of 110% and a maximum of 180%). The variable compensation in respect of the 2015/16 and 2014/15 financial years respectively represented 96.20% and 105.55% of his annual fixed compensation.
Multi-year variable compensation	N/A	■ Mr Alexandre Ricard does not qualify for any multi-year variable compensation.
Directors' fees	N/A	■ As an Executive Director of the Company, Mr Alexandre Ricard does not receive any Directors' fees.

N/A = Not applicable.

Elements of compensation	Amounts	Remarks
Special bonus	N/A	■ Mr Alexandre Ricard does not qualify for any special bonus.
Allocation of stock options and/or performance-based shares	€476,652 (total IFRS value of stock options with external performance condition) €474,250 (total IFRS value of performance-based shares with internal performance condition) €473,222 (IFRS value of performance-based shares with internal and external performance conditions)	■ During the 2016/17 financial year, the Board of Directors' meeting held on 17 November 2016 decided, on the recommendation of the Compensation Committee, to grant Mr Alexandre Ricard: – **31,400 stock-options** (i.e. approx. 0.012% of the Company's share capital) all subject to the external performance conditions specified above in subsection 7.1 – *Allocation of stock options*. – **5,000 performance-based shares** (i.e. approx. 0.002% of the Company's share capital) all subject to the internal performance condition specified above in subsection 7.2 – *Allocation of performance-based shares*. – **8,200 performance-based shares** (i.e. approx. 0.003% of the Company's share capital) all subject to the internal and external performance conditions specified above in subsection 7.1 – *Allocation of stock options* and subsection 7.2 – *Allocation of performance-based shares*. ■ The same presence condition applies to Mr Alexandre Ricard and the other beneficiaries of the allocation plan. ■ It is noted that the Executive Director is required to retain shares resulting from the exercise of stock options and the effective transfer of performance-based shares (see below subsection 7 – *Stock option and performance-based share allocation policy* of the "Management Report").
Welcome bonus or compensation for termination of office	No payment	■ Mr Alexandre Ricard, as Chairman & CEO, benefits from: – a one-year non-compete clause specified above in subsection 8.2 – *Non-compete clause* – an imposed departure clause specified above in subsection 8.1 – *Imposed departure clause* (corresponding to a maximum of 12 months of compensation) ■ 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, the items above were approved by the Shareholders' Meeting held on 17 November 2016 (5th resolution).

N/A = Not applicable.

Elements of compensation	Amounts	Remarks
Supplementary pension scheme	€2,668,000 (total IFRS value of bonus shares with presence condition)	■ The Board of Directors, on 31 August 2016, following the recommendation of the Compensation Committee, decided to remove the benefit of the defined-benefit supplementary pension scheme, as from the renewal of Mr Alexandre Ricard's term of office as Executive Director that have been submitted to the Board of Directors' meeting held at the close of the Shareholders' Meeting of 17 November 2016. ■ As compensation for the removal of the benefit of the defined-benefit supplementary pension scheme and in order to take account that Mr Alexandre Ricard must now personally set up his supplementary pension, the Board of Directors on 31 August 2016, following the recommendation of the Compensation Committee, decided to compensate Mr Alexandre Ricard by the exceptional allocation of bonus shares. ■ In view of the renewal of the term of office of the Executive Director and the approval by the Shareholders' Meeting of the 16th resolution relating to the exceptional allocation of bonus shares, the Board of Directors' meeting held on 17 November 2016, at the close of the Shareholders' Meeting, confirmed for the benefit of Mr Alexandre Ricard the exceptional and free allocation of 26,968 shares whose final vesting, subject to a presence condition, will be allocated in instalments over a period of three years (8,989 shares in November 2017, 8,989 shares in November 2018 and 8,990 shares in November 2019). ■ As this allocation is intended to partially compensate the rights acquired under the defined-benefit supplementary pension scheme, which no longer benefits the Executive Director, the Board of Directors, following the recommendation of the Compensation Committee, decided not to submit these shares to performance criteria. However, the Board of Directors imposed a presence condition by extending their final vesting period over three years. ■ At the end of the vesting period, the shares will all be subject to a two years lock-in period. The Board of Directors has decided a compensation only in Company's shares in order to ensure that the Executive Director's interests are fully in line with those of the shareholders. ■ As for allocations of performance-based share, Mr Alexandre Ricard is subject to shares lock-in obligations (see subsection 7.4 – *Lock-in period*).
Collective healthcare and welfare schemes		■ Mr Alexandre Ricard qualifies for 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, the items above were approved by the Shareholders' Meeting of 17 November 2016 (5^{th} resolution).
Other benefits	€4,110	■ Mr Alexandre Ricard benefits from a company car.

OTHER ASPECTS OF THE COMPENSATION POLICY

Overall stock option and performance-based share allocation policy

During the 2016/17 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 17 November 2016, 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 "talents") in the Group's affiliates worldwide.

The 17 November 2016 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;
- retain 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 12 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, assessed over three consecutive financial years;
- maintain a mixed award between stock options and performance-based shares for Executive Committee members, including the Executive Director, thereby allowing for a fair reward for achieving internal and external criteria;
- maintain performance-based share awards for all beneficiaries, with the number of shares varying depending on the classification of the beneficiary'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 17 November 2016 stood at 150,008 stock options.

All of the stock options under the plan are subject to an external performance condition and will become exercisable from November 2020 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 17 November 2016 to 17 November 2019 inclusive.

The number of shares that will ultimately be granted will be determined by comparing the performance of the Pernod Ricard share and the overall performance of a Panel from 17 November 2016 to 17 November 2019 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 the 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 12 companies: Diageo, Brown Forman, Rémy Cointreau, Campari, Constellation Brands, AB InBev, LVMH, Heineken, Carlsberg, Coca-Cola, PepsiCo and Danone.

The Panel's composition is subject to change, based on the above-mentioned companies' development. 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 for the options is 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 17 November 2016 was 8,200 shares.

All of the performance-based shares under the plan are subject to internal and external performance conditions and will be vested from November 2020 depending on the internal performance condition over three consecutive financial years (2016/17, 2017/18 and 2018/19) (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 external condition will be evaluated over a three-year period following the plan allocation, *i.e.* from 17 November 2016 to 17 November 2019 inclusive.

The volumes subject to the external performance condition will be those determined at the close of the 2018/19 accounts after applying the internal condition. The final volumes will be calculated at the end of the evaluation period for the external condition in accordance with subsection 7.1 – *Allocation of stock options*.

Allocation of performance-based shares with internal condition

A total of 453,176 performance-based shares were awarded by the Board of Directors on 17 November 2016 subject to the internal performance condition described below.

The number of performance-based shares that will ultimately be granted will be determined based on the ratios of achievement of Group Profit from Recurring Operations, restated for currency effects and changes in the scope of consolidation as compared to the Group budgeted Profit from Recurring Operations over three consecutive financial years.

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

- if the average level of achievement is 0.95 or below: 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 1 or more: 100% of performance-based shares will be vested.

Performance-based shares allocated to all beneficiaries have a four-year vesting period, without a 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 2017 (Table 8 AMF nomenclature)

	Plan dated 24.06.2010	Plan dated 15.09.2010	Plan dated 15.06.2011	Plan dated 27.06.2012	Plan dated 06.11.2013	Plan dated 06.11.2015	Plan dated 17.11.2016
Date of authorisation by Shareholders' Meeting	02.11.2009	02.11.2009	02.11.2009	02.11.2009	09.11.2012	06.11.2015	17.11.2016
Date of Board of Directors' meeting	24.06.2010	01.09.2010	15.06.2011	27.06.2012	06.11.2013	06.11.2015	17.11.2016
Type of options	Purchase	Purchase	Purchase	Purchase	Purchase	Purchase	Purchase
Total number of options that can be subscribed or purchased	901,603	70,000	948,050	415,400	349,640	278,575	150,008
of which by Executive Directors of Pernod Ricard SA	11,016	70,000	77,450	71,000	51,700	28,200	39,445
of which by Mr Pierre Pringuet (1)	-	70,000	65,220	60,000	26,000	N/A	N/A
of which by Mr Alexandre Ricard (2)	N/A	N/A	N/A	N/A	16,500	20,700	31,400
of which by Mr César Giron	11,016	-	12,230	11,000	9,200	7,500	8,045
Commencement date for exercise of options	25.06.2014	16.09.2014	16.06.2015	28.06.2016	07.11.2017	07.11.2019	18.11.2020
Expiry date	24.06.2018	15.09.2018	15.06.2019	27.06.2020	06.11.2021	06.11.2023	17.11.2024
Subscription or purchase price (€)	64.00	64.00	68.54	78.93	88.11	102.80	105.81
Number of shares subscribed or purchased	557,159	2,500	448,269	-	-	-	-
Total number of stock options cancelled or lapsed (3)	52,503	-	52,852	415,400	349,640	600	-
of which allocated to Mr Pierre Pringuet (1)	-	-	978	60,000	26,000	N/A	N/A
of which allocated to Mr Alexandre Ricard (2)	N/A	N/A	N/A	N/A	16,500	-	-
of which allocated to Mr César Giron	-	-	138	11,000	9,200	-	-
Subscription or purchase options remaining	291,941	67,500	446,929	-	-	277,975	150,008

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 (i.e. from 29 August 2012) are cited.
(3) Options cancelled after the beneficiaries failed to meet the continuous service and/or performance conditions.

On 30 June 2017, 1,234,353 options (all for share purchases) were in circulation, corresponding to approximately 0.47% of the Company's share capital; all these options were "in the money" (at the Pernod Ricard share closing price on 30 June 2017 = €117.25).

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

History of allocations of performance-based shares – Situation as at 30 June 2017 (Table 10 AMF nomenclature)

	Plan dated 06.11.2013	Plan dated 06.11.2014	Plan dated 06.11.2015	Plan dated 17.11.2016
Date of authorisation by Shareholders' Meeting	09.11.2012	06.11.2014	06.11.2015	17.11.2016
Date of Board of Directors' meeting	06.11.2013	06.11.2014	06.11.2015	17.11.2016
Number of performance-based shares allocated	570,880	583,240	418,923	461,376
of which to Executive Directors of Pernod Ricard SA	17,550	34,000	10,650	15,815
of which to Mr Pierre Pringuet (1)	9,500	18,200	N/A	N/A
of which to Mr Alexandre Ricard (2)	6,100	11,600	8,500	13,200
of which to Mr César Giron	1,950	4,200	2,150	2,615
Vesting date of the performance-based shares	07.11.2016 (FRA) 07.11.2017 (ROW)	07.11.2018	07.11.2019	18.11.2020
End date for share lock-in period	07.11.2018 (FRA) 07.11.2017 (ROW)	07.11.2018	07.11.2019	18.11.2020
Presence of performance condition	Yes	Yes	Yes	Yes
Number of performance-based shares cancelled (3)	263,543	183,997	30,820	5,310
of which allocated to Mr Pierre Pringuet (1)	9,500	4,004	-	-
of which allocated to Mr Alexandre Ricard (2)	6,100	2,552	-	-
of which allocated to Mr César Giron	585	924	-	-
Vested performance-based shares (4)	74,038	-	-	-
Unvested performance-based shares (5)	233,299	399,243	388,103	456,066

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 for the 2013 plan is three years 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 plans from 2014 onwards, 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 (i.e. from 29 August 2012) 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 for the 2013 and 2014 Plans.

(4) Allocated shares that were vested and transferred to the beneficiaries.

(5) For the November 2013 plan: performance-based shares allocated to beneficiaries who are not tax residents of France with a transfer date of 7 November 2017. For the November 2014 plan, the performance condition was evaluated in full. For the November 2015 and November 2016 plans, it will only be recognised at the close of the 2017/18 and 2018/19 financial years respectively.

Stock options granted to the Group's top ten employees other than Executive Directors and options exercised by the Group's top ten employees other than Executive Directors during the 2016/2017 financial year (Table 9 AMF nomenclature)

	Number of options allocated/shares subscribed or purchased	Weighted average price *(€)*	Plans
Options granted during the financial year by the Company and any companies within its Group granting options to the top ten employees of the Company and any such Group company, receiving the highest number of options (1)	54,248	105.81	17.11.2016
Options exercised during the financial year by the top ten employees of the Company and all companies within its Group granting options, with the highest number of options thus exercised	79,247	66.36	24.06.2010/ 15.06.2011

(1) During the financial year 2016/17, only seven persons within Pernod Ricard SA were affected by these allocations.

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

Employee profit-sharing plans

All employees of the Group's French companies are eligible for 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.

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 General Management, comprises a fixed annual portion, plus a variable portion representing an attractive incentive, for which the criteria are largely based on the Group's financial performance and debt reduction, as is the case for the Executive Director. 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, including the Chairman & CEO, have also been evaluated on the basis of their employee development and management performance and the implementation of Sustainability & Responsibility (S&R) projects.

The total amount of the fixed compensation allocated for the 2016/17 financial year to the members of the Executive Committee, including the Executive Director, stood at €7.5 million (*vs.* €7.6 million in 2015/16). In addition to this, variable compensation of €4.8 million (variable portion calculated for 2015/16) was also paid (*vs.* €5.1 million in 2015/16).

The total recurring expense in respect of pension commitments for members of the Executive Committee, including the Executive Director, was €2.6 million in the financial statements for the year ended 30 June 2017 (compared with €4.3 million as at 30 June 2016).

TRANSACTIONS INVOLVING PERNOD RICARD SHARES MADE BY DIRECTORS IN THE 2016/2017 FINANCIAL YEAR (ARTICLE 223-26 OF THE AMF GENERAL REGULATIONS)

First name, surname, Company name	Function	Financial instrument	Type of transaction	Date	Price (€)	Amount of transaction (€)
Mr Alexandre Ricard	Chairman & CEO	Shares	Acquisition	09.11.2016	103.50	1,449
		Shares	Acquisition	29.11.2016	97.9575	783,660
		Fund units invested in Pernod Ricard shares	Disposal	16.06.2017	50.169	80,371
Mr César Giron	Director	Shares	Disposal	07.09.2016	106.90	365,705
		Shares	Disposal	15.05.2017	120.25	128,427
Mr Paul-Charles Ricard	Permanent representative of Société Paul Ricard, Director	Shares	Acquisition	12.09.2016	103.15	79,941
		Shares	Acquisition	13.09.2016	103.00	15,141
Ms Veronica Vargas	Director	Shares	Acquisition	18.07.2016	99.49	139,286
Le Delos Invest II	Legal entity linked to Mr Alexandre Ricard, Chairman & CEO	Stock options	Transfer of stock put options	18.07.2016	0.9044	247,520
		Shares	Acquisition	30.09.2016	103.9432	203,833
		Shares	Acquisition	04.11.2016	104.5151	12,161,482
		Shares	Acquisition	07.11.2016	104.9651	2,768,559
		Shares	Acquisition	09.11.2016	104.0631	10,512,975
		Shares	Acquisition	10.11.2016	102.2959	10,996,809
Le Delos Invest II SA	Legal entity associated with Société Paul Ricard, Director	Shares	Acquisition	28.11.2016	97.6612	111,822,074
		Forward financial instrument	Forward financial instrument	28.11.2016	N/A	N/A
		Shares	Pledge of shares	28.11.2016	N/A	N/A
		Shares	Acquisition	02.12.2016	95.9403	1,054,768

N/A: Not applicable.

DIRECTORS' EQUITY INVESTMENTS IN THE SHARE CAPITAL OF THE COMPANY (POSITION AT 30 JUNE 2017)

Members of the Board of Directors	Number of shares at 30.06.2017	Percentage of share capital at 30.06.2017	Number of voting rights at 30.06.2017	Percentage of voting rights at 30.06.2017
Executive Directors				
Mr Alexandre Ricard (Chairman & CEO)	57,556	0.02%	57,556	0.02%
Mr Pierre Pringuet (Vice Chairman of the Board of Directors)	380,088	0.14%	480,592	0.16%
Directors				
Mr César Giron	5,587	N.M.	5,587	N.M.
Ms Martina Gonzalez-Gallarza	1,100	N.M.	1,100	N.M.
Société Paul Ricard (1) represented by Mr Paul-Charles Ricard	37,686,104	14.20%	60,834,658	19.76%
Mr Paul-Charles Ricard	182,226	0.069%	322,457	0.105%
Ms Veronica Vargas	6,820	N.M.	6,820	N.M.
Independent Directors				
Ms Nicole Bouton	1,150	N.M.	1,150	N.M.
Mr Wolfgang Colberg	1,076	N.M.	1,076	N.M.
Mr Ian Gallienne	1,000	N.M.	1,000	N.M.
Ms Anne Lange	100	N.M.	100	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 Sylvain Carré	-	N.M.	-	N.M.
Mr Manousos Charkoftakis	50	N.M.	50	N.M.

N.M.: Not material.

(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, Directors representing employees 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 to be 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 contributes on an ongoing basis the smooth running and improvement of this system. The coverage and insurance implemented by the Group to counter these risks is shown 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 employees 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 distribution 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 as was the case on the Chinese market following the implementation of measures to dampen conspicuous consumption in 2013/14, which produced lower sales growth over several financial years.

Furthermore, the Group derives a considerable portion of its business (38% of sales in 2016/17) from emerging markets in Asia, Eastern Europe and Latin America (such as 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 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 distributors 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 distributors' 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 poor 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 subsection 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 2017 was €17 billion.

Risks relating to competition

The Group operates in highly 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 a third of all internal growth in sales in the 2016/17 financial year, *i.e.* around 1%.

Risks relating to employees

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. No significant impacts have been identified in this regard to date, but 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 communication between the personnel, customers and suppliers of Pernod Ricard.

At a time of constant change 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 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 subsection "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 manufacture 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 agricultural 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* in 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 on "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 "Overview of Pernod Ricard").

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 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 intentional or accidental contamination by an undesirable component. The control of these risks is based both on the application of the HACCP method, which aims to identify the 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 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 major 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 impacts;
- protection of insured capital (industrial risks).

It is also supported by an ambitious QSE certification process for Group 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 2017, 85% of sites were quadruple QSE-certified according to these four standards, covering 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. 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 recommendations for action 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. Today, 19 industrial affiliates are monitored each year to assess the maturity of their BCMS. They are regularly audited by third parties and are followed up by the Group Operation Department.

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 96 industrial sites operating as at 30 June 2017, 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, which exceeded 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.

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. In November 2016, a significant wine spillage occurred on the Brancott site in New Zealand resulting from damage to vats caused by an earthquake (see following paragraph).

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. Substantial damage to storage vats was observed. Another earthquake affected the same site in November 2016, causing a high degree of property damage and leading to the filing of a claim with the Group's insurer. Thanks to the implementation of a business continuity management system (BCMS), local teams were able to limit interruptions to business on the site by securing the harvests and vinification phases for 2016/17.

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 has been 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 agricultural 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 grape varieties, 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 incorporation of 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 subsection "Protect the planet" in Section 3 "Sustainability & Responsibility". It should also be noted that in each year since 2006, Pernod Ricard has published information on the Carbon Disclosure Project website 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 areas 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 and 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 and 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, in common with 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.

For instance, the Group is currently involved in litigation on the Havana Club brand (see Note 6.5 – *Disputes relating to brands* 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 2017 for all litigation and risks in which it is involved, amounted to €566 million, compared with €526 million at 30 June 2016 (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 ratio was 3.0 [1] at 30 June 2017, a decline of (0.4) compared to 30 June 2016 (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:

- a reduction in the Group's ability to obtain additional financing for working capital, capital expenditure, acquisitions or general corporate purposes, and an increase in 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" subsection of this management report.

Market risks (currency and interest rates)

The market risks are set out in Note 4.9 – *Financial Instruments* of the Notes to the consolidated financial statements.

Liquidity risks

The liquidity risks are set out in Note 4.9 – *Financial Instruments* of the Notes to the consolidated financial statements.

Counterparty risks in financial transactions

The market risks are set out in Note 4.9 – *Financial Instruments* of the Notes to the consolidated financial statements.

Risks relating to the Group's pension plans

The Group's unfunded pension obligations amounted to €279 million on 30 June 2017. During the 2016/17 financial year, the Group made total contributions to Group pension plans of €51 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/cyber.

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.).

(1) *Average EUR/US dollar exchange rate of 1.09 over the 2016/17 financial year compared to 1.11 over the 2015/16 financial year.*

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 €1,050 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 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.
Fraud/cyber	■ Coverage of up to €35 million per year, with a cyber-insurance sub-limit of €15 million.
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 2017. Changes may have been negotiated for the 2017/18 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 contingencies when it is likely that a current obligation stemming from a past event will require the payment of an amount that can be reliably estimated. 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.

MATERIAL 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 2016/17 financial year, Pernod Ricard did not conclude any sale and repurchase agreements. For further details on transactions relating to sale and repurchase agreements, please consult Section 8 "About the Company and its share capital", subsection "Share Repurchase Programme".

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, with the amount being allocated in full to the repayment of the 2008 syndicated loan. This was partially repaid on 26 November 2015 (15%) and 31 October 2016 (20%); the remainder will be paid 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.

2017 Credit Agreement (syndicated credit)

In relation to the refinancing of the 2012 bank debt taken out to cover the Group's short-term financing needs, Pernod Ricard and a number of its affiliates signed a new €2.5 billion revolving credit facility (the "Credit Agreement") on 14 June 2017 for a term of five years with the option of an extension to six or seven years.

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 5.25 or less. At 30 June 2017, the Group was compliant with this solvency ratio (see "Liquidity risks" in this management report).

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

Debt issuance

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

These bond issues include a clause regarding change of control, which could lead to the compulsory early repayment of Bonds upon request of each bondholder in the event of a change of control of the Company (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.

	Amount *(in US Dollar thousands)*	Amount *(in euro thousand)*	Place of issue	Nominal value *(in thousands)*	Maturity date	Repayment dates	Allocation of net proceeds of the issue	Rate
Bond of 15.03.2011		1,000,000	Luxembourg stock exchange regulated market	100	Fully repaid on 15.03.2017	Payable annually in arrears on 15 March	Repayment of the 2008 syndicated loan in order to extend the Group's debt maturity	Annual fixed rate of 5%
USD bond of 07.04.2011	1,000,000		Private placement for institutional investors, and subject to New York State (United States) law	US$150,000 (with multiples of US$1,000 in excess of this amount).	07.04.2021	Payable annually in arrears on 7 April and 7 October	Repayment of the 2008 syndicated loan in order to extend the Group's debt maturity and a part of the 2008 syndicated loan denominated in US dollars.	Annual fixed rate of 5.75%
USD bond of 25.10.2011	1,500 000		Private placement for institutional investors, and subject to New York State (United States) law	US$150,000 (with multiples of US$1,000 in excess of this amount).	15.01.2022	Payable annually in arrears on 15 January and 15 July	Repayment of part of the 2008 syndicated loan denominated in US dollars.	Annual fixed rate of 4.45%
USD bond of 12.01.2012	850,000	–	Private placement for institutional investors, and subject to New York State (United States) law	US$150,000 (with multiples of US$1,000 in excess of this amount).	Fully repaid on 15.01.2017	Payable annually in arrears on 15 January and 15 July	Repayment of part of the 2008 syndicated loan denominated in US dollars.	Annual fixed rate of 2.95%
USD bond of 12.01.2012	850,000		Private placement for institutional investors, and subject to New York State (United States) law	US$150,000 (with multiples of US$1,000 in excess of this amount).	15.01.2042	Payable annually in arrears on 15 January and 15 July	Repayment of part of the 2008 syndicated loan denominated in US dollars.	Annual fixed rate of 5.50%
USD bond of 12.01.2012	800,000		Private placement for institutional investors, and subject to New York State (United States) law	US$150,000 (with multiples of US$1,000 in excess of this amount).	15.07.2022	Payable annually in arrears on 15 January and 15 July	Repayment of part of the 2008 syndicated loan denominated in US dollars.	Annual fixed rate of 4.25%
Bond of 20.03.2014		850,000	Euronext Paris regulated market	100	22.06.2020	Payable annually in arrears on 20 March	Repayment of the bond in order to extend the Group's debt maturity	Annual fixed rate of 2%
Bond of 29.09.2014		650,000	Euronext Paris regulated market	100	27.09.2024	Payable annually in arrears on 27 September	Repayment of the bond in order to extend the Group's debt maturity	Annual fixed rate of 2.13%

	Amount *(in US Dollar thousands)*	Amount *(in euro thousand)*	Place of issue	Nominal value *(in thousands)*	Maturity date	Repayment dates	Allocation of net proceeds of the issue	Rate
Bond of 28.09.2015		500,000	Euronext Paris regulated market	100	28.09.2023	Payable annually in arrears on 28 September	Repayment of the bond in order to extend the Group's debt maturity	Annual fixed rate of 1.88%
USD PANDIOS bond of 26.01.2016	201,000		A single counterparty	1,000	26.01.2021	Payable quarterly as from 26 July 2016	Repayment of the bond in order to extend the Group's debt maturity	Variable
Bond of 17.05.2016		600,000	Euronext Paris regulated market	100	18.05.2026	Payable annually in arrears on 18 May	Repayment of the bond in order to extend the Group's debt maturity	Annual fixed rate of 1.50%
USD bond of 08.06.2016	600,000		Private placement for institutional investors, and subject to New York State (United States) law	US$150,000 (with multiples of US$1,000 in excess of this amount).	08.06.2026	Payable annually in arrears on 8 June and 8 December as from 8 December 2016	Repayment of the short-term debt and bond in order to extend the Group's debt maturity	Annual fixed rate of 3.25%

Factoring agreement Europe

On 15 December 2008, certain affiliates of Pernod Ricard and Pernod Ricard Finance signed a Factoring Framework Agreement with BNP Paribas Factor, to set up a pan-European factoring programme in the gross amount of €350 million, which was increased to €400 million by an addendum dated 23 June 2009. The 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.