# STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

## Year ended 30 June 2017

To the Pernod Ricard Shareholders' Meeting

## Opinion

In compliance with the engagement entrusted to us by your Shareholders' Meetings, we have audited the accompanying consolidated financial statements of Pernod Ricard for the year ended 30 June 2017.

In our opinion, the consolidated financial statements give a true and fair view of the results of the operations of the Group for the year then ended and of its financial position and of its assets and liabilities as at 30 June 2017 in accordance with International Financial Reporting Standards as adopted by the European Union.

The audit opinion expressed above is consistent with our report to the Audit Committee.

## Basis for Opinion

### Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the "Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements" section of our report.

### Independence

We conducted our audit in compliance with independence rules applicable to us, for the period from 1 July 2016 to the issue date of our report and in particular we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 or in the French Code of ethics for statutory auditors.

## Justification of Assessments - Key Audit Matters

In accordance with the requirements of articles L.823-9 and R.823-7 of the French Commercial Code (*"Code de commerce"*) relating to the justification of our assessments, we bring your attention to the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period, as well as our responses to those risks.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific elements, accounts or items of the consolidated financial statements.

| Key Audit Matters | Responses as part of our audit |
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| ***Brands' valuation***<br>*(Notes 1.1.4 and 4.1 to the consolidated financial statements)*<br>As of 30 June 2017, indefinite-life brands were recorded in the balance sheet for a net carrying amount of €11,643 million, i.e. 39% of total assets.<br>An impairment loss is recognised in the balance sheet when their net carrying amount exceeds their recoverable amount. Their recoverable amount is determined as part of mandatory annual impairment tests given their indefinite life and/or specific tests in the event of an indication of a loss in value. Recoverable amounts are generally determined based on discounted future cash flow calculations and/or market values and involves significant management judgments of components such as price and volume growth rates, the schedule of future operating expenses and discount and long-term growth rates.<br>In certain countries, difficult trade conditions impacted the performance and future outlook of certain brands, leading the Company to record an impairment loss before tax of €73 million for the year ended 30 June 2017, as disclosed in Note 3.1 to the consolidated financial statements.<br>Furthermore, the sensitivity of brands' recoverable amounts to assumptions was analysed by management and presented in Note 4.1. Changes in assumptions could give rise to further impairment losses.<br>Considering the weight of brands on the balance sheet, the complexity of the models used and their sensitivity to changes in the data and assumptions underlying the estimates, particularly cash flow forecasts and discount rates used, we considered the recoverable amount of brands to be a key audit matter presenting a risk of material misstatement. | We tested the operation of Group controls covering the calculation of brands' recoverable amounts. Our other procedures mainly consisted in:<br>■ assessing the principles and methods of calculating brands' recoverable amounts ;<br>■ for brands with a recoverable amount close to their carrying amount ("sensitive brands"), confirming the results of the valuation model used by management by comparing them with the results of our models;<br>■ corroborating, notably through interviews with management, the reasonableness of the main data and assumptions underlying the estimates (such as the discount and long-term growth rates), primarily for "sensitive brands";<br>■ being informed of the commercial outlook of the brands based on interviews with management and comparing the accounting estimates of prior period cash flow projections with corresponding actual values to assess reliability;<br>■ testing the arithmetical accuracy of the valuations used by the Company on a sample basis.<br>We also assessed the appropriateness of the disclosures in Notes 1.1.4 and 4.1 to the consolidated financial statements and verified the arithmetical accuracy of the presented sensitivity analysis. |

*This is a free translation into English of the statutory auditors' report on the consolidated financial statements of the company issued in French and it is provided solely for the convenience of English speaking users.*

*This report includes information specifically required by European regulation or French law, such as information about the appointment of the statutory auditors.*

*This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

| Key Audit Matters | Responses as part of our audit |
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| ***Tax risks***<br>*(Notes 1.1.4, 4.7.1, 4.7.2, 6.4 and 6.5 to the consolidated financial statements)*<br>The Group operates in numerous different tax jurisdictions. The tax authorities of the countries in which the group companies operate regularly have queries on issues relating to their everyday activities.<br>Tax audits can therefore give rise to tax reassessments and litigation with these tax authorities. The assessment of the risk related to each tax litigation is regularly reviewed by each concerned subsidiary or region and by the Group's tax department, with the support of its external counsels for the most significant and complex litigations. As of 30 June 2017, part of the amount of provisions for contingences for all the legal disputes or risks involving the Group relates to tax risks and litigations.<br>More particularly, the Indian subsidiary is involved in disputes with customs and tax authorities over, among others, the declared transaction value of concentrates of alcoholic beverages (CAB) imported into India and the tax deductibility of promotional and advertising expenses. On this last point, as indicated in the Note 6.4 "Contingent liabilities", management disputes the merits of the reassessment proposal and has not booked provision for this matter.<br>Given the Group's exposure to tax issues, which are in part specific to its business sector, and the high level of management judgment in estimating the risks and amounts recorded, we considered tax risks to be a key audit matter and the corresponding provisions to be a possible source of material misstatement in the financial statements. | Based on discussions with management, we have been informed of the procedures implemented by the group to identify uncertain tax positions and, where necessary, provide for tax risks.<br>In addition, we assessed the judgments made by management in evaluating the probability of taxes being payable, the amount of potential exposure and the reasonableness of the estimates adopted for provisions for tax risks. We particularly focused on the impact of changes in local tax regulations and ongoing audits conducted by local tax authorities.<br>To assess whether the tax liabilities were appropriately recognised, and with the assistance of our tax experts, we:<br>■ conducted interviews with the Group's tax department and regional and local management teams in order to assess the current state of the investigations and reassessments made by the tax authorities and monitor the development of ongoing tax disputes;<br>■ consulted the recent Group company decisions and correspondence with local tax authorities, and reviewed the correspondence between the relevant companies and their lawyers, where necessary;<br>■ analysed lawyers' responses to our information requests;<br>■ performed a critical review of the estimates and positions adopted by management;<br>■ verified that the latest developments were taken into account in the provisions recorded in the balance sheet.<br>We also assessed the disclosures in Notes 1.1.4, 4.7.1, 4.7.2, 6.4 and 6.5 to the consolidated financial statements. |
| ***Recoverability of deferred tax assets relating to tax loss carryforwards***<br>*(Notes 1.1.4 and 3.3 to the consolidated financial statements)*<br>As of 30 June 2017, a deferred tax expense of €37 million was recorded in the income statement, while deferred tax assets of €2,377 million (including €1,314 million relating to tax loss carryforwards) and deferred tax liabilities of €3,421 million were recognised in the balance sheet.<br>Deferred tax assets in respect of tax losses are recognised if it is probable that the Group will have future taxable profits against which such losses will be used. The Group's ability to recover its deferred tax assets relating to tax loss carryforwards is assessed by management at each period end taking into account future taxable income forecasts. These projections are based on assumptions arising from management's judgment.<br>We considered the recoverability of deferred tax assets relating to tax loss carryforwards to be a key audit matter due to the significant judgments made by management in recognising these assets and the material amounts. | Assisted by our tax experts from the relevant countries, where necessary, our audit approach consisted in assessing the probability that the company can utilise its current tax loss carryforwards in the future, particularly with regard to:<br>■ deferred tax liabilities within the same tax jurisdiction that could be offset against current tax loss carryforwards prior to their expiration; and<br>■ the ability of the relevant subsidiaries to generate future taxable profits in order to utilise current tax loss carryforwards.<br>We also assessed the reasonableness of the main data and assumptions (earnings growth, sustainability of operations) used to calculate the taxable income forecasts underlying the recognition and recoverability of the deferred tax assets relating to tax loss carryforwards.<br>We also assessed the appropriateness of the disclosures in Notes 1.1.4 and 3.3 to the consolidated financial statements. |

| Key Audit Matters | Responses as part of our audit |
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| ***Post-employment benefit commitments***<br>*(Notes 1.1.4 and 4.7.3 to the consolidated financial statements)*<br>The Group contributes to several defined-benefit post-employment benefit plans, mainly pension plans. The main plans located in France, in the United States, in Canada, in Ireland, in the United Kingdom and in the Netherlands represent nearly the entire actuarial value of accumulated benefits, which amounted to €5,645 million as of 30 June 2017. These liabilities are covered by plan assets with a fair value of €5,517 million, resulting in a net liability as of 30 June 2017 amounted to €128 million. The most significant plan assets concern the United Kingdom, the United States, Canada, and Ireland.<br>The measurement of pension plan assets and liabilities as well as the actuarial expense for the period requires the exercise of judgment to determine the appropriate assumptions to be used, such as discount and inflation rates, future wage increases, employee turnover rate, mortality tables, etc. Changes in some of these assumptions may have a material impact on the calculation of the net liability and the Group's earnings. In this context, management calls on external actuaries to assist in determining these assumptions.<br>Given the amounts of these commitments and plans assets as well as the significant judgments made by management and the technical expertise required for their measurement, we considered this type of commitment to be a key audit matter. | We have been informed of the procedures implemented by the group to evaluate the post-employment benefit commitments.<br>We called on internal actuarial specialists to assess the assumptions used in the valuation of pension plan commitments, in particular those of the United Kingdom, the United States, Canada, Ireland and France, by:<br>▪ assessing the consistency of the discount and inflation rates with market conditions;<br>▪ assessing the assumptions relating to wage increases, staff turnover and mortality rates to determine their consistency with the specificities of each plan and, where necessary, with the relevant national and sectoral benchmarks;<br>▪ analysing the calculations prepared by external actuaries, particularly those justifying the liability's sensitivity to changes in the discount rate.<br>Regarding the plan assets, we also assessed whether the assumptions adopted by management to measure these assets and the documentation provided by management to justify the recognition of net plan assets were appropriate.<br>Regarding net plan assets, we analysed the plan rules, the latest financing report and the legal position obtained by management in respect of IFRIC 14, to verify the Group's ability to recover surplus assets.<br>We also assessed the appropriateness of the disclosures in Notes 1.1.4 and 4.7.3 to the consolidated financial statements. |

## Specific Verification concerning the Group presented in the Management Report

As required by French law, we have also verified in accordance with professional standards applicable in France the information concerning the Group presented in the Board of Directors' management report.

We have no matters to report as its fair presentation and its consistency with the consolidated financial statements.

## Report on Other Legal and Regulatory Requirements

### Appointment of the Statutory Auditors

We were appointed as statutory auditors of Pernod Ricard by the Shareholders' Meeting of 13 May 2003 for Deloitte & Associés and of 17 November 2016 for KPMG S.A.

As at 30 June 2017, Deloitte & Associés and KPMG S.A. were in the 14th period and first period of total uninterrupted engagement, respectively.

## Responsibilities of Management and those charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease its operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems and, where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The consolidated financial statements have been approved by the Board of Directors.

## Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

### Objective and audit approach

Our role is to issue a report on the consolidated financial statements. Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As specified by article L.823-10-1 of the French Commercial Code ("*Code de commerce*"), the scope of our statutory audit does not include assurance on the future viability of the Company or the quality with which Company's management has conducted or will conduct the affairs of the entity.

A more detailed description of our statutory auditor responsibilities for the audit of the consolidated financial statements is presented in the appendix to this report and is an integral part thereof.

### Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as significant audit findings. We also bring to its attention, if need be, any significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period and which are therefore the key audit matters. We describe these matters in the audit report.

We also provide the Audit Committee with the declaration referred to in Article 6 of Regulation (EU) N° 537/2014, confirming our independence in the sense of the rules applicable in France as defined in particular by articles L.822-10 to L.822-14 of the French Commercial Code ("*Code de commerce*") and or in the French Code of ethics for statutory auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

Paris La Défense and Neuilly-sur-Seine, 20 September 2017

The Statutory Auditors

*French original signed by*

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|---|---|
| KPMG Audit<br>*Division of KPMG S.A.* | Deloitte & Associés |
| Eric Ropert<br>*Partner* | David Dupont-Noel<br>*Partner* |

## APPENDIX

### Detailed description of the statutory auditors' responsibilities

As part of an audit in accordance with professional standards applicable in France, we exercise professional judgment throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the consolidated financial statements;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If we conclude that a material uncertainty exists, we draw attention in our audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, we modify our opinion;
- Evaluate the overall presentation of the consolidated financial statements and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities included in the consolidation scope to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit of the consolidated financial statements. We remain solely responsible for our audit opinion.