Half-Year Financial Report

31 December 2016

Pernod Ricard

Créateurs de convivialité

CONTENTS

1/ Certification by the person assuming responsibility for the half-year financial report

I certify that to the best of my knowledge the half-year consolidated condensed financial statements included in this document have been prepared in accordance with the applicable accounting standards and present a true picture of the assets, financial situation and results of all the companies included within the Pernod Ricard Group, and that the enclosed half-year activity report is a true reflection of the important events arising in the first six months of the financial year and their impact on the annual financial statements, a statement of the principal transactions between related parties, as well as a description of the principal risks and uncertainties for the remaining six months of the financial year.

Alexandre Ricard

Chairman & CEO

2/ Half-year activity report

1. Significant events in half year 2016/17

On 30 September 2016, Pernod Ricard announced the signing and completion of the sale of Frïs Vodka to Sazerac.

On 1 December 2016, Pernod Ricard and Bodega Las Copas, a 50/50 joint-venture held by Grupo Emperador Spain and by González Byass, announced the signing of an agreement for the sale of the Domecq brandies and wines. The transaction includes the brand portfolio of Mexican brandies Don Pedro, Presidente and Azteca de Oro as well as the winery related to the production of Mexican wines in Ensenada, together with the relevant inventories. The closing of the transaction is subject to customary conditions, including its clearance by the Mexican Anti-Trust authorities, and is expected to take place before the end of the fiscal year 2016/2017.

Those disposals are in line with Pernod Ricard's strategy to simplify its portfolio for growth and focus on its priority spirits and wines brands.

2. Key figures and business analysis

Pernod Ricard delivered a strong first half performance in its 2016/17 financial year (H1 2016/17 from 1 July to 31 December 2016). The Group recorded, at constant forex and Group structure, a continued performance improvement in both sales +4%*(+2% reported) and Profit from Recurring Operations (PRO) +4%*(+4% reported). The first half sales growth was consistent with that of the first quarter.

By category, the Strategic International Brands growth accelerated to +6%* driven by Jameson, Ballantine's, Martell and a return to growth on Absolut. The Strategic Local Brands performance slowed to +1%* due to the temporary impact of demonetisation on Indian Whiskies.

Pernod Ricard continued improving performance in PRO, with growth now +4%* (+3%* adjusted for the earlier Chinese New Year, CNY**). Growth in PRO in H1 is consistent with guidance of growth between +2%* and +4%* for the 2016/17 full financial year.

Key elements are as follows:

- Continued performance improvement with Sales growing +4%* in H1 2016/17;
- Gross margin ratio of 62.4%, down -31bps* due to positive price/mix but pricing still subdued and tight management of COGS thanks to operational efficiency initiatives despite negative impact of new taxes (Vietnam) and significant increase of Grain Neutral Spirit (India) and agave costs;
- Advertising & Promotion (A&P) at +1%* due to lapping strong increase in H1 2015/16 and numerous initiatives to drive stronger efficiency;
- Structure costs tightly managed;
- Slight improvement in PRO margin : +4bp*, up to 29.6%;
- Group share of Net Profit from Recurring Operations totaled €957 million, a +5% increase compared to H1 2015/16 financial year, due to PRO organic growth and reduction in financial expenses;
- Improvement in Free Cash Flow (€658 million, +34%);
- Very strong net cash generation despite adverse H1 impact of seasonality on Working Capital and full dividend payment. The strong improvement of +€134 million in H1 2016/17, compared to €(60)million in H1 2015/16, is mainly thanks to recurring Free Cash Flow improvement;
- Net Debt up +€237m to €8,953m due to adverse translation adjustment on USD-denominated debt (EUR/USD rate 1.11 at 31/06/2016 vs. 1.05 at 31/12/2016).

* At constant forex and Group structure (organic growth)

** *Chinese New Year (CNY) on 28 January 2017 vs. 8 February 2016*

A. Profit from Recurring Operations

(€ million)	31.12.2015	31.12.2016	Reported growth		Organic* growth	
	6 months	6 months	In M€	In %	In M€	In %
Net sales	4,958	5,061	103	2%	197	4%
Gross margin after logistics expenses	3,078	3,158	80	3%	106	3%
Advertising and promotion	(908)	(901)	7	-1%	(11)	1%
Contribution after advertising and promotion	2,170	2,257	87	4%	96	4%
Profit from Recurring Operations	**1,438**	**1,500**	**63**	**4%**	**59**	**4%**

Pernod Ricard's H1 2016/17 consolidated net sales (excluding tax and duties) increased +4%* to €5,061 million, compared to €4,958 million in H1 2015/16. Overall, this was due to:

- Continued strong growth in the Americas (+7%* vs. +4%* in H1 2015/16), driven by USA and Travel Retail,
- A contrasted Asia-Rest of World performance (+3%* vs. +5%* in H1 2015/16) with: good resilience but growth deceleration in India during a period of several adverse regulatory changes mainly demonetisation, improvement in China, continued strong growth in Japan and double-digit decline in Korea,
- A good performance in Europe (+3%* vs. +1%* in H1 2015/16), driven mainly by recovery in Russia and continued good performance in UK and Spain;
- Growth driven by Jameson, Ballantine's, Martell and Absolut's return to growth :
  - Jameson continues very strong performance with double digit growth (+20%*), driven by the United States, Europe and Africa Middle East. The brand represents just over 1/4 of total USA sales;
  - Ballantine's (+6%*) driven by Ballantine's Finest, with very good growth in Europe, South Africa and Travel Retail Asia;
  - Martell (+7%*) with a return to strong growth in China (+10%*, favoured by earlier CNY**);
  - Absolut (+1%*) returned to growth, with a very good performance of the 2/3 of volumes sold outside of the USA (+6%*), driven by Europe and Latin America. Absolut in the USA is in decline and the objective remains to stabilise in the medium term in an increasingly competitive vodka market. Strong development of Absolut Elyx;

Gross margin after logistics expenses totalled €3,158 million, representing organic growth of +3%*. The gross margin ratio was 62.4% (-31bps*). The Group delivered positive price/mix in H1 2016/17, however pricing remain subdued. Thanks to operational efficiency initiatives, the Group also pursued its tight management of cost of goods sold.

The contribution after advertising and promotion investments reached €2,257 million (+4%*). It represented 44.6% of sales, up +19 bps* compared to H1 2015/16.

Profit from Recurring Operations (PRO) grew +4%* (+4% reported) to €1,500 million. The operating margin amounts to 29.6%, +4 bps* compared to H1 2015/16.

* At constant forex and Group structure (organic growth)

*** Chinese New Year (CNY) on 28 January 2017 vs. 8 February 2016*

__Business activity by geographic area__

Americas

(€ million)	31.12.2015	31.12.2016	Reported growth		Organic* growth	
	6 months	6 months	In M€	In %	In M€	In %
Net sales	1,369	1,431	62	4%	95	7%
Gross margin after logistics expenses	890	972	82	9%	64	7%
Advertising and promotion	(277)	(291)	(14)	5%	(19)	7%
Contribution after advertising and promotion	613	681	68	11%	45	7%
Profit from Recurring Operations	**400**	**463**	**63**	**16%**	**36**	**9%**

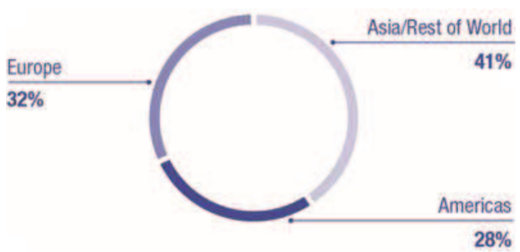
Asia/Rest of World

(€ million)	31.12.2015	31.12.2016	Reported growth		Organic* growth	
	6 months	6 months	In M€	In %	In M€	In %
Net sales	2,019	2,040	22	1%	52	3%
Gross margin after logistics expenses	1,229	1,212	(16)	-1%	11	1%
Advertising and promotion	(350)	(330)	20	-6%	13	-4%
Contribution after advertising and promotion	879	883	3	0%	24	3%
Profit from Recurring Operations	**645**	**633**	**(12)**	**-2%**	**7**	**1%**

Europe

(€ million)	31.12.2015	31.12.2016	Reported growth		Organic* growth	
	6 months	6 months	In M€	In %	In M€	In %
Net sales	1,570	1,589	19	1%	50	3%
Gross margin after logistics expenses	959	973	15	2%	31	3%
Advertising and promotion	(281)	(280)	1	0%	(4)	1%
Contribution after advertising and promotion	677	693	16	2%	27	4%
Profit from Recurring Operations	**393**	**405**	**12**	**3%**	**16**	**4%**

Net sales by region, 1st semester 2015/16 :



Net sales by region, 1st semester 2016/17 :

Profit from Recurring Operations by region, 1st semester 2015/16 :

Profit from Recurring Operations by region, 1st semester 2016/17 :

* At constant forex and Group structure (organic growth)

Profit from Recurring Operations (PRO) in the **Americas** grew +9%* (+16% reported) driven by good Sales performance in the United States and Travel Retail, further enhanced by FX. Gross margin improved by +17bps* thanks to a positive mix in the USA (premiumisation). A&P was broadly in line with topline. The PRO margin was significantly enhanced thanks to premiumisation, tight management of resources and FX.

PRO in the **Asia / Rest of World** region grew +1%* (-2% reported), favoured by the earlier CNY** but impacted by a temporary slowdown in India (demonetisation), and by Korea. Sales improvement was driven by China but negatively impacted by India (demonetisation) and Korea. Gross margin was down 100bps*, due mainly to COGS pressure in India (including Grain Neutral Spirit increase), new taxes (Vietnam), promotional phasing and tough commercial conditions in Travel Retail. A&P declined while maintaining investment behind key strategic priorities. Reported PRO was in slight decline due to FX impact resulting mainly from negative movement on Chinese Yuan.

In **Europe**, PRO growth was strong, up +4%*, thanks to product mix and a tight management of resources. Sales growth at +3%*, thanks to solid growth in Western Europe and a return to growth in Eastern Europe. The PRO margin ratio improved +18bps*, driven by product mix, and tight management of resources.

B. Group share of Net Profit from Recurring Operations

(€ million)	31.12.2015 6 months	31.12.2016 6 months
Profit from Recurring Operations	1,438	1,500
Financial income/(expenses) from recurring operations	(217)	(201)
Corporate income tax on recurring operations	(302)	(334)
Net Profit from discontinued operations, non-controlling interests and share of net profit from equity associates	(10)	(9)
Group share of Net Profit from Recurring Operations	**909**	**957**
Group Net Profit per share from recurring operations – diluted (in euro)	**3.42**	**3.61**

Net financial expenses from recurring operations

Net financial expenses from recurring operations totalled €(201) million, €16 million lower than in the comparable period, due to an improvement in the cost of debt due to refinancing (4.0%, vs. 4.2% in H1 2015/). The average cost of debt is expected to be close to 3.8% for the 2016/17 full financial year.

Net debt

Net debt was €8,953 million at 31 December 2016 compared to €8,716 million at 30 June 2016, an increase of €237 million. Very strong cash flow generation from growth in Profit from Recurring Operations and an improvement in the variation of strategic inventories were adversely impacted by H1 seasonality on Working capital and full-year dividend payment in addition to an adverse translation adjustment on USD-denominated debt (EUR/USD rate 1.11 at 30 June 2016 vs. 1.05 at 31 December 2016).

Income tax on recurring operations

Income tax from recurring operations amounted to €(334) million, equating to a tax rate of 25.7% vs. 24.7% over the first half of 2015/16 financial year. This is in line with the expectations for the full year 2017.

Group share of net profit from recurring operations

Group share of Net Profit from Recurring Operations amounted to €957 million at 31 December 2016, an increase of +5% compared to H1 2015/16.

* At constant forex and Group structure (organic growth)

*** Chinese New Year (CNY) on 28 January 2017 vs. 8 February 2016*

C. Group share of net profit

(€ million)	31.12.2015 6 months	31.12.2016 6 months
Profit from Recurring Operations	1,438	1,500
Other operating income and expenses	(35)	(0)
Operating profit	**1,403**	**1,500**
Financial income/(expenses) from recurring operations	(217)	(201)
Other financial income/(expenses)	(1)	(4)
Corporate income tax	(289)	(372)
Net Profit from discontinued operations, non-controlling interests and share of net profit from equity associates	(10)	(9)
Group share of Net Profit	**886**	**914**

Other operating income and expenses

Other operating income and expenses are nil at 31 December 2016.

Group share of net profit

Group share of net profit was €914 million, an increase of +3%.

3. Major risks and uncertainties for the second half of the financial year

The major risks and uncertainties Pernod Ricard Group faces are listed under chapter "Risk management" of the 2015/16 Registration Document, available from the website of the *Autorité des Marchés Financiers* and from the Pernod Ricard website.

4. Outlook

For full-year FY17, in an uncertain environment, Pernod Ricard expects:

- a good growth to continue in the United States, on Jameson worldwide and innovations;
- an improvement in the sales trend compared to the 2015/16 financial year in China, Absolut and Chivas;
- a temporary deceleration in India, due to one-off regulatory measures;
- ongoing focus on operating margin and cash flow:
  - 2020 Operational excellence roadmap being implemented*,
  - strong cash generation.

Pernod Ricard confirms its 2016/17 full financial year guidance of organic growth in Profit from Recurring Operations between +2% and +4%. The Group also forecasts for the 2016/17 financial year a positive forex impact on Profit from Recurring Operations of approximately €80 million (based on average FX rates for full FY 2016/17 projected on 31th January 2017, particularly EUR/USD = 1.09).

5. Definitions and link-up of alternative performance indicators with IFRS indicators

Definitions and link-up of alternative performance indicators with IFRS indicators are described in the Management report of the Registration Document 2015/16.

6. Main related-party transactions

Information related to related parties transactions are detailed in note 22 of the notes to the condensed consolidated interim financial statements included in this document.

* Initiatives to contribute over the period FY16 to FY20 total P&L savings of c. €200m, of which around half will be reinvested in A&P, and cash savings of c. €200m.

3/ Condensed consolidated interim financial statements

1. Consolidated income statement

(€ million)	31.12.2015	31.12.2016	Notes
Net sales	4,958	5,061	3
Cost of sales	(1,880)	(1,903)	3
Gross margin after logistics expenses	**3,078**	**3,158**	3
Advertising and promotion expenses	(908)	(901)	
Contribution after advertising and promotion expenses	**2,170**	**2,257**	
Structure costs	(732)	(756)	
Profit from recurring operations	**1,438**	**1,500**	
Other operating income/(expenses)	(35)	(0)	4
Operating profit	**1,403**	**1,500**	
Financial expenses	(255)	(229)	5
Financial income	38	24	5
Financial income/(expenses)	**(218)**	**(205)**	
Corporate income tax	(289)	(372)	6
Share of net profit/(loss) of associates	0	1	
Net profit	**896**	**924**	
o/w:			
- Non-controlling interests	10	10	
- Group share	**886**	**914**	
Earnings per share - basic (*in euros*)	3.36	3.46	7
Earnings per share - diluted (*in euros*)	3.33	3.44	7

2. Half-year consolidated statement of comprehensive income

(€ million)	31.12.2015	31.12.2016	Notes
Net profit for the period	**896**	**924**	
Non-recyclable items			
Actuarial gains/(losses) related to defined benefit plans	**43**	**(111)**	
Amounts recognised in shareholders' equity	55	(136)	12
Tax impact	(12)	25	
Recyclable items			
Net investment hedges	**-**	**7**	
Amounts recognised in shareholders' equity	-	7	
Tax impact	-	-	
Cash flow hedges	**25**	**20**	
Amounts recognised in shareholders' equity [1]	36	31	
Tax impact	(11)	(11)	
Available-for-sale assets	**(0)**	**0**	
Unrealized gains and losses recognised in shareholders' equity	(0)	0	
Tax impact	-	(0)	
Translation differences	**(129)**	**46**	
Other comprehensive income for the period, net of tax	**(61)**	**(38)**	
Comprehensive income for the period	**835**	**886**	
o/w:			
- Group share	829	872	
- Non-controlling interests	6	14	

(1) Including €(36) million recycled to result for the period.

3. Consolidated balance sheet

Assets

(€ million)	30.06.2016	31.12.2016	Notes
Net amounts			
Intangible assets	12,085	12,326	8
Goodwill	5,486	5,626	8
Property, plant and equipment [1]	2,386	2,258	
Non-current financial assets	721	673	12
Investments in associates	17	18	
Non-current derivative instruments	109	41	14
Deferred tax assets	2,505	2,527	6
Non-current assets	**23,310**	**23,469**	
Inventories and work in progress	5,294	5,194	9
Trade receivables and other operating receivables	1,068	1,924	
Income taxes receivable	92	117	
Other current assets	251	232	11
Current derivative instruments	8	36	14
Cash and cash equivalents	569	728	13
Current assets	**7,282**	**8,232**	
Assets held for sale	6	51	
Total assets	**30,598**	**31,752**	

[1] Biological assets have been reclassified in Property Plant and Equipment on 30 June 2016 for 172 M€(see Note 1.3 Changes in accounting policies)

Liabilities

(€ million)	30.06.2016	31.12.2016	Notes
Capital	411	411	17
Share premium	3,052	3,052	
Retained earnings and currency translation adjustments	8,639	9,472	
Group net profit	1,235	914	
Group shareholders' equity	**13,337**	**13,850**	
Non-controlling interests	169	171	
Total shareholders' equity	**13,506**	**14,021**	
Non-current provisions	422	458	12
Provisions for pensions and other long-term employee benefits	739	775	12
Deferred tax liabilities	3,556	3,609	6
Bonds-non-current	7,078	7,260	13
Other non-current financial liabilities	257	167	13
Non-current derivative instruments	84	53	14
Total non-current liabilities	**12,137**	**12,322**	
Current provisions	167	136	12
Trade payables	1,688	2,010	
Income taxes payable	101	242	
Other current liabilities	909	709	15
Bonds-current	1,884	1,959	13
Other current financial liabilities	143	306	13
Current derivative instruments	64	47	14
Total current liabilities	**4,955**	**5,409**	
Liabilities related to assets held for sale	-	-	
Total liabilities and shareholders' equity	**30,598**	**31,752**	

4. Statement of changes in shareholders' equity

(€ million)	Capital	Additional paid-in capital	Consolidated reserves	Actuarial gains and losses	Changes in fair value	Currency translation adjustments	Treasury shares	Equity attributable to equity holders of the Parent	Non - controlling interests	Total shareholders' equity
Opening position on 01.07.2015	**411**	**3,052**	**9,452**	**(230)**	**(83)**	**773**	**(254)**	**13,121**	**167**	**13,288**
Comprehensive income for the period	-	-	886	42	24	(124)	-	**829**	6	**835**
Capital increase	-	-	-	-	-	-	-	**-**	-	**-**
Share-based payments	-	-	15	-	-	-	-	**15**	-	**15**
(Acquisition)/disposal of treasury shares	-	-	-	-	-	-	(21)	**(21)**	-	**(21)**
Sale and repurchase agreements	-	-	-	-	-	-	(5)	**(5)**	-	**(5)**
Dividends distributed	-	-	(257)	-	-	-	-	**(257)**	(11)	**(268)**
Changes in scope of consolidation	-	-	-	-	-	-	-	**-**	-	**-**
Other movements	-	-	(0)	-	-	-	-	**(0)**	(0)	**(0)**
Closing position on 31.12.2015	**411**	**3,052**	**10,095**	**(188)**	**(58)**	**649**	**(280)**	**13,681**	**163**	**13,843**

(€ million)	Capital	Additional paid-in capital	Consolidated reserves	Actuarial gains and losses	Changes in fair value	Currency translation adjustments	Treasury shares	Equity attributable to equity holders of the Parent	Non - controlling interests	Total shareholders' equity
Opening position on 01.07.2016	**411**	**3 052**	**10 198**	**(133)**	**(95)**	**177**	**(273)**	**13 337**	**169**	**13 506**
Restatement for IAS 41 and IAS 16[(1)]	-	-	(99)	-	-	-	-	**(99)**	-	**(99)**
Opening position on 01.07.2016 restated	**411**	**3 052**	**10 100**	**(133)**	**(95)**	**177**	**(273)**	**13 239**	**169**	**13 407**
Comprehensive income for the period	-	-	914	(111)	20	49	-	**872**	14	**886**
Capital increase	-	-	-	-	-	-	-	**-**	-	**-**
Share-based payments	-	-	19	-	-	-	-	**19**	-	**19**
(Acquisition)/disposal of treasury shares	-	-	-	-	-	-	(22)	**(22)**	-	**(22)**
Sale and repurchase agreements	-	-	-	-	-	-	(0)	**(0)**	-	**(0)**
Dividends distributed	-	-	(258)	-	-	-	-	**(258)**	(11)	**(269)**
Changes in scope of consolidation	-	-	-	-	-	-	-	**-**	-	**-**
Other movements	-	-	0	-	-	-	-	**0**	(0)	**0**
Closing position on 31.12.2016	**411**	**3 052**	**10 775**	**(245)**	**(75)**	**226**	**(295)**	**13 850**	**171**	**14 021**

(1) Financial impact of IAS 41 and IAS 16 amendments (see Note 1.3 Changes in accounting policies).

5. Consolidated cash flow statement

(€ million)	31.12.2015	31.12.2016	Notes
Cash flow from operating activities			
Group net profit	886	914	
Non-controlling interests	10	10	
Share of net profit/(loss) of associates, net of div idends receiv ed	(0)	(1)	
Financial (income)/expenses	218	205	5
Tax (income)/expenses	289	372	6
Net profit from discontinued operations	-	-	
Depreciation of fixed assets	107	106	
Net change in prov isions	(77)	(75)	
Net change in impairment of goodwill, property, plant and equipment and intangible assets	1	4	
Changes in fair of commercial deriv ativ es	4	1	
Changes in fair v alue of biological assets	(0)	-	
Net (gain)/loss on disposal of assets	(0)	(10)	4
Share-based payment	15	20	18
Self-financing capacity before financing interest and taxes	**1,452**	**1,547**	
Decrease/(increase) in working capital requirements	(455)	(385)	16
Interest paid	(245)	(215)	
Interest receiv ed	38	23	
Tax paid/receiv ed	(183)	(171)	
Net change in cash flow from operating activities	**607**	**800**	
Cash flow from investing activities			
Capital expenditure	(166)	(152)	16
Proceeds from disposals of property, plant and equipment and intangible assets	7	6	16
Change in scope of consolidation	-	-	
Purchases of financial assets and activ ities	-	(13)	
Disposals of financial assets and activ ities	3	16	
Net change in cash flow from investing activities	**(156)**	**(142)**	
Cash flow from financing activities			
Div idends paid	(483)	(501)	17
Other changes in shareholders' equity	-	-	
Issuance of debt	915	194	
Repayment of debt	(859)	(184)	
(Acquisition)/disposal of treasury shares	(28)	(23)	
Other transactions with non-controlling interests	-	-	
Net change in cash flow from financing activities	**(455)**	**(514)**	
Cash flow from non-current assets held for sale	-	-	
Increase/(decrease) in cash and cash equivalents before foreign exchange impact	**(4)**	**144**	
Effect of exchange rate changes	(18)	15	
Increase/(decrease) in cash and cash equivalents after foreign exchange impact	**(22)**	**159**	
Cash and cash equivalents at beginning of period	**545**	**569**	
Cash and cash equivalents at end of period	**524**	**728**	

6. Notes to the consolidated financial statements

Pernod Ricard is a French Company (Société Anonyme), subject to all laws governing commercial companies in France, including in particular the provisions of the French Commercial Code. The Company is headquartered at 12, place des Etats-Unis, 75783 Paris CEDEX 16, France and is listed on the Euronext exchange. The condensed consolidated interim financial statements reflect the accounting position of Pernod Ricard and its subsidiaries (hereafter the "Group"). They are reported in millions of euros (€), rounded to the nearest million. The Group manufactures and sells wines and spirits.

On 8 February 2017, the Board of Directors approved the condensed consolidated interim financial statements ended 31 December 2016.

Note 1 – Accounting policies

1.1 Principles and accounting standards governing the preparation of the financial statements

Because of its listing in a country of the European Union (EU), and in accordance with EC regulation 1606/2002, the condensed consolidated interim financial statements of the Group for the first half-year ended 31 December 2016 have been prepared in accordance with IAS 34 (interim financial reporting) of the IFRS (International Financial Reporting Standards) as adopted by the European Union.

The Group has not anticipated any standards, amendments or interpretations published by the IASB but not yet approved or not yet mandatory in the European Union, as of 31 December 2016.

Note that:

- the Group's financial year runs from 1 July to 30 June;
- condensed consolidated interim financial statements were prepared in accordance with the same accounting principles and methods as those used in the preparation of the annual consolidated financial statements at 30 June 2016, subject to the changes in accounting standards listed under section 1.3;
- the condensed consolidated interim financial statements do not include all the information required in the preparation of the consolidated financial statements and must be read in conjunction with the consolidated financial statements at 30 June 2016.

Estimates — The preparation of consolidated financial statements in accordance with IFRS requires that Management makes a certain number of estimates and assumptions, which have an impact on the Group's assets, liabilities and shareholders' equity and items of profit and loss during the financial year. These estimates are made on the assumption that the company will continue as a going concern, are based on information available at the time of their preparation. Estimates may be revised where the circumstances on which they were based change or where new information becomes available. Future outcomes can differ from these estimates. At 31 December 2016, the Management was not aware of any factors likely to call into question estimates and assumptions used in the preparation of full-year consolidated financial statements at 30 June 2016.

Judgement — In the absence of standards or interpretation applicable to specific transactions, Group management used its own judgement in defining and applying accounting policies which would provide relevant and reliable information within the framework of the preparation of financial statements.

1.2 Seasonality

Wines and spirits sales are traditionally affected by a seasonality factor, in particular products associated with end-of-year celebrations in key markets. Sales in the first six months of the financial year are generally higher than in the second half-year.

1.3 Changes in accounting policies

<u>Standards, amendments and interpretations applied from 1 July 2016</u>

The standards, amendments and interpretations applicable to Pernod Ricard with effect from 1 July 2016, relate to:

- Amendments to IAS 41 (Agriculture) and IAS 16 (Property, Plant and Equipment). Those amendments state that bearer plants are booked under IAS 16. As a consequence :
  - Bearer plants, measured at fair value until the 30 June 2016, are now booked at acquisition cost and amortized on their useful life (25 to 33 years). Restatement impact on the bearer plant value on the 1st of July 2016 amounts to 99 M€ (net of deferred tax) booked as a reduction of equity;
  - Value of bearer plant at the acquisition cost has been reclassified from biological assets to Property, plant and equipment assets;
  - As the amount involved is not material, the comparative information has not been restated.
- Amendments to IAS 1 (Presentation of financial statements) on the information to be provided. Those amendments have no impact on the financial information currently disclosed.

- Amendments to IAS 16 (Property, plant and equipment) and IAS 38 (Intangible assets) which clarify acceptable methods of depreciation and amortization. Those amendments have no material impact on the financial statements.
- Amendments to IFRS 11 (Joint arrangements) on the accounting of acquisitions of interests in joint operations. Those amendments have no material impact on the financial statements.
- The IFRS improvements cycle 2012–2014 with no material impact on the financial statements.

Standards, amendments and interpretations for which application is mandatory after 1 July 2017

At 31 December 2016, there is no other mandatory implementation of accounting standard after the 1 July 2017 with a significant impact on the Group financial statements.

Furthermore, the impacts of applying the following standards are currently being assessed (standards not yet adopted by the European Union):

- IFRS 15 (Revenue from contracts with customers) applicable for financial years beginning on or after 1 January 2018;
- IFRS 9 (Financial instruments) applicable for financial years beginning on or after 1 January 2018;
- IFRS 16 (Leases) applicable for financial years beginning on or after 1 January 2019.

Note 2 – Consolidation scope

There is no significant change in the consolidation scope in the first half of 2016/17 financial year,

Note 3 – Operating segments

The Group is focused on the single business line of Wines and Spirits sales. The Group is structured into three primary operating segments constituted by the following geographical areas: Europe, Americas and Asia/Rest of World.

The Group Management Team assesses the performance of each segment on the basis of sales and its Profit from Recurring Operations, defined as the gross margin after logistics, advertising, promotional and structure costs. The operating segments presented are identical to those included in the reporting provided to Managing Directors, in particular for the performance analysis.

Items in the income statement and the balance sheet are allocated on the basis of either the destination of sales or profits. Operating segments follow the same accounting policies as those used for the preparation of the consolidated financial statements. Intra-segment transfers are transacted at market prices.

Americas

(€ million)	31.12.2015 6 months	31.12.2016 6 months
Net sales	1,369	1,431
Gross margin after logistics costs	890	972
A&P investments	(277)	(291)
Contribution after A&P	613	681
Profit from Recurring Operations	**400**	**463**

Asia/Rest of World

(€ million)	31.12.2015 6 months	31.12.2016 6 months
Net sales	2,019	2,040
Gross margin after logistics costs	1,229	1,212
A&P investments	(350)	(330)
Contribution after A&P	879	883
Profit from Recurring Operations	**645**	**633**

Europe

(€ million)	31.12.2015 6 months	31.12.2016 6 months
Net sales	1,570	1,589
Gross margin after logistics costs	959	973
A&P investments	(281)	(280)
Contribution after A&P	677	693
Profit from Recurring Operations	**393**	**405**

Total

(€ million)	31.12.2015 6 months	31.12.2016 6 months
Net sales	4,958	5,061
Gross margin after logistics costs	3,078	3,158
A&P investments	(908)	(901)
Contribution after A&P	2,170	2,257
Profit from Recurring Operations	**1,438**	**1,500**

Breakdown of sales

(€ million)	31.12.2015 6 months	31.12.2016 6 months
Strategic International Brands	3,085	3,205
Priority Premium Wines	263	263
Strategic Local Brands	922	915
Other products	688	678
Total	**4,958**	**5,061**

Note 4 – Other operating income and expenses

Other operating income and expenses are broken down as follows:

(€ million)	31.12.2015 6 months	31.12.2016 6 months
Impairment of property, plant and equipment and intangible assets	(1)	-
Gains or losses on asset disposals and acquisition costs	-	5
Net restructuring and reorganisation expenses[1]	(19)	(12)
Disputes and risks[1]	(7)	(25)
Other non-current operating income and expenses[1]	(9)	31
Other operating income/(expenses)	**(35)**	**(0)**

[1] Translation table of reported data and data after reclassification at 31 December 2015:

(€ million)	31.12.2015 6 months published	Reallocation			31.12.2015 6 months after reclassification
Restructuring expenses	(18)	18			
Other non-current operating expenses	(24)		24		
Other non-current operating income	8			(8)	
Net restructuring and reorganisation expenses		(16)	(3)	0	(19)
Disputes and risks			(14)	7	(7)
Other non-current operating income and expenses		(1)	(8)	1	(9)

Note 5 – Financial income/(expense)

(€ million)	31.12.2015 6 months	31.12.2016 6 months
Interest expense on net financial debt	(244)	(215)
Interest income on net financial debt	38	23
Net financing cost	**(207)**	**(192)**
Structuring and placement fees	(2)	(2)
Net financial impact of pensions and other long-term employee benefits	(8)	(7)
Other net current financial income (expense)	(0)	(0)
Financial income/(expense) from recurring operations	**(217)**	**(201)**
Foreign currency gains/(losses)	(0)	(5)
Other non-current financial income/(expenses)	(1)	1
Total financial income/(expenses)	**(218)**	**(205)**

At 31 December 2016, net financing cost were mainly composed of bond interests for €171 million.

Note 6 – Income tax

Analysis of the income tax expense:

(€ million)	31.12.2015 6 months	31.12.2016 6 months
Current income tax	(247)	(282)
Deferred income tax	(42)	(90)
Total	**(289)**	**(372)**

Analysis of effective tax rate:

(€ million)	31.12.2015 6 months	31.12.2016 6 months
Operating profit	1,403	1,500
Financial income/(expense)	(218)	(205)
Taxable profit	**1,185**	**1,295**
Theoretical tax charge at the effective income tax rate in France (1)	**(450)**	**(446)**
Impact of tax rate differences by jurisdiction	159	147
Tax impact of variation in exchange rates	11	12
Re-estimation of deferred tax assets linked to tax rate changes	37	10
Impact of tax losses used/not used	2	2
Impact of reduced/increased tax rates on taxable results	4	(2)
Taxes on distributions	(29)	(30)
Other impacts	(23)	(66)
Effective tax expense	**(289)**	**(372)**
Effective tax rate	**24%**	**29%**

(1) Effective income tax rate is 34.43% from the 1st of July 2016 (38% at the end of December 2015).

Deferred taxes are broken down by nature as follows:

(€ million)	30.06.2016	31.12.2016
Margins in inventories	89	93
Fair value adjustments on assets and liabilities	22	108
Provision for pension benefits	183	182
Loss carried forward	1,327	1,399
Provisions (other than provisions for pensions benefits) and other items	885	746
Total deferred tax assets	**2,505**	**2,527**
Accelerated tax depreciation	66	100
Fair value adjustments on assets and liabilities	2,702	2,794
Other items	788	716
Total deferred tax liabilities	**3,556**	**3,609**

Note 7 – Earnings per share

	31.12.2015 6 months	31.12.2016 6 months
Numerator (€ million)		
Group share of net profit	886	914
Denominator (in number of shares)		
Average number of outstanding shares	263,931,925	264,273,361
Dilutive effect of bonus share allocations	821,971	765,633
Dilutive effect of stock options and subscription options	876,336	400,760
Average number of outstanding shares—diluted	**265,630,231**	**265,439,755**
Earnings per share (€)		
Earnings per share – basic	3.36	3.46
Earnings per share – diluted	3.33	3.44

Note 8 – Intangible assets and goodwill

(€ million)	30.06.2016	31.12.2016
Goodwill	5,624	5,768
Brands	13,247	13,523
Other intangible assets	356	367
Gross value	**19,227**	**19,658**
Goodwill	(137)	(142)
Brands	(1,272)	(1,301)
Other intangible assets	(246)	(263)
Depreciation/Impairement	**(1,655)**	**(1,706)**
Intangible assets, net	**17,572**	**17,953**

Goodwill mainly comes from the acquisitions of Allied Domecq in July 2005 and of Vin&Sprit (« V&S ») in July 2008. The main brands recognised in the balance sheet are: Absolut, Ballantine's, Beefeater, Chivas Regal, Kahlúa, Malibu, Martell and Brancott Estate, most of which were recognised upon the acquisition of Seagram, Allied Domecq and V&S.

The variation of the brands and the goodwill is essentially due to the foreign exchange evolutions.

Note 9 – Inventories

(€ million)	30.06.2016	31.12.2016
Raw materials	132	128
Work in progress	4,454	4,424
Goods in inventory	476	449
Finished products	286	245
Gross value	**5,349**	**5,245**
Raw materials	(10)	(9)
Work in progress	(17)	(13)
Goods in inventory	(16)	(16)
Finished products	(11)	(12)
Impairment	**(55)**	**(51)**
Net inventories	**5,294**	**5,194**

At 31 December 2016, 78% of work-in-progress relate to maturing inventories intended to be used for whisky and cognac production. The Group is not significantly dependent on its suppliers.

Note 10 – Transfers of financial assets

In the first half of the period, the Group continued to implement its programs to sell the receivables of several subsidiaries. Receivables sold under these programs totaled €913 million at 31 December 2016 and €520 million at 30 June 2016. As substantially all risks and rewards associated with the receivables were transferred, they were derecognised.

Derecognised assets where there is continuing involvement

(€ million)	Carrying amount of countinuing involvement				Fair value of continuing involvement	Maximum Exposure
Continuing involvement	Amortised costs	Held to maturity	Available for sale	Financial liabilities at fair value		
Guarantee deposit – factoring and securisation	**15**	**-**	**-**	**-**	**15**	**15**

Note 11 – Other current assets

Other current assets are broken down as follows:

(€ million)	30.06.2016	31.12.2016
Advances and down payments	20	31
Tax accounts receivable, excluding income tax	134	110
Prepaid expenses	67	59
Other receivables	30	31
Total	**251**	**232**

Note 12 – Provisions

12.1 Breakdown of provisions

The breakdown of provision at the balance sheet date is as follows:

(€ million)	30.06.2016	31.12.2016	Notes
Non-current provisions			
Provisions for pensions and other long-term employee benefits	739	775	12.3
Other non-current provisions for risks and charges	422	458	12.2
Current provisions			
Provisions for restructuring	63	33	12.2
Other current provisions for risks and charges	104	103	12.2
Total	**1,328**	**1,369**	

Some Group companies are involved in disputes as part of their normal business activities. They are also subject to tax audits, some of which may lead to adjustment. The main disputes are described in Note 21 – *Disputes*.

At 31 December 2016, the amount of provisions booked by the Group in respect of all disputes or risks in which it is involved amounted to €561 million. The Group does not provide details (with exceptions), as it believes the disclosure of the amount of any provision booked in consideration of each pending dispute would be likely to cause serious harm to the Group.

12.2 Changes in provisions (other than provisions for pensions and other long-term employee benefits)

		Movements of the period					
(€ million)	30.06.2016	Allowances	Used	Unused reversals	Translation adjustments	Other movements	31.12.2016
Provisions for restructuring	63	4	(32)	(2)	1	-	33
Other current provisions	104	10	(4)	(3)	(4)	-	103
Other non-current provisions	422	39	(3)	(12)	12	0	458
Total Provisions	**589**	**52**	**(39)**	**(17)**	**9**	**0**	**595**

12.3 Provisions for pensions and other long-term employee benefits

The Group grants pension and retirement benefits and other post-employment benefits (sickness insurance or life insurance), in the form of defined contribution or defined benefit plans.

The table below presents a reconciliation of the provision between 30 June and 31 December for both periods:

(€ million)	31.12.2015	31.12.2016
Net liability at beginning of period	**220**	**113**
Net expense/(income) for the period	33	(25)
Actuarial (gains)/losses[1]	(55)	136
Employer contributions and benefits paid directly by the employer	(75)	(38)
Changes in scope of consolidation	0	0
Foreign currency gains and losses	10	30
Net liability at end of period	**134**	**216**
Amount recognised in assets	533	559
Amount recognised in liabilities	**667**	**775**

[1] Recognised as items of other comprehensive income.

On 31 December 2016, non-current financial assets (€673 million) include €559 million of plan surplus related to employee benefits.

The net financial impact recognised in income statement in respect of pensions and other long-term employee benefits is broken down as follows:

(€ million)	31.12.2015	31.12.2016
Service cost	25	26
Interest on provision	1	1
Fees/levies/premiums	7	5
Impact of plan amendments / Reduction of future rights	-	(58)
Impact of liquidation of benefits	-	-
Net expense/(income) recognised in Profit and Loss	**33**	**(25)**

Note 13 – Financial liabilities

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

13.1 Breakdown of net financial debt by nature and maturity

(€ million)	30.06.2016 Current	30.06.2016 Non-current	30.06.2016 Total	31.12.2016 Current	31.12.2016 Non-current	31.12.2016 Total
Bonds	**1,884**	**7,078**	**8,962**	**1,959**	**7,260**	**9,218**
Syndicated loan	-	-	-	-	-	-
Commercial paper	45	-	45	30	-	30
Other loans and financial debts	98	257	355	276	167	443
Other financial liabilities	**143**	**257**	**400**	**306**	**167**	**473**
Gross financial debt	2,027	7,335	9,362	2,265	7,427	9,692
Fair v alue hedge deriv ativ es instruments – assets	-	(77)	(77)	-	(29)	(29)
Fair v alue hedge deriv ativ es instruments – liabilities	-	-	-	-	9	9
Fair value hedge derivatives	**-**	**(77)**	**(77)**	**-**	**(20)**	**(20)**
Net assets hedging deriv ativ e instruments - liabilities	-	-	-	9	-	9
Net asset hedging derivative instruments	**-**	**-**	**-**	**9**	**-**	**9**
Financial debt after hedging	2,027	7,258	9,285	2,274	7,407	9,681
Cash and cash equivalents	(569)	-	(569)	(728)	-	(728)
Net financial debt	**1,458**	**7,258**	**8,716**	**1,546**	**7,407**	**8,953**

13.2 Breakdown of debt by currency before and after foreign exchange hedging instruments at 30 June 2016 and 31 December 2016

On 30.06.2016 (€ million)	Gross financial debt	Amount hedged	Debt after hedging	Cash	Net debt after hedging	% debt after hedging	% net debt after hedging
EUR	3,880	195	4,075	(85)	3,990	44%	46%
USD	5,419	199	5,618	(28)	5,590	61%	64%
GBP	2	(91)	(89)	(17)	(107)	-1%	-1%
SEK	8	(351)	(343)	(9)	(352)	-4%	-4%
Other currencies	52	(29)	24	(429)	(405)	0%	-5%
Financial debt by currency	**9,362**	**(77)**	**9,285**	**(569)**	**8,716**	**100%**	**100%**

On 31.12.2016 (€ million)	Gross financial debt	Amount hedged	Debt after hedging	Cash	Net debt after hedging	% debt after hedging	% net debt after hedging
EUR	3,868	149	4,017	(42)	3,975	41%	44%
USD	5,645	333	5,979	(104)	5,874	62%	66%
GBP	6	(170)	(165)	(47)	(211)	-2%	-2%
SEK	9	(379)	(370)	(12)	(382)	-4%	-4%
Other currencies	164	56	220	(523)	(303)	2%	-3%
Financial debt by currency	**9,692**	**(10)**	**9,681**	**(728)**	**8,953**	**100%**	**100%**

13.3 Breakdown of debt by currency and type of rate hedging at 30 June 2016 and 31 December 2016

On 30.06.2016 (€ million)	Debt after hedging by currency	Fixed-rate debt [1]	Capped floating-rate debt	Floating-rate debt	% (fixed-rate + capped floating-rate debt)/ Debt after hedging	Cash	% (fixed-rate + capped floating-rate debt)/ net debt
EUR	4,075	3,644	-	431	89%	(85)	91%
USD	5,618	5,098	-	520	91%	(28)	91%
GBP	(89)	-	-	(89)	N.M.	(17)	N.M.
SEK	(343)	-	-	(343)	N.M.	(9)	N.M.
Other currencies	24	-	-	24	N.M.	(429)	N.M.
Total	**9,285**	**8,743**	**-**	**542**	**94%**	**(569)**	**100%**

On 31.12.2016 (€ million)	Debt after hedging by currency	Fixed-rate debt [1]	Capped floating-rate debt	Floating-rate debt	% (fixed-rate + capped floating-rate debt)/ Debt after hedging	Cash	% (fixed-rate + capped floating-rate debt)/ net debt
EUR	4,017	3,648	-	369	91%	(42)	92%
USD	5,979	4,235	-	1,744	71%	(104)	72%
GBP	(165)	-	-	(165)	N.M.	(47)	N.M.
SEK	(370)	-	-	(370)	N.M.	(12)	N.M.
Other currencies	220	-	-	220	N.M.	(523)	N.M.
Total	**9,681**	**7,883**	**-**	**1,798**	**81%**	**(728)**	**88%**

N.M.: not meaningful.

[1] Hedge accounting and other derivatives.

13.4 Breakdown of fixed-rate/floating rate debt before and after interest rate hedging instruments at 30 June 2016 and 31 December 2016

(€ million)	30.06.2016				31.12.2016			
	Debt before interest rate hedging		Debt after interest rate hedging		Debt before interest rate hedging		Debt after interest rate hedging	
Fixed-rate debt	8,698	94%	8,743	94%	8,974	93%	7,883	81%
Capped floating-rate debt	-	-	-	-	-	-	-	-
Floating-rate debt	587	6%	542	6%	707	7%	1,798	19%
Financial debt after hedging by nature of rate	**9,285**	**100%**	**9,285**	**100%**	**9,681**	**100%**	**9,681**	**100%**

At 31 December 2016, before taking into account of any hedges, 93% of the Group's gross debt was fixed-rate and 7% floating-rate. After hedging, the floating-rate part was 19%.

13.5 Schedule of financial liabilities at 30 June 2016 and 31 December 2016

The following table shows the maturity of future financial liability-related cash flows (nominal and interest). Variable interest flows have been estimated on the basis of rates at 30 June 2016 and 31 December 2016.

On 30.06.2016 (€ million)	Balance sheet value	Contractual flows	< 6 months	6 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years
Nominal value		(9,233)	(98)	(1,815)	(124)	(27)	(877)	(1,109)	(5,184)
Interest		(2,555)	(138)	(202)	(256)	(256)	(256)	(239)	(1,207)
Gross financial debt	**(9,362)**	**(11,788)**	**(236)**	**(2,017)**	**(381)**	**(283)**	**(1,133)**	**(1,348)**	**(6,391)**
Cross currency swaps:	-								
Flows payable		-	-	-	-	-	-	-	-
Flows receivable		-	-	-	-	-	-	-	-
Derivative instruments - liabilities	(148)	(160)	(59)	(24)	(22)	(21)	(21)	(12)	-
Derivative instruments - liabilities	**(148)**	**(160)**	**(59)**	**(24)**	**(22)**	**(21)**	**(21)**	**(12)**	**-**
Total financial liabilities	**(9,510)**	**(11,947)**	**(295)**	**(2,041)**	**(402)**	**(304)**	**(1,154)**	**(1,360)**	**(6,391)**

On 31.12.2016 (€ million)	Balance sheet value	Contractual flows	< 6 months	6 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years
Nominal value		(9,582)	(1,979)	(138)	(28)	(28)	(878)	(1,167)	(5,365)
Interest		(2,528)	(209)	(133)	(268)	(268)	(268)	(221)	(1,162)
Gross financial debt	**(9,692)**	**(12,110)**	**(2,188)**	**(271)**	**(295)**	**(295)**	**(1,145)**	**(1,388)**	**(6,527)**
Cross currency swaps:	-								
Flows payable		-	-	-	-	-	-	-	-
Flows receivable		-	-	-	-	-	-	-	-
Derivative instruments - liabilities	(100)	(112)	(50)	(16)	(18)	(18)	(18)	(0)	7
Derivative instruments - liabilities	**(100)**	**(112)**	**(50)**	**(16)**	**(18)**	**(18)**	**(18)**	**(0)**	**7**
Total financial liabilities	**(9,792)**	**(12,222)**	**(2,238)**	**(287)**	**(313)**	**(313)**	**(1,163)**	**(1,388)**	**(6,520)**

13.6 Syndicated loan

At 31 December 2016, the multi-currency syndicated loan of €2,500 million has not been drawn down.

13.7 Bonds

Nominal amount	Interest rate	Issue date	Maturity	Carrying amount at 31.12.2016 (€ million)
USD 850 million	2.95%	12.01.2012	15.01.2017	817
EUR 1,000 million	5.00%	15.03.2011	15.03.2017	1,040
EUR 850 million	2.00%	20.03.2014	22.06.2020	854
USD 1,000 million	5.75%	07.04.2011	07.04.2021	964
USD 201 million	Spread + 6-month LIBOR	26.01.2016	26.01.2021	193
USD 1,500 million	4.45%	25.10.2011	15.01.2022	1,477
USD 800 million	4.25%	12.01.2012	15.07.2022	776
EUR 500 million	1.88%	28.09.2015	28.09.2023	478
EUR 650 million	2.13%	29.09.2014	27.09.2024	650
EUR 600 million	1.50%	17.05.2016	18.05.2026	602
USD 600 million	3.25%	08.06.2016	08.06.2026	555
USD 850 million	5.50%	12.01.2012	15.01.2042	813
TOTAL BONDS				**9,218**

Note 14 – Financial instruments

(€ million)	Measurement level	Breakdown by accounting classification				30.06.2016	
		Fair value – profit	Fair value shareholders' equity	Loans and receivables	Liabilities at amortised cost	Balance sheet value	Fair value
Assets							
Available-for-sale financial assets	Level 3	-	16	-	-	16	16
Guarantees, deposits, investment-related receivables		-	-	76	-	76	76
Trade receivables		-	-	1,068	-	1,068	1,068
Other current assets		-	-	251	-	251	251
Derivative instruments – assets	Level 2	116	-	-	-	116	116
Cash and cash equivalents	Level 1	569	-	-	-	569	569
Liabilities							
Bonds		-	-	-	8,962	8,962	9,582
Other financial liabilities		-	-	-	362	362	362
Finance lease debt		-	-	-	38	38	38
Derivative instruments – liabilities	Level 2	148	-	-	-	148	148

(€ million)	Measurement level	Breakdown by accounting classification				31.12.2016	
		Fair value – profit	Fair value shareholders' equity	Loans and receivables	Liabilities at amortised cost	Balance sheet value	Fair value
Assets							
Available-for-sale financial assets	Level 3	-	15	-	-	15	15
Guarantees, deposits, investment-related receivables		-	-	94	-	94	94
Trade receivables		-	-	1,924	-	1,924	1,924
Other current assets		-	-	232	-	232	232
Derivative instruments – assets	Level 2	76	-	-	-	76	76
Cash and cash equivalents	Level 1	728	-	-	-	728	728
Liabilities							
Bonds		-	-	-	9,218	9,218	9,375
Other financial liabilities		-	-	-	433	433	433
Finance lease obligations		-	-	-	41	41	41
Derivative instruments – liabilities	Level 2	100	-	-	-	100	100

The methods used are as follows:

- debt: the fair value of the debt is determined for each loan by discounting future cash flows on the basis of market rates at the balance sheet date, adjusted for the Group's credit risk; for floating rate bank debt, fair value is approximately equal to carrying amount;
- bonds: market liquidity enabled the bonds to be valued at their fair value using the quoted prices;
- other long-term financial liabilities: the fair value of other long-term financial liabilities is calculated for each loan by discounting future cash flows using an interest rate taking into account the Group's credit risk at the balance sheet date;
- derivative instruments: the market value of instruments recognized in the financial statements at the balance sheet date was calculated on the basis of available market data, using current valuation models.

The hierarchical levels for fair value disclosures below accord with the definitions in the amended version of IFRS 7 (Financial Instruments: Disclosures):

- Level 1: fair value based on prices quoted in an active market;
- Level 2: fair value measured based on observable market data (other than quoted prices included in Level 1);
- Level 3: fair value determined by valuation techniques based on unobservable market data.

In accordance with IFRS 13, derivatives were measured taking into account the Credit Valuation Adjustment (CVA) and the Debt Valuation Adjustment (DVA). The measurement is based on historical data (rating of counterparty banks and probability of default). At 31 December 2016, the impact was not significant.

Note 15 – Other current liabilities

Other current liabilities are broken down as follows:

(€ million)	30.06.2016	31.12.2016
Taxes and social payables	583	660
Other operating payables	323	46
Other payables	3	3
Total	**909**	**709**

Note 16 – Notes to the consolidated cash flow statement

16.1 Working capital requirement

The working capital requirement has increased by €385 million due to a usually stronger activity at the end of December compared to the end of June. It is explained as follows:

- inventories: €(62) million;
- trade receivables: +€817 million;
- trade payables: €(285) million;
- others: €(85) million.

16.2 Capital expenditure

Capital expenditures relates mainly to maturation warehouses in the production affiliates.

16.3 Disposals of tangibles and intangible assets

No main disposals were carried out during the semester.

Note 17 – Shareholders' equity

17.1 Share capital

Pernod Ricard's share capital changed as follows between 1 July 2016 and 31 December 2016:

	Number of shares	Amount (€ million)
Share capital on 30 June 2016	265,421,592	411
Share capital on 31 December 2016	**265,421,592**	**411**

All Pernod Ricard shares are issued and fully paid. Only one category of Pernod Ricard shares exists. These shares obtain double voting rights if they have been nominally registered for an uninterrupted period of 10 years.

17.2 Treasury shares

On 31 December 2016, Pernod Ricard SA and its controlled subsidiaries held 1,209,823 Pernod Ricard shares for a value of €103 million.

These treasury shares are reported, at cost, as a deduction from shareholders' equity.

17.3 Dividends paid and proposed

Following the resolution agreed upon during the Shareholders' Meeting of 17 November 2016, the total dividend in respect of the financial year ended 30 June 2016 was €1.88 per share. An interim dividend payment of €0.90 per share having been paid on 8 July 2016, the balance amounting to €0.98 per share has been paid on 30 November 2016.

Note 18 – Share-based payments

The Group recognised an expense of €20 million within operating profit relating to stock option, performance-based share and free share plans applicable on 31 December 2016.

Stock option, performance-based share and free share plans are equity settled. There are no more Share Appreciation Rights (SARs) outstanding since 30 June 2016.

The number of options and outstanding shares changed as follows between 30 June and 31 December:

	Units
Number of outstanding options / shares at 30 June 2016	2,946,607
Number of options exercised / shares acquired during the period	(208,909)
Number of options / shares cancelled ov er the period	(406,341)
Number of options / shares newly granted ov er the period	685,937
Number of outstanding options / shares at 31 December 2016	**3,017,294**

Note 19 – Off-balance sheet commitments

The Group's off-balance sheet commitments given and received are broadly stable with respectively €2,247 million and €2,823 million as of 31 December 2016.

This is mainly due to the absence of drawdown on the multi-currency revolving credit facility which is undrawn for an amount of €2,500 million.

Note 20 – Contingent liabilities

Pernod Ricard India received several notices of tax adjustment for the financial years 2006/07 to 2012/13 amounting to INR 8,587 million, inclusive of interest, i.e. €120 million. These notices relate primarily to the tax deductibility of advertising and promotional expenses.

After consulting with its tax advisers, Pernod Ricard India disputes the merits of this reassessment proposal and believes it has a probable chance of success in litigation. Accordingly, no provision has been booked for this matter.

Note 21 – Disputes

In the normal course of business, Pernod Ricard is involved in a number of legal, governmental, arbitration and administrative proceedings.

A provision for such procedures is constituted under "Other provisions for risks and charges" (see Note 12 - *Provisions*) only when it is likely that a current liability stemming from a past event will require the payment of an amount that can be reliably estimated. In the latter case, the provisioned amount corresponds to the best estimation of the risk. The provisioned amount recorded is based on the assessment of the level of risk on a case by case basis, it being understood that any events arising during the proceedings may at any time require that risk to be reassessed.

The provisions recorded by Pernod Ricard as at 31 December 2016, for all litigation and risks in which it is involved, amounted to €561 million, compared to €526 million at 30 June 2016 (see Note 12 - *Provisions*). 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 Company's best knowledge, there are no other governmental, legal or arbitration proceedings pending or threatened, including any proceeding of which the Company is aware, which may have or have had over the last 12 months a significant impact on the profitability of the Company and/or the Group, other than those described below.

Disputes relating to brands

Havana Club

The Havana Club brand is owned in most countries by a joint venture company called Havana Club Holding SA (HCH), of which Pernod Ricard is a shareholder, and is registered in over 120 countries in which the Havana Club rum is distributed. In the United States, this brand is owned by a Cuban company (Cubaexport). Ownership of this brand is currently being challenged in the United States by a competitor of Pernod Ricard.

In 1998, the United States passed a law relating to the conditions for the protection of brands previously used by companies nationalised by the Castro regime. This law was condemned by the World Trade Organization (WTO) in 2002. However, to date, the United States has not amended its legislation to comply with the WTO's decision.

- The United States Office of Foreign Assets Control (OFAC) decided that this law had the effect of preventing any renewal of the US trademark registration for the Havana Club brand, which, in the United States, has been owned by Cubaexport since 1976, without obtaining a specific licence from OFAC. In August 2006, the United States Patent and Trademark Office (USPTO) denied the renewal of the said Havana Club registration, following OFAC'S refusal to grant a specific licence. Cubaexport petitioned the Director of the USPTO to reverse this decision and also filed a claim against the OFAC, challenging both OFAC's decision and the law and regulations applied by OFAC. In March 2009, the US District Court for the District of Columbia ruled against Cubaexport. In March 2011, in a two-to-one decision, the Court of Appeals blocked Cubaexport from renewing its trademark. A certiorari petition was filed before the US Supreme Court on 27 January 2012, with the support of the French government, the National Foreign Trade Council and the Washington Legal Foundation. On 14 May 2012, the Supreme Court denied the petition. In November 2015, Cubaexport again applied for a specific licence from OFAC to renew the trademark in the United States. On 11 January 2016, OFAC granted Cubaexport's licence application and on 13 January 2016, the application to the Director of USPTO was declared admissible and the trademark was renewed for the 10-year period ending on 27 January 2016. A further renewal application for a period of 10 years from 27 January 2016 to 2026 was also granted.
- A competitor of the Group has petitioned the USPTO to cancel the Havana Club trademark, which is registered in the name of Cubaexport. In January 2004, the USPTO denied the petition and refused to cancel the trademark registration. As this decision was appealed, proceedings are now before the Federal District Court for the District of Columbia. These proceedings were stayed pending the outcome of Cubaexport's petition to the USPTO. Following acceptance of the petition by the Director of the USPTO, these judicial proceedings resumed and the plaintiff amended their complaint. In response, Cubaexport and HCH filed two motions: one to dismiss all actions commenced against them and one to expedite proceedings on certain issues.

These risks constitute a potential obstacle to the Group's business development but there are no foreseeable obligations resulting from these events at the present time. The resolution of these disputes would represent a business development opportunity for the Group.

Tax disputes

The Group's companies are regularly audited by the tax authorities in the countries in which they are registered.

The estimation of the risk concerning each dispute is regularly reviewed by the affiliate or region concerned and by the Group's Tax Department, with the assistance of external counsel for the most significant or complex cases. Provisions are recognised if necessary. Pernod Ricard provides no further details (other than in exceptional circumstances), as disclosing the amount of any provision for ongoing tax litigation could cause the Group serious harm.

India

Pernod Ricard India (P) Ltd has an ongoing dispute with the Indian customs authorities over the declared transaction value of concentrates of alcoholic beverages (CAB) imported into India. Customs are challenging the transaction values, arguing that some competitors used different values for the import of similar goods. This matter was ruled on by the Supreme Court which issued an order in July 2010, setting out the principles applicable for the determination of values which should be taken into account for the calculation of duty. Pernod Ricard India (P) Ltd has already paid the corresponding amounts up to 2001. Regarding the subsequent period up to December 2010, Pernod Ricard India (P) Ltd has deposited almost the entire differential duty as determined by customs, although the values adopted by them are being disputed as being on the high side. The Company continues to actively work with the authorities to resolve pending issues.

Moreover, Pernod Ricard India received several notices of tax adjustment for the financial years 2006/07 to 2012/13 mainly relating to the tax deductibility of advertising and promotional expenses (see Note 20 – Contingent liabilities).

The above-mentioned disputes are only the subject of provisions, which, where appropriate, are recorded in Other provisions for risks and charges (see Note 12 – Provisions), when it is likely that a current liability stemming from a past event will require the payment of an amount which can be reliably estimated. The amount of the provision is the best estimate of the outflow of resources required to extinguish this liability.

Note 22 – Related parties

During the first half-year ended 31 December 2016, relations between the Group and its associates remained the same as in the financial year ended 30 June 2016, as mentioned in the 2015/16 registration document. In particular, no transactions considered unusual with regards to their nature or amount occurred over the period.

Note 23 – Subsequent Events

On 31 January 2017, Pernod Ricard announced the signing and completion of the acquisition of a majority share of Smooth Ambler, the award-winning West-Virginia based distiller and producer of Smooth Ambler Contradiction Bourbon, Old Scout Single Barrel Bourbon and other high-end spirits.

4/ Statutory auditors' review report on the Half-Year financial statements

Statutory Auditors' Review Report on the Half-yearly Financial Information

This is a free translation into English of the statutory auditors' review report on the half-yearly financial information issued in French and it is provided solely for the convenience of English-speaking users. This report includes information relating to the specific verification of information given in the Group's half-yearly management report. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

For the period from July 1 to December 31, 2016

To the Shareholders,

In compliance with the assignment entrusted to us by your General Meeting, and in accordance with the requirements of article L. 451-1-2 III of the French Monetary and Financial Code ("Code monétaire et financier"), we hereby report to you on:

- the review of the accompanying condensed consolidated interim financial statements of Pernod Ricard, for the period from July 1 to December 31, 2016, and
- the verification of the information presented in the half-yearly management report.

These condensed consolidated interim financial statements are the responsibility of the Board of Directors. Our role is to express a conclusion on these financial statements based on our review.

I. Conclusion on the financial statements

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with IAS 34 - standard of the IFRSs as adopted by the European Union applicable to interim financial information.

II. Specific verification

We have also verified the information presented in the half-yearly management report in respect of the condensed consolidated interim financial statements subject to our review. We have no matters to report as to its fair presentation and its consistency with the condensed consolidated interim financial statements.

The Statutory Auditors

Paris La Défense and Neuilly-sur-Seine, February 9, 2017

French original signed by

KPMG Audit	Deloitte & Associés
A division of KPMG S.A.	
Eric Ropert	David Dupont-Noel
Partner	*Partner*

Pernod Ricard

Pernod Ricard is a French public limited company
(Société Anonyme - SA)
with share capital of €411,403,467.60

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