5

Consolidated financial statements

CONSOLIDATED INCOME STATEMENT

€ million	30.06.2016	30.06.2017	Notes
Net sales	8,682	9,010	2
Cost of sales	(3,311)	(3,407)	2
Gross margin after logistics expenses	**5,371**	**5,602**	**2**
Advertising and promotion expenses	(1,646)	(1,691)	2
Contribution after advertising & promotion expenses	**3,725**	**3,912**	**2**
Structure costs	(1,448)	(1,517)	
Profit from recurring operations	**2,277**	**2,394**	
Other operating income	124	152	3.1
Other operating expenses	(306)	(315)	3.1
Operating profit	**2,095**	**2,232**	
Financial expenses	(495)	(427)	3.2
Financial income	63	53	3.2
Financial income/(expense)	**(432)**	**(374)**	
Corporate income tax	(408)	(438)	3.3
Share of net profit/(loss) of associates	0	1	
NET PROFIT	**1,255**	**1,421**	
O/w:			
■ Non-controlling interests	20	28	
■ **Goup share**	**1,235**	**1,393**	
Earnings per share – basic *(€)*	4.68	5.27	3.4
Earnings per share – diluted *(€)*	4.65	5.25	3.4

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

€ million	30.06.2016	30.06.2017
Net profit for the period	**1,255**	**1,421**
Non-recyclable items		
Actuarial gains/(losses) related to defined benefit plans	96	(63)
Amount recognised in shareholders' equity	*116*	*(65)*
Tax impact	*(20)*	*2*
Recyclable items		
Net investment hedges	**0**	**2**
Amount recognised in shareholders' equity	*0*	*2*
Tax impact	*-*	*-*
Cash flow hedges (1)	**(12)**	**38**
Amount recognised in shareholders' equity	*(16)*	*56*
Tax impact	*4*	*(18)*
Available-for-sale assets	**(0)**	**0**
Unrealised gains and losses recognised in shareholders' equity	*(0)*	*1*
Tax impact	*0*	*(0)*
Translation differences	**(599)**	**(390)**
Other comprehensive income for the period, net of tax	**(514)**	**(413)**
Comprehensive income for the period	**740**	**1,008**
O/w:		
■ attributable to equity holders of the Parent	723	982
■ attributable to non-controlling interests	17	26

(1) Including €(54) million recycled to net profit for 2016/17.

CONSOLIDATED BALANCE SHEET

ASSETS

€ million	30.06.2016	30.06.2017	Notes
Net amounts			
Non-current assets			
Intangible assets	12,085	11,755	4.1
Goodwill	5,486	5,397	4.1
Property, plant and equipment [(1)]	2,386	2,336	4.2
Non-current financial assets	721	650	4.3
Investments in associates	17	15	
Non-current derivative instruments	109	26	4.3/4.10
Deferred tax assets	2,505	2,377	3.3
TOTAL NON-CURRENT ASSETS	**23,310**	**22,557**	
Current assets			
Inventories and work in progress	5,294	5,305	4.4
Trade receivables and other operating receivables	1,068	1,134	4.5
Income taxes receivable	92	111	
Other current assets	251	270	4.6
Current derivative instruments	8	24	4.3/4.10
Cash and cash equivalents	569	677	4.8
TOTAL CURRENT ASSETS	**7,282**	**7,521**	
Assets held for sale	6	10	
TOTAL ASSETS	**30,598**	**30,088**	

(1) Biological assets were reclassified as property, plant and equipment on 30 June 2016 for €172 million (see Note 1.1.2 – Changes in accounting standards).

LIABILITIES

€ million	30.06.2016	30.06.2017	Notes
Shareholders' equity			
Capital	411	411	6.1
Share premium	3,052	3,052	
Retained earnings and currency translation adjustments	8,639	8,849	
Group net profit	1,235	1,393	
Group shareholders' equity	**13,337**	**13,706**	
Non-controlling interests	169	180	
TOTAL SHAREHOLDERS' EQUITY	**13,506**	**13,886**	
Non-current liabilities			
Non-current provisions	422	453	4.7
Provisions for pensions and other long-term employee benefits	739	649	4.7
Deferred tax liabilities	3,556	3,421	3.3
Bonds – non-current	7,078	6,900	4.8
Other non-current financial liabilities	257	480	4.8
Non-current derivative instruments	84	42	4.10
TOTAL NON-CURRENT LIABILITIES	**12,137**	**11,946**	
Current liabilities			
Current provisions	167	159	4.7
Trade payables	1,688	1,826	
Income tax payable	101	156	
Other current liabilities	909	935	4.11
Bonds – current	1,884	94	4.8
Other current financial liabilities	143	1,071	4.8
Current derivative instruments	64	15	4.10
TOTAL CURRENT LIABILITIES	**4,955**	**4,256**	
Liabilities related to assets held for sale	-	-	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**30,598**	**30,088**	

CHANGES IN CONSOLIDATED 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	-	-	1,235	96	(12)	(596)	-	723	17	740
Capital increase	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	32	-	-	-	-	32	-	32
(Acquisition)/disposal of treasury shares	-	-	-	-	-	-	(18)	(18)	-	(18)
Sale and repurchase agreements	-	-	-	-	-	-	(1)	(1)	-	(1)
Dividends and interim dividends distributed	-	-	(496)	-	-	-	-	(496)	(15)	(511)
Changes in scope of consolidation	-	-	-	-	-	-	-	-	25	25
Other transactions with interests	-	-	(24)	-	-	-	-	(24)	(26)	(51)
Other movements	-	-	1	-	-	-	-	1	0	1
CLOSING POSITION ON 30.06.2016	**411**	**3,052**	**10,198**	**(133)**	**(95)**	**177**	**(273)**	**13,337**	**169**	**13,506**

€ 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 related to IAS 16 and IAS 41 (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	-	-	1,393	(65)	38	(385)	-	982	26	1,008
Capital increase	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	34	-	-	-	-	34	-	34
(Acquisition)/disposal of treasury shares	-	-	-	-	-	-	2	2	-	2
Sale and repurchase agreements	-	-	-	-	-	-	(37)	(37)	-	(37)
Dividends and interim dividends distributed	-	-	(507)	-	-	-	-	(507)	(16)	(523)
Changes in scope of consolidation	-	-	-	-	-	-	-	-	-	-
Other transactions with interests	-	-	(5)	-	-	-	-	(5)	2	(4)
Other movements	-	-	(0)	-	-	-	-	(0)	0	(0)
CLOSING POSITION ON 30.06.2017	**411**	**3,052**	**11,014**	**(198)**	**(56)**	**(208)**	**(309)**	**13,706**	**180**	**13,886**

(1) Impact of amendments to IAS 16 and IAS 41 (see Note 1.1.2 – Changes in accounting standards).

CONSOLIDATED CASH FLOW STATEMENT

€ million	30.06.2016	30.06.2017	Notes
Cash flow from operating activities			
Group net profit	1,235	1,393	
Non-controlling Interests	20	28	
Share of net profit/(loss) of associates, net of dividends received	0	(1)	
Financial (income)/expenses	432	374	
Tax (income)/expenses	408	438	
Net profit from discontinued operations	-	-	
Depreciation of fixed assets	219	219	
Net change in provisions	(75)	(59)	
Net change in impairment of goodwill, property, plant and equipment and intangible assets	107	75	
Changes in fair value of commercial derivatives	11	(11)	
Changes in fair value of biological assets	(15)	(3)	
Net (gain)/loss on disposal of assets	(59)	6	
Share-based payments	32	34	
Self-financing capacity before financing interest and taxes	**2,315**	**2,493**	
Decrease/(increase) in working capital requirements	(178)	(79)	5
Interest paid	(471)	(410)	
Interest received	63	46	
Tax paid/received	(393)	(408)	
NET CHANGE IN CASH FLOW FROM OPERATING ACTIVITIES	**1,336**	**1,642**	
Cash flow from investing activities			
Capital expenditure	(333)	(367)	5
Proceeds from disposals of property, plant and equipment and intangible assets	16	17	5
Change in the scope of consolidation	-	-	
Purchases of financial assets and activities	(108)	(35)	
Disposals of financial assets and activities	66	92	
NET CHANGE IN CASH FLOW FROM INVESTING ACTIVITIES	**(359)**	**(293)**	
Cash flow from financing activities			
Dividends and interim dividends paid	(497)	(511)	
Other changes in shareholders' equity	-	-	
Issuance of debt	3,205	1,608	5
Repayment of debt	(3,618)	(2,217)	5
(Acquisitions)/disposals of treasury shares	(18)	(36)	
Other transactions with non-controlling interests	-	-	
NET CHANGE IN CASH FLOW FROM FINANCING ACTIVITIES	**(928)**	**(1,156)**	
Cash flow from non-current assets held for sale	-	-	
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS BEFORE FOREIGN EXCHANGE IMPACT	**49**	**194**	
Effect of exchange rate changes	(25)	(86)	
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS AFTER FOREIGN EXCHANGE IMPACT	**24**	**107**	
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**545**	**569**	
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**569**	**677**	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Pernod Ricard SA is a French public limited company *(société anonyme)*, subject to all laws governing commercial companies in France, and particularly to the provisions of the French Commercial Code. The Company is headquartered at 12 place des États-Unis, 75016 Paris, France and is listed on the Euronext Stock Exchange. The consolidated financial statements reflect the accounting position of Pernod Ricard and its subsidiaries (the "Group"). They are presented in euros and rounded to the nearest million.

The Group's business is the production and sale of Wines & Spirits.

The consolidated financial statements for the financial year ended 30 June 2017 were approved by the Board of Directors on 30 August 2017.

Note 1 Accounting principles and significant events

Note 1.1 Accounting principles

1. Principles and accounting standards governing the preparation of the annual consolidated financial statements

Because of its listing in a country of the European Union, and in accordance with EC Regulation 1606/02, the Group's consolidated financial statements for the financial year ending 30 June 2017 have been prepared in accordance with IFRS (International Financial Reporting Standards) as adopted by the European Union.

The accounting principles used to prepare the consolidated financial statements on 30 June 2017 are consistent with those used for the consolidated financial statements on 30 June 2016, with the exception of standards and interpretations adopted by the European Union applicable to the Group from 1 July 2016 (see Note 1.1.2 – Changes in accounting standards). The Group does not adopt early application of standards or interpretations.

The Group's financial year runs from 1 July to 30 June.

2. Changes in accounting standards

Standards, amendments and interpretations implementation of which is mandatory for financial years commencing from 1 July 2016

The standards, amendments and interpretations applicable to Pernod Ricard from 1 July 2016 are as follows:

- the amendments to IAS 41 (Agriculture) and IAS 16 (Property, plant and equipment). Under these amendments, bearer plants will henceforth be accounted in accordance with IAS 16. Consequently:
  - the vines, valued at fair value until 30 June 2016, will henceforth be valued at the cost of acquisition and amortised over their useful life (25 to 33 years depending on the vineyard). The impact on the value of vines on 1 July 2016 was €99 million (net of deferred taxes) and was recognised as a reduction of shareholders' equity,
  - the value of the vines valued at the cost of acquisition was reclassified from biological assets to property, plant and equipment,
  - the impact linked to the retrospective implementation of this standard was considered to be insignificant. To this end, the comparative periods have not been restated;
- the amendments to IAS 1 (Presentation of financial statements) on the information to be provided, the implementation of which has no material impact on the financial information presented;
- the amendments to IAS 16 (Property, plant and equipment) and IAS 38 (Intangible assets) which clarify acceptable methods of depreciation and amortisation. The implementation of these amendments has no material impact on the Group's financial statements;
- the amendments to IFRS 11 (Joint arrangements) on the accounting of acquisitions of interests in joint operations. The implementation of these amendments has no material impact on the Group's financial statements;
- the IFRS improvements cycle 2012–2014, the application of which has no material impact on the Group's financial statements.

Standards, amendments and interpretations to be applied after 1 July 2017

The standards, amendments and interpretations to be applied to Pernod Ricard from 1 July 2017 (subject to their adoption by the European Union), which will not have a significant impact on the Group's financial statements, are:

- the amendments to IAS 7 (Statement of cash flows), which stipulate additional information to be provided on changes in financial debt on the balance sheet;
- amendment to IAS 12 (Income taxes) on the recognition of deferred tax assets in respect of unrealised losses;
- the IFRS improvements cycle 2014-2016.

Furthermore, the impacts of applying the following standards are currently being assessed:

- IFRS 15 (Revenue from contracts with customers) applicable for financial years beginning on or after 1 July 2018 for Pernod Ricard;
- IFRS 9 (Financial instruments) applicable for financial years beginning on or after 1 July 2018 for Pernod Ricard;
- IFRS 16 (Leases) applicable to financial years beginning on or after 1 July 2019 for Pernod Ricard (subject to adoption by the European Union).

3. Measurement basis

The financial statements are prepared in accordance with the historical cost method, except for certain categories of assets and liabilities, which are measured in accordance with the methods provided by IFRS.

4. Principal uncertainties arising from the use of estimates and judgements by Management

Estimates

The preparation of consolidated financial statements in accordance with IFRS means that Group Management makes a certain number of estimates and assumptions which have an impact on the amount of the Group's assets and liabilities, 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, and 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 results may differ from these estimates.

Goodwill and intangible assets

As indicated in Note 4.1 – Intangible assets and goodwill, in addition to annual impairment tests applied to goodwill and intangible assets with indefinite useful lives (such as brands), specific impairment tests are applied where there is an indication that the value of an intangible asset may have been impaired. Any impairment loss recognised is calculated using discounted future cash flows and/or the market values of the assets in question. These calculations require the use of assumptions regarding market conditions and projected cash flows, and any changes in these assumptions may thus lead to results different from those initially estimated.

Provisions for pensions and other post-employment benefits

As indicated in Note 4.7 – *Provisions*, the Group runs defined benefit and defined contribution pension plans. In addition, provisions are also recognised in virtue of certain other post-employment benefits such as life insurance and medical care (mainly in the United States and the United Kingdom). The carrying amount of these provisions at the balance sheet date is set out in Note 4.7 – *Provisions*.

These benefit obligations are based on a number of assumptions such as discount rates, future salary increases, the rate of employee turnover and life expectancy.

These assumptions are generally updated annually. Assumptions used in the preparation of the financial statements for the year ended 30 June 2017 and their methods of determination are set out in Note 4.7 – *Provisions*. The Group considers that the actuarial assumptions used are appropriate and justified. However, such actuarial assumptions may change in the future and this may have a material impact on the amount of the Group's benefit obligations and on its profits.

Deferred tax

As indicated in Note 3.3 – *Corporate income tax*, the deferred tax assets recognised result mainly from tax loss carryforwards and from temporary differences between the tax base and the carrying amounts of assets and liabilities. 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 assessment of whether the Group will be able to use these tax losses is largely a matter of judgement. Analyses are carried out to decide whether or not these tax loss carryforwards are likely to be usable in the future.

Provisions

As explained in Note 4.7 – *Provisions*, the Group is involved in a number of disputes and claims arising in the ordinary course of its business. In some cases, the amounts requested by the claimants are significant and the legal proceedings can take several years. In this context, provisions are calculated on the basis of the Group's best estimate of the amount that will be payable based on the information available (notably that provided by the Group's legal advisers). Any change to assumptions can have a significant effect on the amount of the provision recognised. The carrying amount of these provisions at the balance sheet date is set out in Note 4.7 – Provisions.

Judgements

In the absence of standards or interpretations applicable to a specific transaction, Group Management uses its judgement to define and apply accounting policies that provide relevant and reliable information in the context of the preparation of the financial statements.

5. Business combinations

Business combinations carried out before 1 July 2009 were recognised using the accounting standards in force as of 30 June 2009. Business combinations after 1 July 2009 are measured and recognised in accordance with the revised version of IFRS 3: the consideration transferred (cost of acquisition) is measured at the fair value of assets given, equity instruments issued and liabilities incurred at the transaction date. Identifiable assets and liabilities belonging to the acquired company are measured at their fair value at the acquisition date. Costs directly attributable to the acquisition, such as legal, due diligence and other professional fees are recognised as other operating expenses incurred.

Any surplus consideration in excess of the Group's share in the fair value of the acquired company's identifiable assets and liabilities is recognised as goodwill. The option is available for each transaction to apply either proportionate or full goodwill methods. Goodwill arising on the acquisition of foreign entities is denominated in the functional currency of the business acquired. Goodwill is not amortised. Instead, it is subject to an impairment test once a year or more often if there is any indication that its value may have been impaired.

Finally, in accordance with IFRS 3 as revised and IAS 27 as amended, the Group recognised in shareholders' equity the difference between the price paid and the proportional part of non-controlling interests acquired in previously controlled companies.

6. Foreign currency translation

6.1. Reporting currency used in the consolidated financial statements

The Group's consolidated financial statements are prepared in euros, which is the functional currency and the reporting currency of the Parent Company.

6.2. Functional currency

The functional currency of an entity is the currency of the economic environment in which it mainly operates. In most cases, the functional currency is the entity's local currency. However, in a very limited number of entities, a functional currency that is different from the local currency may be used if it reflects the entity's economic environment and the currency in which most of the entity's transactions are denominated.

6.3. Translation of transactions denominated in foreign currencies

Transactions denominated in foreign currencies are generally translated into the functional currency using the exchange rate applicable at the transaction date. Non-monetary assets and liabilities denominated in foreign currencies are recognised at the historical exchange rate applicable at the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate applying at the closing date. Foreign currency differences are recognised in profit and loss for the period, except for foreign currency differences arising on debts designated as hedges for the net foreign currency assets of consolidated affiliates. The latter are recognised directly in shareholders' equity, under currency translation adjustments, until the disposal of the net investment. Foreign currency differences related to operating activities are recognised within operating profit for the period; foreign currency differences related to financing activities are recognised within financial income (expense) or in shareholders' equity.

6.4. Translation of financial statements of affiliates whose functional currency is different from the euro (the reporting currency)

The balance sheet is translated into euros at year-end exchange rates. The income statement and cash flows are translated on the basis of average exchange rates. Differences resulting from the translation of the financial statements of these affiliates are recognised in currency translation adjustments within shareholders' equity. On disposal of a foreign entity, currency translation adjustments previously recognised in shareholders' equity are recognised in profit and loss.

7. Assets held for sale and discontinued operations

In accordance with IFRS 5 (Non-current assets held for sale and discontinued operations), where they are significant, assets and liabilities held for sale are not subject to depreciation or amortisation. They are shown separately in the balance sheet at the lower of the carrying amount or the fair value less costs to sell. An asset is considered as being held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. In order for this to be the case, the asset must be available for immediate sale and its sale must be highly probable. Items in the balance sheet related to discontinued operations and assets held for sale are presented under specific lines in the consolidated financial statements. Income statement items related to discontinued operations and assets held for sale are presented separately in the financial statements for all periods reported upon if they are significant from a Group perspective.

Note 1.2 Significant events during the financial year

1. Acquisition

On 31 January 2017, Pernod Ricard announced the signing and completion of the acquisition of a majority share in Smooth Ambler, a distillery based in West Virginia and producer of the bourbons Smooth Ambler Contradiction, Old Scout Single Barrel and other premium spirits. Consolidation using the full consolidation method is effective from that date.

2. Disposal

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

On 30 March 2017, Pernod Ricard and Bodega Las Copas (a joint venture held by Groupo Emperador Spain and González Byass) announced the completion of the sale, through the Mexican and Spanish affiliates of Pernod Ricard, of the Domecq brandies and wines.

These sales were carried out as part of Pernod Ricard's strategy to simplify its portfolio in order to sustain its growth and focus on its priority spirit and wine brands.

Note 2 Segment information

Net sales

Revenue is measured at the fair value of the consideration received or to be received, after deducting trade discounts, volume rebates, certain costs associated with business and promotional activity and sales-related taxes and duties, notably excise duties. Sales are recognised when the significant risks and rewards of ownership have been transferred, generally at the date of transfer of the title of ownership.

Costs of commercial and promotional activity

Pursuant to IAS 18 (Revenue), certain costs of services rendered in connection with sales, such as advertising programmes in conjunction with distributors, listing costs for new products and promotional activities at point of sale, are deducted directly from sales if there is no distinct service whose fair value can be reliably measured.

Duties and taxes

In accordance with IAS 18, certain import duties, in Asia for instance, are classified as cost of sales, as these duties are not specifically re-billed to customers (as is the case for social security stamps in France, for example).

Discounts

In accordance with IAS 18, early payment discounts are not considered to be financial transactions, but rather are deducted directly from sales.

Gross margin after logistics expenses, contribution after advertising and promotion expenses, profit from recurring operations and other operating income and expenses

The gross margin after logistics costs corresponds to sales (excluding duties and taxes), less costs of sales and logistics expenses. The contribution after advertising and promotion expenses includes the gross margin after deduction of logistics expenses and advertising and promotion expenses. The Group applies recommendation 2013-R03 of the French accounting standards authority (Autorité des Normes Comptables – ANC), notably as regards the definition of profit from recurring operations. Profit from recurring operations is the contribution after advertising and promotion expenses less trading costs and overheads. This is the indicator used internally to measure the Group's operational performance. It excludes other operating income and expenses, such as those related to restructuring, capital gains and losses on disposals, depreciation and amortisation of property, plant and equipment and intangible assets, and other non-recurring operating income or expenses. These other operating income and expenses are excluded from profit from recurring operations because the Group believes they have little predictive value due to their occasional nature. They are described in detail in Note 3.1 – *Other operating income and expenses*.

The Group is focused on a single activity, Wines & Spirits production and sales, and has three operating segments covering the Regions of: America, Europe and Asia/Rest of the World (ROW).

Group Management assesses the performance of each operating segment on the basis of net sales and profit from recurring operations, defined as the gross margin after logistics costs, less advertising and promotion investments and structure costs. The segments presented are identical to those used in reporting to General Management, 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. Reporting by operating segment follows the same accounting policies as those used for the preparation of the consolidated financial statements. Intra-segment transfers are transacted at market prices.

On 30.06.2016 *€ million*	America	Asia/Rest of World	Europe	Total
Income statement items				
Segment net sales	3,565	5,008	4,113	12,687
o/w Intersegment sales	*1,090*	*1,510*	*1,404*	*4,004*
Net sales	**2,476**	**3,498**	**2,709**	**8,682**
Gross margin after logistics expenses	1,639	2,071	1,662	5,371
Contribution after advertising & promotion expenses	1,130	1,450	1,145	3,725
Profit from recurring operations	706	982	588	2,277
Other information				
Current investments	52	41	252	345
Depreciation, amortisation and impairment	34	48	245	326

On 30.06.2017 *€ million*	America	Asia/Rest of World	Europe	Total
Income statement items				
Segment net sales	3,889	5,228	4,203	13,320
o/w Intersegment sales	*1,228*	*1,661*	*1,422*	*4,310*
Net sales	**2,661**	**3,568**	**2,781**	**9,010**
Gross margin after logistics expenses	1,790	2,102	1,710	5,602
Contribution after advertising & promotion expenses	1,239	1,484	1,188	3,912
Profit from recurring operations	790	1,000	604	2,394
Other information				
Current investments	101	51	215	367
Depreciation, amortisation and impairment	33	50	214	297

Breakdown of sales

€ million	Net sales on 30.06.2016	Net sales on 30.06.2017	Change (*€ million*)	Change (*%*)
TOP 14 Spirits & Champagne	5,448	5,701	253	5%
Priority Premium Wines	487	505	18	4%
18 key local brands	1,647	1,686	39	2%
Other income	1,100	1,117	17	2%
TOTAL	**8,682**	**9,010**	**327**	**4%**

From 1 July 2016, the segmentation below is used for financial communications. The same segmentation was applied to the financial year ended 30 June 2016 for comparison purposes.

€ million	Net sales on 30.06.2016	Net sales on 30.06.2017	Change (*€ million*)	Change (*%*)
Strategic International Brands	5,309	5,555	246	5%
Strategic Local Brands	1,675	1,717	42	3%
Strategic Wines	479	496	17	4%
Other income	1,219	1,241	22	2%
TOTAL	**8,682**	**9,010**	**327**	**4%**

Note 3 Notes to the income statement

Note 3.1 Other operating income and expenses

Other operating income and expenses include costs related to restructuring and integrations, capital gains and losses on disposals and other non-recurring operating income or expenses. These other operating income and expenses are excluded from the profit from recurring operations given their unusual, abnormal and infrequent nature, which would distort the reading of the Group's performance.

Other operating income and expenses are broken down as follows:

€ million	30.06.2016	30.06.2017
Impairment of property, plant and equipment and intangible assets	(105)	(74)
Gains or losses on asset disposals and acquisition costs	51	(13)
Net restructuring and reorganisation expenses	(98)	(57)
Disputes and risks	(24)	(34)
Other non-current operating income and expenses	(7)	15
OTHER OPERATING INCOME AND EXPENSES	**(182)**	**(163)**

On 30 June 2017, other operating income and expenses included:

- impairment of tangible and intangible assets, resulting primarily from brand impairment tests for €73 million, of which €58 million was on the Imperial brand;
- gains or losses on asset disposals, relating mainly to the sale of the Domecq brandies and wines and the Frïs vodka;
- restructuring costs linked to various reorganisation projects;
- expenses related to disputes and risks, including tax risks, that are non-current in nature;
- other non-current operating income and expenses.

Note 3.2 Financial income/(expense)

€ million	30.06.2016	30.06.2017
Interest expense on net financial debt	(463)	(403)
Interest income on net financial debt	63	46
Net cost of debt	**(400)**	**(357)**
Structuring and placement fees	(3)	(3)
Net financial impact of pensions and other long-term employee benefits	(15)	(15)
Other net current financial income (expense)	(3)	(1)
Financial income/(expense) from recurring operations	**(422)**	**(376)**
Foreign currency gains/(loss)	(14)	7
Other non-current financial income/(expense)	3	(5)
TOTAL FINANCIAL INCOME/(EXPENSE)	**(432)**	**(374)**

On 30 June 2017, the net cost of debt included financial expenses of €316 million on bond payments, €5 million on interest rate and currency hedges, €10 million on factoring and securitisation agreements, €9 million on the syndicated loan and other expenses of €17 million.

Weighted average cost of debt

The Group's weighted average cost of debt was 3.8% over the financial year 2016/17 compared to 4.1% over the financial year 2015/16. Weighted average cost of debt is defined as net financing costs plus structuring and placement fees as a proportion of average net financial debt outstanding plus the average amount outstanding on factoring and securitisation programmes.

Note 3.3 Corporate income tax

Analysis of income tax expense

€ million	30.06.2016	30.06.2017
Current income tax	(381)	(400)
Deferred income tax	(27)	(37)
TOTAL	**(408)**	**(438)**

Analysis of effective tax rate – Net profit from continuing operations before tax

€ million	30.06.2016	30.06.2017
Operating profit	2,095	2,232
Financial income/(expense)	(432)	(374)
Taxable profit	**1,663**	**1,858**
Theoretical tax charge at the effective income tax rate in France (1)	(632)	(640)
Impact of tax rate differences by jurisdiction	237	211
Tax impact of variations in exchange rates	23	29
Re-estimation of deferred tax assets linked to tax rate changes	54	37
Impact of tax losses used/not used	3	(8)
Impact of reduced/increased tax rates on taxable results	1	2
Taxes on distributions	(58)	(54)
Other impacts	(37)	(15)
EFFECTIVE TAX CHARGE	**(408)**	**(438)**
EFFECTIVE TAX RATE	**25%**	**24%**

(1) The effective tax rate was 34.43% from 1 July 2016 (38% at end of June 2016).

Deferred tax is recognised on temporary differences between the tax and book values of assets and liabilities in the consolidated balance sheet and is measured using the balance sheet approach. The effects of changes in tax rates are recognised in shareholders' equity or in profit and loss in the year in which the change of tax rates is decided. Deferred tax assets are recognised in the balance sheet when it is more likely than not that they will be recovered in future years. Deferred tax assets and liabilities are not discounted to present value. In order to evaluate the Group's ability to recover these assets, particular account is taken of forecasts of future taxable profits.

Deferred tax assets relating to tax loss carryforwards are only reported when they are likely to be recovered, based on projections of taxable income calculated by the Group at the end of each financial year. All assumptions used, including, in particular, growth in operating profit and financial income (expenses), taking into account interest rates, are reviewed by the Group at the end of the financial year based on data determined by the relevant senior management.

Deferred taxes are broken down by nature as follows:

€ million	30.06.2016	30.06.2017
Margins in inventories	89	91
Fair value adjustments on assets and liabilities	22	96
Provisions for pension benefits	183	140
Losses carried forward	1,327	1,314
Provisions (other than provisions for pension benefits) and other items	885	736
TOTAL DEFERRED TAX ASSETS	**2,505**	**2,377**
Accelerated tax depreciation	66	107
Fair value adjustments on assets and liabilities	2,702	2,750
Other items	788	565
TOTAL DEFERRED TAX LIABILITIES	**3,556**	**3,421**

Tax losses carryforwards (recognized and not recognized) represented a potential tax saving of €1,431 million at 30 June 2017 and €1,450 million on 30 June 2016. The potential tax savings on 30 June 2017 and 30 June 2016 relate to tax loss carryforwards with the following expiry dates:

Financial year 2015/16

	Tax effect of loss carryforwards *(€ million)*	
Years	**Losses recognized**	**Losses not recognized**
2016	3	0
2017	-	-
2018	-	-
2019	1	0
2020 and after	910	43
No expiry date	413	80
TOTAL	**1,327**	**123**

Financial year 2016/17

	Tax effect of loss carryforwards *(€ million)*	
Years	**Losses recognized**	**Losses not recognized**
2017	1	0
2018	1	1
2019	1	0
2020	1	1
2021 and after	1,046	21
No expiry date	265	94
TOTAL	**1,314**	**117**

Note 3.4 Earnings per share

Basic and diluted earnings per share are calculated on the basis of the weighted average number of outstanding shares, less the weighted average number of dilutive instruments.

The calculation of diluted earnings per share takes into account the potential impact of the exercise of all dilutive instruments (such as stock options, convertible bonds, etc.) on the theoretical number of shares. When funds are obtained at the date of exercise of the dilutive instruments, the "treasury stock" method is used to determine the theoretical number of shares to be taken into account. When funds are obtained at the issue date of the dilutive instruments, net profit is adjusted for the finance cost, net of tax, relating to these instruments.

Group net profit and net earnings per share from continuing operations

	30.06.2016	30.06.2017
Numerator *(€ million)*		
Group net profit	1,235	1,393
Denominator *(in number of shares)*		
Average number of outstanding shares	263,994,148	264,232,623
Dilutive effect of performance-based share allocations	889,040	845,727
Dilutive effect of stock options and subscription options	749,340	399,380
Average number of outstanding shares – diluted	**265,632,528**	**265,477,729**
Earnings per share *(€)*		
Earnings per share – basic	4.68	5.27
Earnings per share – diluted	4.65	5.25

Note 3.5 Expenses by type

Operating profit notably includes depreciation, amortisation and impairment expenses as well as personnel expenses as follows:

€ million	30.06.2016	30.06.2017
Total depreciation, amortisation and impairment expenses	**(329)**	**(292)**
Salaries and payroll costs	(1,231)	(1,257)
Pensions, medical expenses and other similar benefits under defined benefit plans	(49)	(50)
Expenses related to stock options and share appreciation rights	(30)	(33)
Total personnel expenses	**(1,309)**	**(1,340)**

Note 4 Notes to the balance sheet

Note 4.1 Intangible assets and goodwill

Intangible assets are measured at cost on initial recognition. With the exception of assets with indefinite useful lives, they are amortised on a straight-line basis over their period of use, which is generally less than five years, and are written down when their recoverable amount is less than their net carrying amount. Amortisation of intangible assets is recognised within operating profit in the income statement.

In the context of the Group's activities, and in accordance with IAS 38 (Intangible assets), research and development costs are recognised as expenses in the financial year during which they are incurred, except for certain development costs which meet the capitalisation criteria described by the standard.

		Movements in the year					
€ million	30.06.2015	Acquisitions	Allowances	Disposals	Foreign currency gains and losses	Other movements	30.06.2016
Goodwill	5,632	22	-	(7)	(23)	(0)	5,624
Brands	13,275	83	-	(22)	(89)	(0)	13,247
Other intangible assets	344	34	-	(15)	(8)	2	356
GROSS VALUE	**19,251**	**139**	**-**	**(44)**	**(120)**	**2**	**19,227**
Goodwill	(138)	-	-	-	0	0	(137)
Brands	(1,176)	-	(101)	-	5	0	(1,272)
Other intangible assets	(231)	-	(34)	14	6	(1)	(246)
DEPRECIATION/IMPAIRMENT	**(1,544)**	**-**	**(136)**	**14**	**11**	**(1)**	**(1,655)**
INTANGIBLE ASSETS, NET	**17,706**	**139**	**(136)**	**(30)**	**(109)**	**1**	**17,572**

		Movements in the year					
€ million	30.06.2016	Acquisitions	Allowances	Disposals	Foreign currency gains and losses	Other movements	30.06.2017
Goodwill	5,624	8	-	(5)	(91)	0	5,535
Brands	13,247	13	-	(61)	(262)	0	12,937
Other intangible assets	356	32	-	(8)	(6)	7	382
GROSS VALUE	**19,227**	**53**	**-**	**(75)**	**(359)**	**7**	**18,854**
Goodwill	(137)	-	-	-	(1)	0	(138)
Brands	(1,272)	-	(73) [1]	21	30	0	(1,294)
Other intangible assets	(246)	-	(33)	7	4	(2)	(270)
DEPRECIATION/IMPAIRMENT	**(1,655)**	**-**	**(105)**	**28**	**33**	**(2)**	**(1,702)**
INTANGIBLE ASSETS, NET	**17,572**	**53**	**(105)**	**(47)**	**(325)**	**5**	**17,152**

(1) *See Note 3.1* – Other operating income and expenses.

Goodwill

Goodwill is subject to an impairment test at least once a year and whenever there is an indication that its value may have been impaired. To perform these tests, goodwill is allocated by geographical area on the basis of asset groupings at the date of each business combination. These asset groupings correspond to groups of assets which jointly generate identifiable cash flows that are largely independent. If impairment is identified, an impairment loss is recognised in profit and loss for the financial year.

Goodwill mainly stems from the acquisitions of Allied Domecq in July 2005 and Vin&Sprit in July 2008.

Brands

The fair value of identifiable acquired brands is determined using an actuarial calculation of estimated future profits or using the royalty method and corresponds to the fair value of the brands at the date of acquisition. As the Group's brands are intangible assets with indefinite useful lives, they are not amortised but are rather subject to an impairment test at least once a year or whenever there is an indication that their value may have been impaired. Brands acquired as part of acquisitions of foreign entities are denominated in the functional currency of the business acquired.

The main brands recorded on the balance sheet are: Absolut, Ballantine's, Beefeater, Chivas Regal, Kahlúa, Malibu, Martell and Brancott Estate. Most of these were recognised at the time of the acquisitions of Seagram, Allied Domecq and Vin&Sprit.

Impairment of tangible or intangible assets

In accordance with IAS 36, intangible assets and property, plant and equipment are subject to impairment tests whenever there is an indication that the value of the asset has been impaired and at least once a year for non-current assets with indefinite useful lives (goodwill and brands).

Assets subject to impairment tests are included in cash-generating units (CGUs), corresponding to linked groups of assets which generate identifiable cash flows. The CGUs include assets related to the Group's brands and are allocated in accordance with the three geographical areas defined by the Group, on the basis of the sale destination of the products.

When the recoverable amount of a CGU is less than its net carrying amount, an impairment loss is recognised within operating profit. The recoverable amount of the CGU is the higher of its market value and its value in use.

Value in use is measured based on cash flows projected over a 19-year period. This period reflects the typically long lives of the Group's brands and their productive assets. Discounted projected cash flows are established based on annual budgets and multi-year strategies, extrapolated into subsequent years by gradually converging the figure for the last year of the plan for each brand and market towards a perpetual growth rate. The calculation includes a terminal value derived by capitalising the cash flows generated in the last forecast year. Assumptions applied to sales and advertising and promotional expenditure are determined by Management based on previous results and long-term development trends in the markets concerned. The present values of discounted cash flows are sensitive to these assumptions as well as to consumer fashions and economic factors.

Market value is based either on the sale price, net of selling costs, obtained under normal market conditions or earnings multiples observed in recent transactions concerning comparable assets. The discount rate used for these calculations is an after-tax rate applied to after-tax cash flows and corresponds to the weighted average cost of capital. This rate reflects specific rates for each market or region, depending on the risks that they represent. Assumptions made in terms of future changes in net sales and in terms of terminal values are reasonable and consistent with market data available for each of the CGUs. Additional impairment tests are applied where events or specific circumstances suggest that a potential impairment exists.

In addition to annual impairment tests applied to goodwill and brands, specific impairment tests are applied where there is an indication that the value of an intangible asset may have been impaired. The data and assumptions used for the impairment tests applied to cash-generating units (CGUs) are as follows:

€ million	Method used to determine the recoverable amount	Carrying amount of goodwill on 30.06.2017	Carrying amount of brands on 30.06.2017	Value in use		
				Discount rate 2016	Discount rate 2017	Perpetual growth rate
Europe	Value in use based on the discounted cash flow method	1,804	3,918	6.01%	5.81%	From -1% to +2.5%
America		2,676	6,111	6.29%	6.34%	From -1% to +2.5%
Asia/Rest of World		916	1,613	7.57%	7.61%	From -1% to +2.5%

In impairment tests applied to goodwill and brands, the long-term growth assumptions used were determined by taking into account growth rates measured in recent financial years and growth perspectives taken from the budget and the Group's strategic plans.

The amount of any impairment of brand-related intangible assets on 30 June 2017 that would result from:

- a 50 bp decrease in the growth rate of the contribution after advertising and promotion expenses;
- a 50 bp increase in the after-tax discount rate;
- a 100 bp increase in the after-tax discount rate; or
- a 50 bp decrease in the perpetual rate growth over the duration of the multi-year plans;

are set out below:

€ million	50 bp decrease in the growth rate of the contribution after advertising and promotional expenditure	50 bp increase in the after-tax discount rate	100 bp increase in the after-tax discount rate	50 bp decrease in the perpetual growth rate
Europe	(21)	(87)	(170)	(60)
America	(81)	(373)	(718)	(258)
Asia/Rest of World	(2)	(14)	(38)	(8)
TOTAL	**(104)**	**(475)**	**(926)**	**(326)**

Moreover, the various levels of sensitivity set out above would not result in any risk of goodwill impairment.

Note 4.2 Property, plant and equipment

Property, plant and equipment are recognised at acquisition cost and broken down by component. Depreciation is calculated on a straight-line basis over the estimated useful life of the assets. Useful life is reviewed on a regular basis. Items of property, plant and equipment are written down when their recoverable amount falls below their net carrying amount. The average depreciable lives for the major categories of property, plant and equipment are as follows:

Buildings	15 to 50 years
Machinery and equipment	5 to 15 years
Other property, plant and equipment	3 to 5 years
Vines	25 to 33 years

In accordance with IAS 17, assets acquired under finance lease contracts are capitalised, and a corresponding lease debt is recognised, when the lease contract transfers substantially all the risks and rewards related to ownership of the asset to the Group. Buildings which have been subject to sale and lease back contracts are treated in a similar manner.

Depreciation of property, plant and equipment is recognised within operating profit in the income statement.

In accordance with the amendments to standards IAS 41 and IAS 16, vines are, since 1 July 2016, valued at acquisition cost and depreciated over their useful life. In accordance with IAS 41, agricultural produce (harvests) continues to be recognised at fair value on the balance sheet, after deducting estimated selling costs, as from the date at which it is possible to obtain a reliable assessment of price, for example by referring to an active market. Changes in fair value are recognised in profit and loss. Land on which biological assets are planted is measured in accordance with IAS 16.

	Movements in the year						
€ million	30.06.2015	Acquisitions	Allowances	Disposals	Foreign currency gains and losses	Other movements	30.06.2016
Land	336	5	-	(7)	(0)	8	342
Buildings	1,159	28	-	(15)	(61)	56	1,168
Machinery and equipment	1,852	44	-	(50)	(76)	76	1,847
Other property, plant and equipment	608	62	-	(28)	(48)	4	599
Assets in progress	134	156	-	(0)	(7)	(158)	125
Advance on property, plant and equipment	6	23	-	(0)	(0)	(2)	26
GROSS VALUE	**4,096**	**317**	**-**	**(99)**	**(192)**	**(16)**	**4,106**
Land	(28)	-	(3)	0	1	(4)	(34)
Buildings	(484)	-	(39)	9	24	2	(488)
Machinery and equipment	(1,079)	-	(116)	46	53	12	(1,084)
Other property, plant and equipment	(304)	-	(35)	26	23	3	(286)
Assets in progress	(2)	-	-	-	0	2	(0)
DEPRECIATION/IMPAIRMENT	**(1,896)**	**-**	**(193)**	**83**	**101**	**14**	**(1,893)**
PROPERTY, PLANT AND EQUIPMENT, NET	**2,200**	**317**	**(193)**	**(17)**	**(91)**	**(2)**	**2,214**
Biological assets	-	-	-	-	-	-	-
■ Gross value	153	0	-	(1)	5	15	173
■ Depreciation/Impairment	(1)	-	0	0	0	-	0
PROPERTY, PLANT AND EQUIPMENT, NET (1)	**2,353**	**317**	**(193)**	**(17)**	**(86)**	**12**	**2,386**

(1) Including biological assets.

	Movements in the year						
€ million	30.06.2016	Acquisitions	Allowances	Disposals	Foreign currency gains and losses	Other movements	30.06.2017
Land	342	6	-	(5)	(0)	3	346
Buildings	1,168	42	-	(9)	(24)	29	1,206
Machinery and equipment	1,847	55	-	(46)	(33)	60	1,882
Other property, plant and equipment	772	67	-	(29)	(19)	(78)	713
Assets in progress	125	152	-	(1)	(3)	(127)	146
Advance on property, plant and equipment	26	16	-	(0)	(0)	(3)	38
GROSS VALUE	**4,279**	**338**	**-**	**(91)**	**(79)**	**(116)**	**4,331**
Land	(34)	-	(2)	0	0	2	(34)
Buildings	(488)	-	(38)	7	9	3	(507)
Machinery and equipment	(1,084)	-	(107)	43	21	11	(1,116)
Other property, plant and equipment	(287)	-	(39)	27	9	(48)	(338)
DEPRECIATION/IMPAIRMENT	**(1,893)**	**-**	**(187)**	**78**	**38**	**(32)**	**(1,995)**
PROPERTY, PLANT AND EQUIPMENT, NET	**2,386**	**338**	**(187)**	**(13)**	**(41)**	**(148)**	**2,336**

Note 4.3 Financial assets

Available-for-sale financial assets include the Group's investments in non-consolidated companies and in securities which do not satisfy the criteria for classification as short-term investments included in cash equivalents. On initial recognition, these assets are measured at their acquisition cost. At subsequent balance sheet dates, available-for-sale financial assets are measured at fair value where this can be measured reliably. Changes in fair value are recognised directly in shareholders' equity except where a reduction in value compared with the historical acquisition cost constitutes a material or sustained impairment in the asset's value. On disposal of available-for-sale financial assets, changes in fair value previously recognised in equity are recognised in profit and loss. Fair value is determined on the basis of the financial criteria most appropriate to the specific situation of each company. The fair value of financial assets listed on a financial market is their stock market value. The measurement criteria normally applied to unlisted available-for-sale financial assets are the proportion of shareholders' equity and future profitability.

Loans, receivables and deposits are valued at amortised cost.

	30.06.2016		30.06.2017	
€ million	Current	Non-current	Current	Non-current
Net financial assets				
Available-for-sale financial assets	-	16	-	17
Other financial assets	-	630	-	522
Net loans and receivables				
Loans, receivables and deposits	-	76	-	111
Total net non-current financial assets	**-**	**721**	**-**	**650**
Derivative instruments	**8**	**109**	**24**	**26**
FINANCIAL ASSETS	**8**	**830**	**24**	**676**

The table below shows details of the Group's financial assets, excluding derivative instruments:

		Movements in the year					
€ million	30.06.2015	Acquisitions	Allowances	Disposals	Foreign currency gains and losses	Other movements	30.06.2016
Other financial assets	439	0	-	(0)	(86)	279	632
Available-for-sale financial assets	26	0	-	(5)	0	(0)	21
Guarantees and deposits	56	3	-	(6)	(0)	24	76
Investment-related receivables	0	-	-	-	(0)	-	0
GROSS VALUE	**522**	**4**	**-**	**(12)**	**(87)**	**303**	**730**
Provisions for other financial assets	(2)	-	(1)	-	0	(0)	(3)
Impairment losses recognised on available-for-sale financial assets	(8)	-	-	3	(0)	(1)	(6)
Provisions for guarantees and deposits	(0)	-	-	-	0	(0)	(0)
Impairment losses recognised on investment-related receivables	(0)	-	-	-	0	-	(0)
IMPAIRMENT	**(10)**	**-**	**(1)**	**3**	**0**	**(1)**	**(9)**
NON-CURRENT FINANCIAL ASSETS, NET	**512**	**4**	**(1)**	**(9)**	**(87)**	**302**	**721**

€ million	30.06.2016	Acquisitions	Allowances	Disposals	Foreign currency gains and losses	Other movements	30.06.2017
	Movements in the year						
Other financial assets	632	21	-	(0)	(36)	(90)	528
Available-for-sale financial assets	21	3	-	(2)	(0)	1	23
Guarantees and deposits	76	2	-	(2)	(4)	40	112
Investment-related receivables	0	-	-	-	0	-	0
GROSS VALUE	**730**	**26**	**-**	**(4)**	**(40)**	**(49)**	**663**
Provisions for other financial assets	(3)	-	(4)	-	0	0	(6)
Impairment losses recognised on available-for-sale financial assets	(6)	-	-	-	(0)	(0)	(6)
Provisions for guarantees and deposits	(0)	-	(0)	-	0	(0)	(1)
Impairment losses recognised on investment-related receivables	(0)	-	-	-	(0)	-	(0)
IMPAIRMENT	**(9)**	**-**	**(4)**	**-**	**0**	**(0)**	**(13)**
NON-CURRENT FINANCIAL ASSETS, NET	**721**	**26**	**(4)**	**(4)**	**(40)**	**(49)**	**650**

Other financial assets on 30 June 2017 included €521 million of plan surplus related to employee benefits, compared to €626 million at the end of June 2016 (see Note 4.7 – Provisions).

Note 4.4 Inventories and work in progress

Inventories are measured at the lower of either their cost (acquisition cost and cost of production, including indirect production overheads) or their net realisable value. Net realisable value is the selling price less the estimated costs of completion and sale of inventories. Most inventories are valued using the weighted average cost method. The cost of long-cycle inventories is computed using a single method which includes distilling and ageing costs. These inventories are classified in current assets, although a substantial part remains in inventory for more than one year before being sold in order to undergo the ageing process used for certain wines and spirits.

The breakdown of inventories and work in progress at the balance sheet date is as follows:

€ million	30.06.2015	Change in gross value	Change in impairment	Foreign currency gains and losses	Other movements	30.06.2016
		Movements in the year				
Raw materials	137	3	-	(8)	0	132
Work in progress	4,515	200	-	(260)	(0)	4,454
Goods in inventory	475	18	-	(21)	4	476
Finished products	281	17	-	(11)	(1)	286
GROSS VALUE	**5,408**	**238**	**-**	**(300)**	**3**	**5,349**
Raw materials	(12)	-	1	1	-	(10)
Work in progress	(11)	-	(6)	(0)	0	(17)
Goods in inventory	(24)	-	7	1	(0)	(16)
Finished products	(10)	-	(3)	0	1	(11)
IMPAIRMENT	**(57)**	**-**	**(1)**	**2**	**1**	**(55)**
NET INVENTORIES	**5,351**	**238**	**(1)**	**(298)**	**4**	**5,294**

€ million	30.06.2016	Movements in the year: Change in gross value	Change in impairment	Foreign currency gains and losses	Other movements	30.06.2017
Raw materials	132	(4)	-	(3)	(1)	125
Work in progress	4,454	142	-	(103)	7	4,500
Goods in inventory	476	(15)	-	(10)	(0)	451
Finished products	286	(4)	-	(3)	(4)	275
GROSS VALUE	**5,349**	**119**	**-**	**(118)**	**1**	**5,351**
Raw materials	(10)	-	(1)	0	1	(10)
Work in progress	(17)	-	5	0	(0)	(13)
Goods in inventory	(16)	-	3	1	(0)	(13)
Finished products	(11)	-	0	0	0	(10)
IMPAIRMENT	**(55)**	**-**	**7**	**1**	**1**	**(46)**
NET INVENTORIES	**5,294**	**119**	**7**	**(117)**	**2**	**5,305**

On 30 June 2017, maturing inventories intended mainly for use in whisky and cognac production accounted for 79% of work in progress. Pernod Ricard is not significantly dependent on its suppliers.

Note 4.5 Trade receivables and other operating receivables

Trade receivables and other current receivables are recognised initially at their fair value, which usually corresponds to their nominal value. Impairment losses are recognised where there is a risk of non-recovery.

The following tables break down trade receivables and other current receivables as of 30 June 2016 and 30 June 2017 by due date:

€ million	Net carrying amount	Not impaired and not due	Not impaired and due on the following dates: < 30 days	31 to 90 days	91 to 180 days	181 to 360 days	> 360 days
Net carrying amounts							
Trade receivables and other operating receivables on 30.06.2016	1,068	868	114	47	18	9	12
o/w depreciation	*72*						
Trade receivables and other operating receivables on 30.06.2017	1,134	902	132	57	19	9	16
o/w depreciation	*65*						

Changes in the impairment of trade receivables and other operating receivables were as follows:

€ million	2015/16	2016/17
On 1 July	**77**	**72**
Allowances during the year	8	9
Reversals during the year	(3)	(6)
Used during the year	(6)	(10)
Translation differences	(4)	(1)
ON 30 JUNE	**72**	**65**

On 30 June 2017, there was no reason to question the creditworthiness of non-depreciated past due receivables. More specifically, non-depreciated receivables with due dates of over 12 months show no additional credit-related risk. There is no significant concentration of risks.

In financial years 2015/16 and 2016/17 the Group continued to implement its programmes to sell the receivables of several affiliates. Receivables sold under these programmes totalled €520 million on 30 June 2016 and €557 million on 30 June 2017. As substantially all risks and rewards associated with the receivables were transferred, they were deconsolidated.

Derecognised assets where there is continuing involvement

€ million	Carrying amount of continuing 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 securitisation	10	-	10	-	10	10

Note 4.6 Other current assets

Other current assets are broken down as follows:

€ million	30.06.2016	30.06.2017
Advances and down payments	20	25
Tax accounts receivable, excluding income taxes	134	146
Prepaid expenses	67	72
Other receivables	30	27
TOTAL	**251**	**270**

Note 4.7 Provisions

In accordance with IAS 37 (Provisions, contingent liabilities and contingent assets), provisions for risks and contingencies are recognised to cover probable outflows of resources that can be estimated and that result from present obligations relating to past events. In the case where a potential obligation resulting from past events exists, but where the occurrence of the outflow of resources is not probable or where the amount cannot be reliably estimated, a contingent liability is disclosed among the Group's commitments. The amounts provided for are measured by taking account of the most probable assumptions or using statistical methods, depending on the nature of the obligations. Provisions notably include:

- provisions for restructuring;
- provisions for pensions and other long-term employee benefits;
- provisions for litigation (tax, legal, employee-related).

Litigation is kept under regular review, on a case-by-case basis, by the Legal Department of each affiliate or region or by the Group's Legal Department, drawing on the help of external legal consultants in the most significant or complex cases. A provision is recorded when it becomes probable that a present obligation arising from a past event will require an outflow of resources whose amount can be reliably estimated. The amount of the provision is the best estimate of the outflow of resources required to settle this obligation.

The cost of restructuring measures is fully provisioned in the financial year, and is recognised in profit and loss under "Other operating income and expenses" when it is material and results from a Group obligation to third parties arising from a decision made by the competent corporate body that has been announced to the third parties concerned before the closing date. This cost mainly involves redundancy payments, early retirement payments, costs of notice periods not served, training costs of departing individuals and costs of site closure. Scrapping of property, plant and equipment, impairment of inventories and other assets, as well as other costs (moving costs, training of transferred individuals, etc.) directly related to the restructuring measures are also recognised in restructuring costs. The amounts provided for correspond to forecast future payments to be made in connection with restructuring plans, discounted to present value when the timetable for payment is such that the effect of the time value of money is significant.

1. Breakdown of balance sheet amounts

The breakdown of provisions in the balance sheet is as follows:

€ million	30.06.2016	30.06.2017
Non-current provisions		
Provisions for pensions and other long-term employee benefits	739	649
Other non-current provisions for risks and charges	422	453
Current provisions		
Provisions for restructuring	63	46
Other current provisions for risks and charges	104	113
TOTAL	**1,328**	**1,261**

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

	Movements in the year							
€ million	30.06.2016	Allowances	Reversals (used)	Reversals (not used)	Foreign currency gains and losses	Scope changes	Other movements	30.06.2017
Provisions for restructuring	63	36	(50)	(4)	(0)	-	0	46
Other current provisions	104	32	(7)	(9)	(7)	-	(0)	113
Other non-current provisions	422	105	(35)	(32)	(7)	-	-	453
TOTAL PROVISIONS	**589**	**174**	**(92)**	**(44)**	**(14)**	**-**	**(0)**	**612**

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 tax reassessment. The main disputes are described in Note 6.5 – Disputes.

On 30 June 2017, the amount of provisions booked by the Group in respect of all disputes or risks in which it is involved amounted to €566 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.

The change in “Other current and non-current provisions” during the period is explained as follows:

- allowances stem mainly from proceedings brought against the Company and its affiliates, as part of the normal course of business and the emergence of new risks, including tax risks;
- reversals are made at the time of corresponding payments or where the risk is considered to be nil. Unused reversals primarily concern the re-evaluation or the statute of limitation of certain risks, including tax risks;
- other movements primarily reflect reclassifications and changes in the scope of consolidation.

3. Provisions for pension benefits

In accordance with applicable national legislation, the Group's employee benefit obligations are composed of:

- long-term post-employment benefits (retirement bonuses, pensions, medical and healthcare expenses, etc.);
- long-term benefits payable during the period of employment.

Defined contribution plans

Contributions are recognised as expenses as they are incurred. As the Group is not committed beyond the amount of such contributions, no provision is recognised in respect of defined contribution plans.

Defined benefit plans

For defined benefit plans, the projected unit credit method is used to measure the present value of defined benefit obligations, current service cost and, if applicable, past service cost. The measurement is made at each closing date and the personal data concerning employees is revised at least every three years. The calculation requires the use of economic assumptions (inflation rate and discount rate) and assumptions concerning employees (mainly average salary increase, rate of employee turnover and life expectancy). Assumptions used in 2015/16 and 2016/17 and the methods used for their determination are described below.

A provision is recorded in the balance sheet for the difference between the actuarial debt of related obligations (actuarial liabilities) and any assets dedicated to funding the plans, measured at their fair value, and includes past service costs and actuarial gains and losses.

The cost of defined benefit plans has three components, which are accounted for as follows:

- the cost of services is recognised in operating profit. It includes:
  - the cost of services rendered during the period,
  - the cost of past services resulting from the modification or reduction of a plan, fully recognised in profit and loss for the period in which the services were performed,
  - gains and losses resulting from liquidations;
- the financial component, recorded in financial income (expenses), comprises the impact of discounting the liabilities, net of the expected return on plan assets, measured using the same discount rate as that used to measure the liabilities;
- revaluations of liabilities (assets) are recognised as non-recyclable items of comprehensive income, and consist mainly of actuarial differences, namely the change in plan obligations and assets due to changes in assumptions and to experience gains or losses, the latter representing the difference between the expected impact of some actuarial assumptions applied to previous valuations and the actual impact. If the plan assets exceed recognised obligations, a financial asset is generated equal to the present value of future refunds and expected reductions in future contributions.

The Group provides employee benefits such as pensions and retirement bonuses and other post-employment benefits, such as medical care and life insurance:

- in France, benefit obligations mainly comprise arrangements for retirement indemnities (non-funded) and supplementary pension benefits (partly funded);
- in the United States and Canada, benefit obligations include funded pension plans guaranteed to employees as well as unfunded post-employment medical plans;
- in Ireland, the United Kingdom and the Netherlands, benefit obligations mainly consist of pension plans granted to employees.

Defined benefit plans in the Group relate mainly to affiliates in the United Kingdom, in North America and in the rest of Europe. Defined benefit plans are subject to an annual actuarial valuation on the basis of assumptions depending on the country. Under these pension and other benefit plan agreements, employees receive at the date of retirement either a capital lump sum payment or an annuity. These amounts depend on the number of years of employment, final salary and the position held by the employee. On 30 June 2017, fully or partly funded benefit obligations totalled €5,366 million, equivalent to 95% of total benefit obligations.

Certain affiliates, mainly those located in North America, also provide their employees with post-employment medical cover. These benefit obligations are unfunded. They are measured using the same assumptions as those used for the pension obligations in the countries in question.

Several affiliates, mainly in Europe, also provide their employees with other long-term benefits. Benefit obligations of this type are mainly in respect of long-service awards and jubilee awards.

The table below presents a reconciliation of the provision between 30 June 2016 and 30 June 2017:

€ million	30.06.2016 Pension benefits	30.06.2016 Medical expenses and other employee benefits	30.06.2016 Total	30.06.2017 Pension benefits	30.06.2017 Medical expenses and other employee benefits	30.06.2017 Total
Net liability at beginning of period	40	180	220	(66)	179	113
Expenses for the period	36	9	44	(7)	12	5
Actuarial (gains) and losses (1)	(119)	3	(116)	76	(11)	65
Employer contributions	(84)	-	(84)	(51)	-	(51)
Benefits paid directly by the employer	(11)	(9)	(20)	(14)	(11)	(26)
Changes in the scope of consolidation	-	0	0	-	-	-
Foreign currency gains and losses	73	(4)	68	25	(3)	21
Net liability at end of period	**(66)**	**179**	**113**	**(37)**	**165**	**128**
Amount recognised in assets (2)	(626)	-	(626)	(521)	-	(521)
AMOUNT RECOGNISED IN LIABILITIES (PROVISION AT END OF PERIOD)	**560**	**179**	**739**	**484**	**165**	**649**

(1) *Recognised as items of other comprehensive income.*
(2) *See Note 4.3* – Financial assets.

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

Expense for the period *€ million*	30.06.2016 Pension benefits	30.06.2016 Medical expenses and other employee benefits	30.06.2016 Total	30.06.2017 Pension benefits	30.06.2017 Medical expenses and other employee benefits	30.06.2017 Total
Service cost	45	3	49	46	4	50
Interest on provision	(4)	6	2	(4)	6	2
Fees/levies/premiums	11	-	11	10	-	10
Impact of plan amendments/Reduction of future rights (1)	(18)	(2)	(20)	(59)	1	(58)
Impact of liquidation of benefits	0	-	0	(1)	-	(1)
Actuarial (gains)/losses	-	1	1	-	1	1
Effect of asset ceiling (including the impact of IFRIC 14)	-	-	-	-	-	-
NET EXPENSE/(INCOME) RECOGNISED IN PROFIT AND LOSS	**36**	**9**	**44**	**(7)**	**12**	**5**

(1) *See Note 6.2* – Share-based payments.

Changes in provisions for pensions and other long-term employee benefits are shown below:

Net liabilities recognised in the balance sheet *€ million*	**30.06.2016** Pension benefits	Medical expenses and other employee benefits	Total	**30.06.2017** Pension benefits	Medical expenses and other employee benefits	Total
Change in the actuarial value of cumulative benefit obligations						
Actuarial value of cumulative benefit obligations at beginning of period	5,952	180	6,132	5,615	179	5,794
Service cost	45	3	49	46	4	50
Interest cost (effect of unwinding of discount)	201	6	207	151	6	157
Employee contributions	2	1	3	2	1	3
Benefits paid	(324)	(10)	(333)	(273)	(12)	(285)
Administrative fees/premiums/levies	(1)	-	(1)	(0)	-	(0)
Plan amendments/reduction of future rights	(18)	(2)	(20)	(59)	1	(58)
Liquidation of benefits	0	-	0	(1)	-	(1)
Actuarial (gains)/losses	467	4	471	288	(10)	277
Currency translation adjustments	(710)	(4)	(714)	(290)	(3)	(294)
Changes in the consolidation perimeter	(0)	0	0	-	-	-
ACTUARIAL VALUE OF CUMULATIVE BENEFIT OBLIGATIONS AT END OF PERIOD	**5,615**	**179**	**5,794**	**5,480**	**165**	**5,645**
Change in the fair value of plan assets						
Fair value of plan assets at beginning of period	5,912	-	5,912	5,681	-	5,681
Interest income on plan assets	204	-	204	155	-	155
Experience gains/(losses) on plan assets	586	-	586	212	-	212
Employee contributions	2	-	2	2	-	2
Employer contributions	84	-	84	51	-	51
Benefits paid	(314)	-	(314)	(258)	-	(258)
Administrative fees/premiums/levies	(11)	-	(11)	(11)	-	(11)
Plan amendments/reduction of future rights	(0)	-	(0)	-	-	-
Liquidation of benefits	-	-	-	-	-	-
Currency translation adjustments	(782)	-	(782)	(315)	-	(315)
Changes in the consolidation perimeter	(0)	-	(0)	-	-	-
FAIR VALUE OF PLAN ASSETS AT END OF PERIOD	**5,681**	**-**	**5,681**	**5,517**	**-**	**5,517**
Present value of funded benefits	5,502	-	5,502	5,366	-	5,366
Fair value of plan assets	5,681	-	5,681	5,517	-	5,517
Deficit/(surplus) on funded benefits	**(179)**	**-**	**(179)**	**(151)**	**-**	**(151)**
Present value of unfunded benefits	113	179	292	113	165	279
Effect of ceiling on plan assets (including the impact of IFRIC 14)	-	-	-	-	-	-
NET LIABILITY RECOGNISED IN THE BALANCE SHEET	**(66)**	**179**	**113**	**(37)**	**165**	**128**

At 30.06.2017	Actuarial value of cumulative benefit obligations		Fair value of plan assets		Recognised in liabilities and shareholders' equity		Amount recognised in assets	
	(€ million)	*(%)*	*(€ million)*	*(%)*	*(€ million)*	*(%)*	*(€ million)*	*(%)*
United Kingdom	4,435	79%	4,796	87%	157	24%	(519)	99%
United States	402	7%	233	4%	168	26%	-	0%
Canada	305	5%	247	4%	58	9%	(1)	0%
Ireland	243	4%	160	3%	82	13%	-	0%
France	144	3%	21	0%	124	19%	-	0%
Other countries	117	2%	59	1%	60	9%	(2)	0%
TOTAL	**5,645**	**100%**	**5,517**	**100%**	**649**	**100%**	**(521)**	**100%**

The breakdown of pension assets between the different asset classes (bonds, shares, etc.) is as follows:

Breakdown of plan assets	30.06.2016 Pension benefits	30.06.2016 Medical expenses and other employee benefits	30.06.2017 Pension benefits	30.06.2017 Medical expenses and other employee benefits
Shares	22%	Not applicable	18%	Not applicable
Bonds	41%	Not applicable	36%	Not applicable
Other money market funds	1%	Not applicable	0%	Not applicable
Property assets	8%	Not applicable	7%	Not applicable
Other	29%	Not applicable	39%	Not applicable
TOTAL	**100%**	**NOT APPLICABLE**	**100%**	**NOT APPLICABLE**

Contributions payable by the Group in financial year 2017/18 in respect of funded benefits are estimated at €61 million.

Benefits payable in respect of defined benefit plans over the next 10 years are broken down as follows:

Benefits payable in the next 10 years *€ million*	Pension benefits	Medical expenses and other employee benefits
2018	263	9
2019	261	9
2020	267	10
2021	280	10
2022	282	9
2023–2027	1,552	50

On 30 June 2016 and 30 June 2017, the main assumptions used for the measurement of pension obligations and other long-term employee benefits were as follows:

Actuarial assumptions in respect of commitments	30.06.2016 Pension benefits	30.06.2016 Medical expenses and other employee benefits	30.06.2017 Pension benefits	30.06.2017 Medical expenses and other employee benefits
Discount rate	2.84%	3.58%	2.62%	3.50%
Average rate of increase in annuities	3.11%	Not applicable	3.34%	Not applicable
Average salary increase	2.69%	3.33%	2.81%	3.39%
Expected increase in medical expenses				
■ Initial rate	Not applicable	7.05%	Not applicable	6.65%
■ Final rate	Not applicable	4.73%	Not applicable	4.75%

Actuarial assumptions in respect of benefit obligations for the year	30.06.2016 Pension benefits	30.06.2016 Medical expenses and other employee benefits	30.06.2017 Pension benefits	30.06.2017 Medical expenses and other employee benefits
Discount rate	3.63%	3.69%	2.84%	3.58%
Average rate of increase in annuities	3.33%	Not applicable	3.11%	Not applicable
Average salary increase	2.91%	3.16%	2.69%	3.33%
Expected increase in medical expenses				
■ Initial rate	Not applicable	6.58%	Not applicable	7.05%
■ Final rate	Not applicable	5.01%	Not applicable	4.73%

Actuarial assumptions on 30.06.2017 *(pensions and other benefit obligations)* By region	United Kingdom	United States	Canada	Eurozone countries	Other non-euro zone countries
Discount rate	2.52%	4.13%	3.45%	1.68%	3.75%
Average rate of increase in annuities	3.52%	Not applicable	1.25%	1.48%	1.75%
Average salary increase	2.22%	3.75%	3.00%	2.76%	4.12%
Expected increase in medical expenses					
■ Initial rate	5.50%	7.64%	5.65%	3.50%	Not applicable
■ Final rate	5.50%	4.50%	4.60%	3.50%	Not applicable

The obligation period-related discount rates used within the Eurozone are as follows:

- short-term rate (less than 7 years): 0.50%;
- medium-term rate (7-10 years): 1%;
- long-term rate (more than 10 years): 1.50% to 1.95%.

Discount rates are determined by reference to the yield at the balance sheet date on premium category corporate bonds (if available), or on government bonds, with maturities similar to the estimated duration of the benefit obligations.

The expected rate of return on assets corresponds to the discount rate, in accordance with the IAS 19 standard.

The sensitivity of the debt to changes in the discount rate is shown in the table below:

€ million	Pension benefits	Medical expenses and other employee benefits	Total
Commitments on 30 June 2017	5,480	165	5,645
Commitments on 30 June 2017 with a 0.5% drop in the discount rate	5,946	176	6,122
Commitments on 30 June 2017 with a 0.5% rise in the discount rate	5,067	156	5,223

The impact of a change in the rate of increase in medical expenses would be as follows:

In respect of post-employment medical coverage *€ million*	With current rate	Effect of a change: 1% increase	Effect of a change: 1% decrease
On the present value of the benefit obligations on 30 June 2017	130	16	(13)
Expense for the 2016/17 financial year	7	1	(1)

The experience gains or losses on the benefit obligations and plan assets are set out below:

€ million	30.06.2017 Pension benefits	30.06.2017 Medical expenses and other employee benefits
Amount of experience losses or (gains) on benefit obligations	(16)	(9)
Percentage compared with amount of benefit obligations	-0.3%	-5.5%
Amount of financial assumption losses or (gains) on benefit obligations	335	(0)
Percentage compared with amount of benefit obligations	6.1%	0.0%
Amount of demographic assumption losses or (gains) on benefit obligations	(31)	(1)
Percentage compared with amount of benefit obligations	-0.6%	-0.7%
Amount of experience losses or (gains) on plan assets	(212)	-
Percentage compared with amount of plan assets	-3.8%	0.0%
Average duration	15.94	12.37

Note 4.8 Financial liabilities

IAS 32 and IAS 39 relating to financial instruments have been applied as at 1 July 2004. IFRS 7 has been applied from 1 July 2007. The amendment approved by the European Union on 22 November 2011 has been applied from 1 July 2011.

Borrowings and other financial liabilities are recognised, on the basis of their effective interest rates, in accordance with the amortised cost method. The effective interest rate includes all costs, commissions and fees payable under the contract between the parties. Under this method, costs that are directly attributable to the acquisition or issue of the financial liability are recognised in profit and loss on the basis of the effective interest rate.

In accordance with IAS 7 (Statement of cash flows), cash and cash equivalents presented in assets and liabilities in the balance sheet and shown in the consolidated cash flow statements include items that are immediately available as cash or are readily convertible into a known amount of cash and which are subject to an insignificant risk of change in their value. Cash is composed of cash at bank and on hand, short-term deposits with an initial maturity of less than three months and money market mutual funds that are subject to an insignificant risk of change in their value. Cash equivalents are short-term investments with a maturity of less than three months. Bank overdrafts, which are considered to be equivalent to financing, are excluded from cash and cash equivalents.

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

1. Breakdown of net financial debt by nature and maturity

	30.06.2016			30.06.2017		
€ million	Current	Non-current	Total	Current	Non-current	Total
Bonds	**1,884**	**7,078**	**8,962**	**94**	**6,900**	**6,993**
Syndicated loan	-	-	-	-	319	319
Commercial paper	45	-	45	630	-	630
Other loans and financial debts	98	257	355	441	161	601
Other financial liabilities	**143**	**257**	**400**	**1,071**	**480**	**1,551**
GROSS FINANCIAL DEBT	**2,027**	**7,335**	**9,362**	**1,165**	**7,379**	**8,545**
Fair value hedging derivative instruments – assets	-	(77)	(77)	(6)	(17)	(22)
Fair value hedging derivative instruments – liabilities	-	-	-	-	7	7
Fair value hedge derivatives	**-**	**(77)**	**(77)**	**(6)**	**(9)**	**(15)**
Net investment hedging derivative instruments – assets	-	-	-	-	-	-
Net investment hedging derivative instruments – liabilities	-	-	-	-	-	-
Net investment hedge derivatives	**-**	**-**	**-**	**-**	**-**	**-**
Net asset hedging derivative instruments – assets	-	-	-	(2)	-	(2)
Net asset hedging derivative instruments – liabilities	-	-	-	-	-	-
Net asset hedging derivative instruments	**-**	**-**	**-**	**(2)**	**-**	**(2)**
FINANCIAL DEBT AFTER HEDGING	**2,027**	**7,258**	**9,285**	**1,158**	**7,370**	**8,528**
Cash and cash equivalents	**(569)**	**-**	**(569)**	**(677)**	**-**	**(677)**
NET FINANCIAL DEBT	**1,458**	**7,258**	**8,716**	**481**	**7,370**	**7,851**

2. Breakdown of debt by currency before and after foreign exchange hedging instruments on 30 June 2016 and 30 June 2017

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 30.06.2017 *€ million*	Gross financial debt	Amount hedged	Debt after hedging	Cash	Net debt after hedging	% debt after hedging	% Net debt after hedging
EUR	3,758	165	3,923	(139)	3,784	46%	48%
USD	4,720	(28)	4,693	(33)	4,660	55%	59%
GBP	5	(1)	5	(27)	(22)	0%	-0%
SEK	9	(86)	(78)	(6)	(84)	-1%	-1%
Other currencies	52	(67)	(15)	(472)	(487)	0%	-6%
FINANCIAL DEBT BY CURRENCY	**8,545**	**(17)**	**8,528**	**(677)**	**7,851**	**100%**	**100%**

3. Breakdown of debt by currency and type of rate hedging on 30 June 2016 and 30 June 2017

On 30.06.2016 *€ million*	Debt after hedging by currency	Fixed-rate debt [(1)]	Capped floating-rate debt	Floating-rate debt	% (fixed-rate debt + rate debt debt)/Debt after hedging	Cash	% (fixed-rate + floating-rate debt 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%**

N.M.: Not material.
(1) Hedges for accounting purposes and other derivatives.

On 30.06.2017 *€ million*	Debt after hedging by currency	Fixed-rate debt [(1)]	Capped floating-rate debt	Floating-rate debt	% (fixed-rate debt + rate debt debt)/Debt after hedging	Cash	% (fixed-rate debt + floating-rate debt)/Net debt
EUR	3,923	2,649	-	1,274	68%	(139)	70%
USD	4,693	3,169	-	1,523	68%	(33)	68%
GBP	5	-	-	5	N.M.	(27)	N.M.
SEK	(78)	-	-	(78)	N.M.	(6)	N.M.
Other currencies	(15)	-	-	(15)	N.M.	(472)	N.M.
TOTAL	**8,528**	**5,819**	**-**	**2,709**	**68%**	**(677)**	**74%**

N.M.: Not material.
(1) Hedges for accounting purposes and other derivatives.

4. Breakdown of fixed-rate/floating-rate debt before and after interest rate hedging instruments on 30 June 2016 and 30 June 2017

	30.06.2016				30.06.2017			
€ million	Debt before hedging		Debt after hedging		Debt before hedging		Debt after hedging	
Fixed-rate debt	8,698	94%	8,743	94%	6,827	80%	5,819	68%
Capped floating-rate debt	-	-	-	-	-	-	-	-
Floating-rate debt	587	6%	542	6%	1,701	20%	2,709	32%
FINANCIAL DEBT AFTER HEDGING BY TYPE OF RATE	**9,285**	**100%**	**9,285**	**100%**	**8,528**	**100%**	**8,528**	**100%**

On 30 June 2017, before taking account of any hedges, the Group's gross debt was 80% fixed rate and 20% floating rate. After hedging, the floating rate portion was 32%.

5. Schedule of financial liabilities on 30 June 2016 and 30 June 2017

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 on 30 June 2016 and 30 June 2017.

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 30.06.2017 *€ 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	-	(8,501)	(769)	(304)	(15)	(923)	(1,067)	(1,648)	(3,775)
Interest	-	(2,186)	(127)	(129)	(256)	(255)	(238)	(182)	(999)
GROSS FINANCIAL DEBT	**(8,545)**	**(10,687)**	**(896)**	**(433)**	**(270)**	**(1,178)**	**(1,305)**	**(1,830)**	**(4,774)**
Cross currency swaps	-								
■ Flows payable		-	-	-	-	-	-	-	-
■ Flows receivable		-	-	-	-	-	-	-	-
Derivative instruments – liabilities	(57)	(57)	(19)	(7)	(13)	(13)	(8)	1	3
DERIVATIVE INSTRUMENTS LIABILITIES	**(57)**	**(57)**	**(19)**	**(7)**	**(13)**	**(13)**	**(8)**	**1**	**3**
TOTAL FINANCIAL LIABILITIES	**(8,602)**	**(10,744)**	**(915)**	**(441)**	**(284)**	**(1,192)**	**(1,313)**	**(1,830)**	**(4,771)**

6. Syndicated loan

On 30 June 2017, the multi-currency syndicated loan of €2,500 million was drawn at €100 million and $250 million.

7. Bonds

Nominal amount	Interest rate	Issue date	Maturity	Carrying amount on 30.06.2017 *(€ million)*
EUR 850 million	2.00%	20.03.2014	22.06.2020	847
USD 1,000 million	5.75%	07.04.2011	07.04.2021	887
USD 201 million	Spread + 6-month LIBOR	26.01.2016	26.01.2021	178
USD 1,500 million	4.45%	25.10.2011	15.01.2022	1,361
USD 800 million	4.25%	12.01.2012	15.07.2022	718
EUR 500 million	1.88%	28.09.2015	28.09.2023	485
EUR 650 million	2.13%	29.09.2014	27.09.2024	657
EUR 600 million	1.50%	17.05.2016	18.05.2026	598
USD 600 million	3.25%	08.06.2016	08.06.2026	514
USD 850 million	5.50%	12.01.2012	15.01.2042	750
TOTAL BONDS				**6,993**

8. Offsetting financial assets and financial liabilities

The table below shows the amounts of financial assets and financial liabilities before and after offsetting. These disclosures are required by an amendment to IFRS 7 (Financial instruments: Disclosures – Offsetting financial assets and financial liabilities) that has been applicable since 1 January 2013.

The amounts offset in the balance sheet were established in accordance with IAS 32. Accordingly, financial assets and financial liabilities are offset and the net amount is shown in the balance sheet if and only if the Group has a legally enforceable right to offset the recognised amounts, and if it intends to settle the net amount. The assets and liabilities offset stem from the multi-currency cash pooling implemented within the Group.

On 30.06.2016 *€ million*	Gross financial assets	Amounts offset in the balance sheet	Net amounts in the balance sheet	Impact of master netting agreements and similar agreements	Financial instruments received as collateral	Net amounts under IFRS 7
Assets						
Cash and cash equivalents	704	(135)	569	-	-	-
Liabilities						
Bank debt	535	(135)	400	-	-	-

On 30.06.2017 *€ million*	Gross financial assets	Amounts offset in the balance sheet	Net amounts in the balance sheet	Impact of master netting agreements and similar agreements	Financial instruments received as collateral	Net amounts under IFRS 7
Assets						
Cash and cash equivalents	775	(98)	677	-	-	-
Liabilities						
Bank debt	1,649	(98)	1,551	-	-	-

Note 4.9 Financial instruments

1. Fair value of financial instruments

€ million	Measurement level	Breakdown by accounting classification: Fair value – profit	Fair value – shareholders' equity	Loans and receivables	Liabilities at amortised cost	30.06.2016: 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 and other operating 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
Bank debt		-	-	-	362	362	362
Finance lease debt		-	-	-	38	38	38
Derivative instruments – liabilities	Level 2	148	-	-	-	148	148

€ million	Measurement level	Breakdown by accounting classification: Fair value – profit	Fair value – shareholders' equity	Loans and receivables	Liabilities at amortised cost	30.06.2017: Balance sheet value	Fair value
Assets							
Available-for-sale financial assets	Level 3	-	17	-	-	17	17
Guarantees, deposits, investment-related receivables		-	-	111	-	111	111
Trade receivables and other operating receivables		-	-	1,134	-	1,134	1,134
Other current assets		-	-	270	-	270	270
Derivative instruments – assets	Level 2	50	-	-	-	50	50
Cash and cash equivalents	Level 1	677	-	-	-	677	677
Liabilities							
Bonds		-	-	-	6,993	6,993	7,462
Bank debt		-	-	-	1,513	1,513	1,513
Finance lease debt		-	-	-	38	38	38
Derivative instruments – liabilities	Level 2	57	-	-	-	57	57

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 closing 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 was calculated for each loan by discounting future cash flows using an interest rate reflecting the Group's credit risk at the balance sheet date;
- derivative instruments: the market value of instruments recognised 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 are consistent 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 on the basis of observable market data (other than quoted prices included in level 1);
- level 3: fair value determined using 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). On 30 June 2017, the impact was not significant.

2. Risk management

Management and monitoring of financial risks is performed by the Financing and Treasury Department, which has eight staff members. Reporting to the Group Finance Department, it oversees all financial exposures and processes or validates all financing, investment and hedging transactions, as part of a programme approved by General Management.

All financial instruments used hedge existing or forecast hedge transactions or investments. They are contracted with a limited number of counterparties that have a first-class rating.

Management of liquidity risk

On 30 June 2017, the Group's cash and cash equivalents totalled €677 million (compared with €569 million on 30 June 2016). An additional €2,760 million of renewable medium-term credit facilities with banks was confirmed and drawn at €360 million and $250 million at this date. Group funding is provided in the form of long-term debt (bank loans, bonds, etc.) and short-term financing (commercial paper and bank overdrafts) as well as factoring and securitisation, which provide adequate financial resources to ensure the continuity of its business. The Group's short-term debt after hedging was €1,158 million on 30 June 2017 (compared to €2,027 million on 30 June 2016).

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

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

The Group's bank and bond debt contracts include covenants and a financial ratio. Breaches of these covenants or financial ratio could force the Group to make accelerated payments. On 30 June 2017, the Group was in compliance with the covenants under the terms of its syndicated loan, with a solvency ratio (total Net Debt converted at the average rate/ consolidated EBITDA) of 5.25 or less.

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

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

Specific terms of financing agreements and the schedule of financial liabilities are respectively disclosed in the "Material contracts" subsection of the management report and in Note 4.8 – *Financial liabilities* of the Notes to the consolidated financial statements.

Management of currency risk

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

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

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

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

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

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

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

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

Management of interest rate risk

On 30 June 2017, the Pernod Ricard group's debt comprised floating-rate debt (mainly commercial paper and other bank loans) and fixed-rate debt (mainly bonds), in addition to a hedging portfolio including swaps in USD.

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

Schedule of floating-rate debt and hedging in EUR *(notional value in € million)*

On 30 June 2017 *€ million*	< 1 year	> 1 year and < 5 years	> 5 years	Total
Total assets (cash)	139	-	-	139
Total floating-rate liabilities	(977)	(132)	(0)	(1,109)
NET FLOATING-RATE DEBT BEFORE HEDGING	**(838)**	**(132)**	**(0)**	**(970)**
Derivative instruments	(165)	-	-	(165)
NET FLOATING-RATE DEBT AFTER HEDGING	**(1,003)**	**(132)**	**(0)**	**(1,135)**

Schedule of floating-rate debt and hedging in USD *(notional value in € million)*

On 30 June 2017 *€ million*	< 1 year	> 1 year and < 5 years	> 5 years	Total
Total assets (cash)	33	-	-	33
Total floating-rate liabilities	(121)	(423)	-	(543)
NET FLOATING-RATE DEBT BEFORE HEDGING	**(88)**	**(423)**	**-**	**(511)**
Derivative instruments	18	(301)	(697)	(980)
NET FLOATING-RATE DEBT AFTER HEDGING	**(70)**	**(724)**	**(697)**	**(1,491)**

Analysis of the sensitivity of financial instruments to interest rate risk (impact on the income statement)

A 50 basis point increase or decrease in (USD and EUR) interest rates would increase or reduce the cost of net financial debt by €9 million.

Analysis of the sensitivity of financial instruments to interest rate risk (impact on shareholders' equity)

A relative fluctuation of +/-50 basis point in interest rates (USD and EUR) would generate an equity gain or loss of approximately €6 million as a result of changes in the fair value of the derivatives documented as cash flow hedges (swaps).

Analysis of the sensitivity of financial instruments used to hedge risks related to farm raw materials (impact on shareholders' equity)

On 30 June 2017, the sensitivity of the portfolio was not significant.

Counterparty risk in financial transactions

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

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

Note 4.10 Interest rate, foreign exchange and commodity derivatives

Pursuant to the amended version of IAS 39 (Financial instruments: recognition and measurement), all derivative instruments must be recognised in the balance sheet at fair value, determined on the basis of valuation models recognised on the market or of external listings issued by financial institutions.

Where the derivative has been designated as a fair value hedge, changes in the value of the derivative and of the hedged item are recognised in profit and loss for the same period. If the derivative has been designated as a cash flow hedge, the change in value of the "effective" portion of the hedge is recognised in shareholders' equity. It is recognised in profit and loss when the hedged item is itself recognised in profit and loss. The change in value of the ineffective component of the derivative is however recognised directly in profit and loss. If the derivative is designated as a hedge of a net foreign currency investment, the change in value of the effective portion of the hedge is recognised in shareholders' equity and the change in value of the "ineffective" portion is recognised in profit and loss.

		Notional amount of contracts				Fair value	
Type of hedge on 30.06.2016 *€ million*	**Description of the financial instrument**	**< 1 year**	**> 1 year and < 5 years**	**> 5 years**	**Total**	**Assets**	**Liabilities and shareholders' equity**
Fair value hedge						**77**	**-**
Interest rate risk hedges	Swaps	-	676	540	1,216	77	-
Interest rate and currency risk hedges	Cross currency swaps	-	-	-	-	-	-
Net investment hedge		**-**	**-**	**-**	**-**	**-**	**-**
Currency risk hedges	NDF & FX options	-	-	-	-	-	-
Interest rate and currency risk hedges	Cross currency swaps	-	-	-	-	-	-
Net asset hedging		**-**	**-**	**-**	**-**	**-**	**-**
Interest rate and currency risk hedges	Cross currency swaps	-	-	-	-	-	-
DERIVATIVE INSTRUMENTS INCLUDED IN NET DEBT						**77**	**-**
Cash flow hedge						**1**	**63**
Interest rate risk hedges	Swaps	-	360	-	360	-	35
Hedging of currency risk on intragroup financing and operational hedging	Currency swaps	454	72	-	526	1	26
Commodity risk hedges	Forward	15	5	-	20	-	2
Non-hedge accounting						**38**	**85**
Hedging of currency risk on intragroup financing and operational hedging	Currency swaps and forwards	2,047	-	-	2,047	7	35
Interest rate risk hedges	Swaps	901	1,081	-	1,982	31	50
TOTAL DERIVATIVE INSTRUMENTS						**116**	**148**
TOTAL NON-CURRENT						**109**	**84**
TOTAL CURRENT						**8**	**64**

Type of hedge on 30.06.2017 *€ million*	Description of the financial instrument	Notional amount of contracts < 1 year	> 1 year and < 5 years	> 5 years	Total	Fair value Assets	Liabilities and shareholders' equity
Fair value hedge						**22**	**7**
Interest rate risk hedges	Swaps	307	351	701	1,358	22	7
Interest rate and currency risk hedges	Cross currency swaps	-	-	-	-	-	-
Net investment hedge		**-**	**-**	**-**	**-**	**2**	**-**
Currency risk hedges	NDF & FX options	79	-	-	79	2	-
Interest rate and currency risk hedges	Cross currency swaps	-	-	-	-	-	-
Net asset hedging		**-**	**-**	**-**	**-**	**-**	**-**
Interest rate and currency risk hedges	Cross currency swaps	-	-	-	-	-	-
DERIVATIVE INSTRUMENTS INCLUDED IN NET DEBT						**24**	**7**
Cash flow hedge						**2**	**18**
Interest rate risk hedges	Swaps	-	351	-	351	-	15
Hedging of currency risk on intragroup financing and operational hedging	Currency swaps	178	-	-	178	1	2
Commodity risk hedges	Forward	20	3	-	23	1	0
Non-hedge accounting		-	-	-	-	**24**	**33**
Hedging of currency risk on intragroup financing and operational hedging	Currency swaps and forwards	1,345	-	-	1,345	14	13
Interest rate risk hedges	Swaps	-	1,052	-	1,052	9	20
TOTAL DERIVATIVE INSTRUMENTS						**50**	**57**
TOTAL NON-CURRENT						**26**	**42**
TOTAL CURRENT						**24**	**15**

The notional amount of these contracts is the nominal value of the contracts. Foreign currency denominated notional amounts in cross-currency swaps are shown in euros at the exchange rate agreed. For other instruments, notional amounts denominated in foreign currencies are translated into euros at year-end rates. Estimated values are based on information available on the financial markets and valuation methods appropriate to the type of financial instrument concerned. These valuation methods yield results consistent with the valuations provided by bank counterparties.

Note 4.11 Other current liabilities

Other current liabilities are broken down as follows:

€ million	30.06.2016	30.06.2017
Taxes and social charges	583	611
Other operating payables	323	324
Other payables	3	0
TOTAL	**909**	**935**

Most other operating payables are due within one year.

Note 5 Notes to the cash flow statement

1. Working capital requirements

Working capital requirements increased by €79 million. The change breaks down as follows:

- increase in inventory: + €144 million;
- increase in trade receivables: + €87 million;
- increase in operating and other payables: €(151) million.

The increase in inventory relates to the build-up of ageing inventories to meet growing demand.

2. Capital expenditure

The acquisitions of property, plant and equipment and intangible assets originate primarily from expansion projects for industrial sites aimed at increasing distillation and maturing capacity, investments in major brand businesses (intended to receive visitors) or the renovation of equipment in production affiliates.

3. Bond issues/repayment of long-term debt

The Group has repaid:

- an $850 million bond in January 2017;
- a €1,000 million bond in March 2017.

The Group also made net draw-downs on the repayment of the syndicated loan of €342 million and increased the stock of commercial paper for €585 million.

Note 6 Additional information

Note 6.1 Shareholders' equity

1. Share capital

The Group's share capital did not change between 1 July 2016 and 30 June 2017:

	Number of shares	Amount *(€ million)*
Share capital on 30 June 2016	265,421,592	411
Share capital on 30 June 2017	265,421,592	411

All Pernod Ricard shares are issued and fully paid and have a nominal amount of €1.55. Only one category of ordinary Pernod Ricard shares exists. These shares obtain double voting rights if they have been nominally registered for an uninterrupted period of 10 years.

2. Treasury shares

Treasury shares are recognised on acquisition as a deduction from shareholders' equity. Subsequent changes in the value of treasury shares are not recognised. When treasury shares are sold, any difference between the acquisition cost and the fair value of the shares at the date of sale is recognised as a change in shareholders' equity and has no impact on profit and loss for the year.

On 30 June 2017, Pernod Ricard and its controlled affiliates held 1,369,868 Pernod Ricard shares worth €118 million. These treasury shares are shown at cost as a deduction from shareholders' equity.

As part of its stock option and bonus share allocation plans, Pernod Ricard SA holds shares either directly (treasury shares) or indirectly (calls or repurchase options) that may be granted if options are exercised under the stock option plans or, in the case of bonus shares, if performance targets are met.

3. Interim dividend

The Board of Directors' meeting of 19 April 2017 decided to pay an interim dividend of €0.94 per share in respect of the 2016/17 financial year, i.e. a total of €249 million. This interim dividend was paid on 7 July 2017 and recognised under "Other operating payables" in the balance sheet on 30 June 2017.

4. Capital management

The Group manages its capital in such a way as to optimise its cost of capital and profitability for its shareholders, provide security for all its counterparties and maintain a high rating. In this context, the Group may adjust its payment of dividends to shareholders, repay part of its capital, buy back its own shares and authorise share-based payment plans.

5. Liquidity agreement

On 24 May 2012, Pernod Ricard SA put in place a 12-month liquidity agreement, effective from 1 June 2012, through Rothschild & Cie Banque. The agreement is tacitly renewable for successive periods of 12 months. It complies with the French Financial Markets Association (AMAFI) Code of Conduct, which was approved by the French Financial Markets Authority (AMF) in its decision of 21 March 2011.

The sum of €5 million was allocated for the implementation of the liquidity agreement.

Note 6.2 Share-based payments

The Group applies the IFRS 2 “Share-based payment” standard to transactions whose award and settlement are share-based.

Pursuant to this standard, stock options and performance-based shares granted to employees are measured at fair value. The amount of such fair value is recognised in the income statement over the vesting period of the rights and a corresponding double entry is recognised as an increase in shareholders’ equity.

This fair value was calculated using valuation models taking into account the characteristics of the plan and market data at the date of grant and on the basis of Group Management assumptions.

Description of share-based payment plans

The Group grants stock option and performance-based share plans to Managers with high levels of responsibility, key management personnel for the Group and high-potential Managers. An exceptional bonus share plan was implemented in exchange for the cancellation of the supplementary defined-benefit pension scheme, from which the members of the Executive Committee under the age of 55 years on 31 December 2016 no longer benefit, over the financial year with the conditions detailed below. All of the plans are equity-settled.

During the financial year 2016/17,

- the stock option plan allocated on 6 November 2013 was cancelled due to a failure to meet the external performance condition;
- four allocation plans were introduced on 17 November 2016:
  - a stock option plan including a performance condition based on the positioning of the overall performance of the Pernod Ricard share (TSR [1]) compared to the overall performance of a panel of 12 peers over the period from 17 November 2016 to 17 November 2019 inclusive (three years) and a condition of four years’ continuous service,
  - a performance-based share plan, including a performance criterion based on the average level of Profit from Recurring Operations achieved compared to the budget, measured over three consecutive financial years including the year in which the shares were granted and a continuous service condition upon vesting (four years),
  - a performance-based share plan, including several levels of performance conditions, with the first based on the average level of Profit from Recurring Operations achieved compared to the budget, measured over three financial years including the year in which the shares were granted, and the second based on the positioning of the overall performance of the Pernod Ricard share (TSR [1]) compared to the overall performance of a panel of 12 peers over the period from 17 November 2016 to 17 November 2019 inclusive (three years) and a continuous service condition upon vesting (four years),
  - an exceptional bonus share plan aiming to compensate for past rights; these shares are not subject to performance criteria. However, the final acquisition, subject to a presence condition, will be distributed in three parts over a period of three years, followed by a lock-up period of two years. For this plan, the Group took the decision to recognise all expenses over the 2016/17 year for services previously provided.

	Type of options	Presence of performance condition	Number of beneficiaries	Commencement date of options	Expiry date	Subscription or purchase price *(€)*	Outstanding options on 30 June 2017	Stock option/share expense for 2016/17 *(€ thousand)*
Plan dated 24.06.2010	Purchase	Unconditional	705	25.06.2014	24.06.2018	€64.00	148,599	0
Plan dated 24.06.2010	Purchase	Conditional	133	25.06.2014	24.06.2018	€64.00	143,342	0
Plan dated 15.09.2010	Purchase	Conditional	1	16.09.2014	15.09.2018	€64.00	67,500	0
Plan dated 15.06.2011	Purchase	Unconditional	713	16.06.2015	15.06.2019	€68.54	215,266	0
Plan dated 15.06.2011	Purchase	Conditional	144	16.06.2015	15.06.2019	€68.54	231,663	0
Plan dated 06.11.2013	Purchase	Conditional	168	07.11.2017	06.11.2021	€88.11	0	1,347
Plan dated 06.11.2015	Purchase	Conditional	161	07.11.2019	06.11.2023	€102.80	277,975	1,094
Plan dated 17.11.2016	Purchase	Conditional	16	18.11.2020	17.11.2024	€105,81	150,008	351

(1) Total shareholder return.

	Type of shares	Presence of performance condition	Number of beneficiaries	Shares acquired from		Shares vested from		Outstanding shares on 30 June 2017	Share expense for the financial year 2016/17 *(€ thousand)*
Plan dated 06.11.2013	Free	Conditional	1,089	07.11.2016 (FRA)	07.11.2017 (ROW)	07.11.2018 (FRA)	07.11.2017 (ROW)	233,299	4,436
Plan dated 06.11.2014	Free	Conditional	1,007		07.11.2018		07.11.2018	399,243	3,324
Plan dated 06.11.2015	Free	Conditional	1,006		07.11.2019		07.11.2019	388,103	8,817
Plan dated 17.11.2016	Free	Conditional	997		18.11.2020		18.11.2020	456,066	6,089
Plan dated 17.11.2016	Free	Unconditional	6		33% 18.11.2017		33% 18.11.2019	74,553	7,366
					33% 18.11.2018		33% 18.11.2020		
					33% 18.11.2019		33% 18.11.2021		

FRA: French tax residents; ROW: non-French tax residents.

The history of stock option plans that have not yet expired is detailed in the "Management report" section of the Registration Document.

Regarding stock options already vested, the total number of options outstanding is 806,370, for which the average remaining life is one year and six months.

The Group recognised an expense of €2.8 million as an operating loss for three stock option plans in the process of acquisition on 30 June 2017, as well as an expense of €30 million in respect of the four performance-based share plans and the exceptional bonus share plan.

Annual expenses *€ million*	30.06.2016	30.06.2017
Stock options – through a double entry to equity	4	3
Performance-based and bonus shares – through a double entry to equity	26	30
TOTAL ANNUAL EXPENSES	**30**	**33**

Changes made to outstanding stock options/shares during the year (period from 01.07.2016 to 30.06.2017) are described below:

	Type of options	Presence of performance condition	Outstanding options on 30.06.2016	Allocated during the period	Cancelled during the period	Exercised during the period	Expired during the period	Outstanding options on 30.06.2017
Plan dated 24.06.2010	Purchase	Unconditional	260,277	0	1,008	110,670	0	148,599
Plan dated 24.06.2010	Purchase	Conditional	187,337	0	0	43,995	0	143,342
Plan dated 15.09.2010	Purchase	Conditional	67,500	0	0	0	0	67,500
Plan dated 15.06.2011	Purchase	Unconditional	343,665	0	2,000	126,399	0	215,266
Plan dated 15.06.2011	Purchase	Conditional	281,404	0	0	49,741	0	231,663
Plan dated 06.11.2013	Purchase	Conditional	348,640	0	348,640	0	0	0
Plan dated 06.11.2015	Purchase	Conditional	278,575	0	600	0	0	277,975
Plan dated 17.11.2016	Purchase	Conditional	N/A	150,008	0	0	0	150,008

	Type of shares	Presence of performance condition	Outstanding shares on 30.06.2016	Allocated during the period	Cancelled during the period	Transferred during the period	Expired during the period	Outstanding shares on 30.06.2017
Plan dated 06.11.2013	Free	Conditional	339,273	0	32,324	73,650	0	233,299
Plan dated 06.11.2014	Free	Conditional	428,213	0	28,970	0	0	399,243
Plan dated 06.11.2015	Free	Conditional	411,723	0	23,620	0	0	388,103
Plan dated 17.11.2016	Free	Conditional	N/A	461,376	5,310	0	0	456,066
Plan dated 17.11.2016	Free	Unconditional	N/A	74,553	0	0	0	74,553

The average strike price of options exercised during the 2016/17 financial year was €66.42.

The assumptions used in calculating the fair values of the options and shares allocated over the financial year, using the binomial or Monte Carlo models and the terms under which the options/shares were granted, are as follows:

	Type of options/ shares	Presence of performance condition	Initial share price (€) (1)	Strike price (€)	Expected volatility (2)	Expected dividend yield (2)	Risk-free interest rate (2)	IFRS 2 fair value
Plan dated 17.11.2016	Purchase	Conditional	102.75	105.81	23%	2%	0.75%	15.18
Plan dated 17.11.2016	Free	Conditional	102.75	N/A	21%	2%	0.00%	57.71
Plan dated 17.11.2016	Free	Conditional	102.75	N/A	N/A	2%	N/A	94.85
Plan dated 17.11.2016	Free	Unconditional	102.95 (3)	N/A	N/A	2%	N/A	98.93
Plan dated 17.11.2016	Free	Unconditional	102.75	N/A	N/A	2%	N/A	98.73

N/A: Not applicable.

(1) Share price at grant date.

(2) Assumptions used for initial measurement.

(3) Advance allocation on 26.08.2016.

The fair values are fixed upon implementation of each plan, and they do not vary year on year. In addition, here we only present the values relating to the plans allocated during the financial year 2016/17 (information on previous plans is available in the previous Registration Documents).

From 2012 onwards, the volatility assumption used for the plans is based on a multi-criteria approach taking into consideration:

- historic volatility over a period equal to the duration of the options;
- implied volatility calculated on the basis of options available in financial markets.

The possibility of exercising options prior to maturity was included in the measurement model for stock option plans (with or without a market performance-related element). It was assumed that 1% of options are exercised each year as a result of employees leaving the Company. Furthermore, assumptions reflecting the behaviour of beneficiaries are taken into account in estimating early exercise (before maturity). Since 2010, it was assumed that 60%, 30% and 10% of the options would be exercised once the share price reached 125%, 175% and 200% of the exercise price respectively. This assumption is based on an analysis of behaviour observed on plans awarded before 2010.

Options allocated on 17 November 2016 are all conditional on the positioning of the overall performance of the Pernod Ricard share (TSR [1]) compared to the overall performance of a panel of 12 peers: the stock options will be pre-vested on 17 November 2019, provided that the Pernod Ricard share (TSR [1]) is positioned 7th out of 13 or better for overall performance (the number will be determined by sub-group depending on the level of performance achieved). Vesting will be final if the continuous service condition is met on 17 November 2020.

Two performance-based share plans were granted on 17 November 2016. In both cases, their fair value corresponds, amongst other things, to the market price of the shares at the grant date, less the loss of expected dividends during the vesting period (i.e. four years for all beneficiaries). Lastly, the number of performance-based shares granted will depend on the average level of Group Profit from Recurring Operations for the years ended 30 June 2017, 30 June 2018 and 30 June 2019 compared with budgeted Profit from Recurring Operations for each of these years, at constant exchange rates and scope of consolidation. The accounting expense for the plan under IFRS 2 will be adjusted for this condition no later than the end of the vesting period.

The fair value of one of the two plans also takes account of the same market performance condition as applied to the stock options allocated on 17 November 2016, in addition to the internal condition described above: positioning of the overall performance of the Pernod Ricard share (TSR [1]) compared to the overall performance of a panel of 12 peers over the period from 17 November 2016 to 17 November 2019 inclusive (three years). The performance-based shares, the number of which will be determined by applying the internal condition, will be vested from 18 November 2020, provided that the Pernod Ricard share (TSR [1]) is positioned 7th out of 13 or better for overall performance (the number will be determined by sub-group based on the level of performance achieved). Vesting will be final if the continuous service condition is met at 17 November 2020.

The exceptional bonus share plan is only conditional on the presence of beneficiaries over a particular period as follows:

- 1/3 of shares shall be vested if the presence condition is validated on 18 November 2017. Once acquired, these shares may not be sold before 18 November 2019;
- 1/3 of shares shall be vested if the presence condition is validated on 18 November 2018. Once acquired, these shares may not be sold before 18 November 2020;
- 1/3 of shares shall be vested if the presence condition is validated on 18 November 2019. Once acquired, these shares may not be sold before 18 November 2021.

The fair value of each of the three vesting tranches corresponds to the market price of the share on the allocation date minus the loss of dividends forecast for the vesting period (considering the value of non-saleability to be zero).

(1) Total Shareholder Return.

Note 6.3 Off-balance sheet commitments

€ million	Total	< 1 year	> 1 year and < 5 years	> 5 years
Commitments granted on 30 June 2016	**2,236**	**746**	**1,302**	**188**
Commitments given in relation to companies within the Group	**-**	**-**	**-**	**-**
Commitments given in relation to the financing of the Company	**8**	**4**	**-**	**4**
Financial guarantees given	8	4	-	4
Other	-	-	-	-
Commitments relating to the operating activities of the issuer	**2,228**	**742**	**1,302**	**184**
Firm and irrevocable commitments to purchase raw materials	1,636	511	1,082	43
Tax commitments (customs guarantees and others)	200	113	11	76
Operating lease agreements	342	91	186	64
Other	50	27	23	1

€ million	Total	< 1 year	> 1 year and < 5 years	> 5 years
Commitments granted on 30 June 2016	**2,844**	**38**	**2,769**	**36**
Commitments received in relation to companies within the Group	**-**	**-**	**-**	**-**
Commitments received in relation to the financing of the Company	**2,791**	**30**	**2,760**	**1**
Lines of credit received and not used	2,760	-	2,760	-
Financial guarantees received	31	30	-	1
Other	-	-	-	-
Commitments relating to the operating activities of the issuer	**53**	**8**	**9**	**36**
Contractual commitments related to business activity and business development	47	6	8	33
Other	6	2	1	2

€ million	Total	< 1 year	> 1 year and < 5 years	> 5 years
Commitments granted on 30 June 2017	**2,254**	**824**	**1,238**	**192**
Commitments given in relation to companies within the Group	**-**	**-**	**-**	**-**
Commitments given in relation to the financing of the Company	**13**	**4**	**3**	**6**
Financial guarantees given	10	3	0	6
Other	3	1	2	-
Commitments relating to the operating activities of the issuer	**2,240**	**820**	**1,235**	**186**
Firm and irrevocable commitments to purchase raw materials	1,577	537	996	44
Tax commitments (customs guarantees and others)	245	159	13	73
Operating lease agreements	368	90	211	67
Other	50	33	16	1

€ million	Total	< 1 year	> 1 year and < 5 years	> 5 years
Commitments granted on 30 June 2017	**2,246**	**31**	**2,187**	**28**
Commitments received in relation to companies within the Group	**-**	**-**	**-**	**-**
Commitments received in relation to the financing of the Company	**2,206**	**24**	**2,181**	**1**
Lines of credit received and not used	2,181	-	2,181	-
Financial guarantees received	25	24	0	1
Other	0	0	-	-
Commitments relating to the operating activities of the issuer	**40**	**7**	**6**	**28**
Contractual commitments related to business activity and business development	36	6	5	26
Other	4	1	1	2

1. Lines of credit received and not used

The lines of credit received and not used correspond primarily to the nominal amount of the syndicated loan not drawn on 30 June 2017 (see Note 4.8 – Financial liabilities).

2. Firm and irrevocable commitments to purchase raw materials

In the context of their cognac, wine, champagne and whiskies production operations, the Group's main affiliates have committed €1,466 million, under *eaux-de-vie*, grape, base wine and grain supply agreements.

Note 6.4 Contingent liabilities

Pernod Ricard has received several notices of tax adjustment for the financial years 2006/07 to 2012/13, specifically concerning, for an amount of 5,476 million Indian rupees (equivalent to €74 million, including interest as of the date of the reassessment), the tax deductibility of promotion and advertising expenses. After consulting with its tax advisers, Pernod Ricard India disputes the merits of the reassessment proposal and believes it has a probable chance of success in litigation. Accordingly, no provision has been booked for this matter.

Note 6.5 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 4.7 – *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 on 30 June 2017, for all litigation and risks in which it is involved, amounted to €566 million, compared to €526 million on 30 June 2016 (see Note 4.7 – 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 best of the Company's 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 nationalised companies. 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 decision.

1. 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 trademark 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.
2. A competitor of the Group has petitioned the USPTO to cancel the Havana Club trademarks in the United States. 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. For the period between 2001 and December 2010, Pernod Ricard India (P) Ltd has paid deposited almost the entire differential duty as determined by customs in Delhi following the initial adjustment notice received in 2011. A second notice, received in 2013 and confirmed by a court on 14 August 2017, is currently in dispute because the values used are considered to be too high and lacking a technical basis. The Company continues to actively work with the authorities and courts to resolve pending issues.

Moreover, Pernod Ricard India received several notices of tax adjustment for the financial years 2006/07 to 2012/13 relating to the tax deductibility of advertising and promotional expenses (see Note 6.4 – 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 4.7 – 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 6.6 Related parties

Transactions with associates and joint ventures were immaterial in the year ended 30 June 2017.

The compensation paid to corporate officers and Executive Committee (COMEX) members in return for their services to the Group is detailed below:

€ million	30.06.2016	30.06.2017
Board of Directors (1)	1	1
Group Executive Committee		
■ Short-term benefits	13	12
■ Post-employment benefits	4	3
■ Share-based payments (2)	2	12
TOTAL EXPENSES RECOGNISED FOR THE YEAR	**20**	**28**

(1) Directors' fees.

(2) The cost of share-based payments corresponds to the expenses recognised in profit/loss over the period under stock options, performance-based shares and exceptional bonus shares allocated to the members of the Group Executive Committee (see Note 6.2 – Payment in shares). On 30 June 2016, an expense of €2 million, linked to the performance-based share plans, is not included in the table above.

Note 6.7 Subsequent events

On 1 August 2017, Pernod Ricard announced the purchase of a majority share in the mezcal Del Maguey Single Village, a leading producer of traditionally produced artisan mezcal and number one in the mezcal category in the United States.

Note 6.8 Fees of Statutory Auditors and members of their networks for the 12-month financial year [1]

	Mazars	KPMG		Deloitte & Associés			Other			Total		
	Amount (excluding tax)			Amount (excluding tax)			Amount (excluding tax)			Amount (excluding tax)		
€ million	2015/16	2016/17	%	2015/16	2016/17	%	2015/16	2016/17	%	2015/16	2016/17	%
Audit												
Statutory Auditors, certification, review of separate and consolidated financial statements [3]												
Issuer [3]	0.5	0.5	18%	0.6	0.5	12%	0	0	0%	1.1	1.1	12%
Fully consolidated affiliates	2.8	2.0	71%	3.4	3.2	73%	0.3	0.7	52%	6.5	5.9	69%
SUBTOTAL	**3.3**	**2.5**		**4.0**	**3.7**		**0.3**	**0.7**		**7.6**	**6.9**	
Services other than the certification of accounts [4]												
Issuer [3]	0.1	0	0%	0.2	0.2	4%	0	0.1	5%	0.3	0.2	3%
Fully consolidated affiliates	0.2	0.3	11%	0.3	0.5	11%	0	0.6	43%	0.5	1.3	16%
including legal, tax, corporate	*0.1*	*0.3*	*9%*	*0.1*	*0.2*	*4%*	*0*	*0.4*	*34%*	*0.2*	*0.9*	*10%*
SUBTOTAL	**0.3**	**0.3**		**0.5**	**0.6**		**0**	**0.6**	**0**	**0.8**	**1.6**	
TOTAL	**3.6**	**2.8**	**100%**	**4.5**	**4.4**	**100%**	**0.3**	**1.3**	**100%**	**8.4**	**8.5**	**100%**

(1) With regard to the period in review, this refers to services provided and recognised in the income statement during a financial year.
(2) Including the services of independent experts or members of the Statutory Auditors' network employed to certify the financial statements.
(3) The Company is understood to be the Parent Company.
(4) This section sets out the procedures and services provided to the issuer or its affiliates by the Statutory Auditors or the members of their networks. They may be required by law or by the provisions stipulated at the request of the Group or its affiliates, and undertake to comply with the requirements of independence.

KPMG SA has been appointed principal Statutory Auditor, replacing Mazars at the Combined Shareholders' Meeting of 17 November 2016. As part of a transition phase, Mazars covered the Group's interim closing needs on 31 December 2016 for certain affiliates with closing dates for their statutory financial statements that are different from that of the Group.

Note 7 Scope of consolidation

The annual consolidated financial statements include the financial statements of the Parent Company, Pernod Ricard SA, and those of entities controlled by the Parent Company ("the affiliates"). Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities, irrespective of the percentage held in the entity. Non-controlling interests in the net assets of consolidated affiliates are presented separately from Parent Company shareholders' equity. Non-controlling interests include both the interests of minority shareholders at the date of the original business combination and minority interests in any subsequent changes to shareholders' equity.

Intragroup transactions and internal profits and losses relating to consolidated companies are eliminated.

Companies over which the Group exercises significant influence are accounted for under the equity method.

Note 7.1 Scope of consolidation

The main changes to the Group's scope of consolidation on 30 June 2017 are presented above in Note 1.2 – Significant events during the financial year.

Note 7.2 List of main consolidated companies

Companies	Country	% Interest on 30.06.2016	% Interest on 30.06.2017	Consolidation method***
Pernod Ricard SA	France	Parent Company	Parent Company	
Pernod Ricard South Africa PTY Ltd	South Africa	100	100	F.C.
Black Forest Distillers GmbH	Germany	60	60	F.C.
Pernod Ricard Deutschland GmbH	Germany	100	100	F.C.
Pernod Ricard Andorra, SL	Andorra	100	100	F.C.
Pernod Ricard Angola, LDA.	Angola	100	100	F.C.
Pernod Ricard Argentina SRL	Argentina	100	100	F.C.
Yerevan Brandy Company	Armenia	100	100	F.C.
Pernod Ricard Pacific Holdings Pty Ltd	Australia	100	100	F.C.
Pernod Ricard Winemakers Pty Ltd	Australia	100	100	F.C.
Pernod Ricard Austria GmbH	Austria	100	100	F.C.
Pernod Ricard Belgium SA	Belgium	100	100	F.C.
Pernod Ricard Brasil Indústria e Comércio ltda.	Brazil	100	100	F.C.
Pernod Ricard Bulgaria EOOD	Bulgaria	100	100	F.C.
Corby Spirit and Wine Limited*	Canada	45.76	45.76	F.C.
Hiram Walker & Sons Limited	Canada	100	100	F.C.
Pernod Ricard Canada Ltée	Canada	100	100	F.C.
Pernod Ricard Chile SA	Chile	100	100	F.C.
Pernod Ricard (China) Trading Co., Ltd	China	100	100	F.C.
Pernod Ricard Colombia SA	Colombia	100	100	F.C.
Pernod Ricard Korea Imperial Company Ltd	South Korea	100	100	F.C.
Pernod Ricard Korea Ltd	South Korea	100	100	F.C.
Havana Club International SA	Cuba	50	50	F.C.
Pernod Ricard Denmark A/S	Denmark	100	100	F.C.
Pernod Ricard España	Spain	100	100	F.C.
Pernod Ricard Winemakers Spain, SA	Spain	100	100	F.C.
Pernod Ricard Estonia OÜ	Estonia	100	100	F.C.
Austin, Nichols & Co., Inc.	United States	100	100	F.C.
Avión Spirits, LLC	United States	84.3	84.3	F.C.
Pernod Ricard Americas I.P. Management LLC	United States	100	100	F.C.
Pernod Ricard Americas Travel Retail LLC	United States	100	100	F.C.
Pernod Ricard Assets USA LLC	United States	100	100	F.C.
Pernod Ricard Kenwood Holding LLC	United States	100	100	F.C.
Pernod Ricard Marketing USA LLC	United States	100	100	F.C.
Pernod Ricard USA Finance Inc.	United States	100	100	F.C.
Pernod Ricard USA Bottling, LLC	United States	100	100	F.C.
Pernod Ricard USA, LLC	United States	100	100	F.C.
PRUSA Acquisitions LLC	United States	100	100	F.C.
Smooth Ambler Spirits Co.	United States	0	80	F.C.
Pernod Ricard Finland OY	Finland	100	100	F.C.
Augier Robin Briand & Cie	France	100	100	F.C.
Champagne Perrier-Jouët	France	100	100	F.C.
Domaines Jean Martell	France	100	100	F.C.
Financière Moulins de Champagne	France	100	100	F.C.
GH Mumm & Cie S.VCS	France	100	100	F.C.

Companies	Country	% Interest on 30.06.2016	% Interest on 30.06.2017	Consolidation method***
Le Maine au Bois	France	100	100	F.C.
Lina 16	France	100	100	F.C.
Lina 3	France	100	100	F.C.
Lina 5	France	100	100	F.C.
Martell & Co SA	France	100	100	F.C.
Martell Mumm Perrier-Jouët	France	100	100	F.C.
Mumm Perrier-Jouët Vignobles et Recherches	France	100	100	F.C.
Pernod Ricard Finance SA	France	100	100	F.C.
Pernod Ricard Middle East and North Africa	France	100	100	F.C.
Pernod Ricard North America SAS	France	100	100	F.C.
Pernod SAS	France	100	100	F.C.
Ricard SAS	France	100	100	F.C.
Société des Produits d'Armagnac SA	France	100	100	F.C.
Société Lillet Frères	France	100	100	F.C.
Spirits Partners SAS	France	100	100	F.C.
Théodore Legras	France	99.6	100	F.C.
Pernod Ricard Ghana Limited	Ghana	100	100	F.C.
Pernod Ricard Hellas ABEE	Greece	100	100	F.C.
Allied Domecq Spirits & Wine (China) Ltd.	Hong Kong	100	100	F.C.
Pernod Ricard Asia Duty Free Ltd	Hong Kong	100	100	F.C.
Pernod Ricard Hong Kong Ltd	Hong Kong	100	100	F.C.
Peri Mauritius	Mauritius	100	100	F.C.
Pernod Ricard India Private Limited	India	100	100	F.C.
Comrie Limited	Ireland	100	100	F.C.
Irish Distillers Group Unlimited Company	Ireland	100	100	F.C.
Irish Distillers Ltd	Ireland	100	100	F.C.
Samuelson International DAC	Ireland	100	100	F.C.
Watercourse Distillery Ltd	Ireland	100	100	F.C.
Pernod Ricard Italia SPA	Italy	100	100	F.C.
Pernod Ricard Japan KK	Japan	100	100	F.C.
Pernod Ricard Kazakhstan	Kazakhstan	100	100	F.C.
Pernod Ricard Kenya Limited	Kenya	100	100	F.C.
Pernod Ricard Lietuva	Lithuania	100	100	F.C.
Pernod Ricard Malaysia SDN BHD	Malaysia	100	100	F.C.
Pernod Ricard Morocco	Morocco	100	100	F.C.
Pernod Ricard Mexico SA de CV	Mexico	100	100	F.C.
Pernod Ricard Norway AS	Norway	100	100	F.C.
Pernod Ricard Winemakers New Zealand Limited	New Zealand	100	100	F.C.
Allied Domecq International Holdings B.V.	Netherlands	100	100	F.C.
Pernod Ricard Nederland BV	Netherlands	100	100	F.C.
PR Goal Nederland B.V.	Netherlands	100	100	F.C.
Pernod Ricard Peru SA	Peru	100	100	F.C.
Pernod Ricard Philippines, Inc.	Philippines	100	100	F.C.
Agros Holding SA	Poland	100	100	F.C.
Wyborowa SA	Poland	100	100	F.C.
Pernod Ricard Portugal – Distribuição, SA	Portugal	100	100	F.C.
Pernod Ricard Dominicana, SA	Dominican Republic	100	100	F.C.

Companies	Country	% Interest on 30.06.2016	% Interest on 30.06.2017	Consolidation method***
Jan Becher – Karlovarska Becherovka, a.s.	Czech Republic	100	100	F.C.
Pernod Ricard Romania SRL	Romania	100	100	F.C.
Allied Domecq (Holdings) Limited	United Kingdom	100	100	F.C.
Allied Domecq Limited	United Kingdom	100	100	F.C.
Allied Domecq Overseas (Europe) Limited	United Kingdom	100	100	F.C.
Allied Domecq Spirits & Wine Holdings Limited	United Kingdom	100	100	F.C.
Allied Domecq Spirits & Wine Limited	United Kingdom	100	100	F.C.
Allied Domecq Westport Limited	United Kingdom	100	100	F.C.
Chivas Brothers (Holdings) Ltd	United Kingdom	100	100	F.C.
Chivas Brothers Ltd**	United Kingdom	100	100	F.C.
Chivas Brothers Pernod Ricard	United Kingdom	100	100	F.C.
Chivas Holdings (IP) Limited	United Kingdom	100	100	F.C.
Chivas Investments Limited**	United Kingdom	100	100	F.C.
Coates & Co (Plymouth) Limited	United Kingdom	100	100	F.C.
Dillon Bass Ltd	United Kingdom	74	74	F.C.
Edward Dillon (Bonders) Ltd	United Kingdom	100	100	F.C.
Goal Acquisitions (Holdings) Ltd	United Kingdom	100	100	F.C.
Goal Acquisitions Ltd	United Kingdom	100	100	F.C.
Pernod Ricard UK Holdings Limited	United Kingdom	100	100	F.C.
Pernod Ricard UK Ltd	United Kingdom	100	100	F.C.
PR Goal 3 Ltd	United Kingdom	100	100	F.C.
World Brands Duty Free Ltd	United Kingdom	100	100	F.C.
Pernod Ricard Rouss CJSC	Russia	100	100	F.C.
Pernod Ricard Singapore PTE Ltd	Singapore	100	100	F.C.
Pernod Ricard Slovakia s.r.o	Slovakia	100	100	F.C.
Distilled Innovation AB	Sweden	100	100	F.C.
Pernod Ricard Sweden AB	Sweden	100	100	F.C.
The Absolut Company AB	Sweden	100	100	F.C.
Pernod Ricard Swiss SA	Switzerland	100	100	F.C.
Pernod Ricard Taiwan Ltd	Taiwan	100	100	F.C.
Pernod Ricard Thailand Ltd	Thailand	100	100	F.C.
Allied Domecq Istanbul Ic ve Dis Ticaret Ltd. Sti.	Turkey	100	100	F.C.
Pernod Ricard Ukraine	Ukraine	100	100	F.C.
Pernod Ricard Uruguay SA	Uruguay	100	100	F.C.
Pernod Ricard Vietnam Company Limited	Vietnam	100	100	F.C.

* *Corby Spirit and Wine Limited is consolidated using the full consolidation method because of the Group's majority controlling interest in this listed company.*

** *UK limited companies that are members or with affiliates that are members of UK partnerships.*
In accordance with Regulation 7 of The Partnerships (Accounts) Regulations 2008, annual partnership accounts have not been prepared as the UK partnerships are consolidated within the Pernod Ricard group annual consolidated financial statements.

*** *"F.C." for fully consolidated companies.*