HALF-YEAR FINANCIAL REPORT

31 DECEMBER 2017

Pernod Ricard

Créateurs de convivialité

CONTENTS

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

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

Alexandre Ricard

Chairman & CEO

2/ Half-year activity report

1. Significant events in half year FY18

On 1 August 2017, Pernod Ricard, through Pernod Ricard USA's New Brand Ventures division, announced the completion of the acquisition of a majority stake in Del Maguey Single Village Mezcal.

On 2 October 2017, Pernod Ricard and Chivas Brothers Limited announced the completion of the sale of the Glenallachie Distillery to Billy Walker, Graham Stevenson and Trisha Savage, comprising The GlenAllachie Consortium.

2. Key figures and business analysis

Pernod Ricard delivered a very good first half performance in its FY18 financial year (H1 FY18 from 1 July to 31 December 2017). **Sales grew +5.1%[1] (+0.4% reported) and Profit from Recurring Operations (PRO) +5.7%[1] (-0.3% reported).** The second quarter sales were +4.6%[1] (-0.8% reported), broadly consistent with underlying trends in the first quarter.

The performance accelerated, thanks to the consistent implementation of the medium-term growth roadmap:

- strong diversified growth, with all regions and categories performing well;
- improving price / mix;
- negative impact of later CNY[2] offset by strong Martell demand;
- low basis of comparison in some geographies (as in the first quarter).

All categories were dynamic, each growing +5%[1]:

- **Strategic International Brands** continued their strong growth, driven in particular by Martell and Jameson;
- **Strategic Local Brands** accelerated thanks to Seagram Indian whiskies, Olmeca/Altos and a better trend on Imperial (Korea);
- **Strategic Wines** accelerated due to Campo Viejo's momentum;
- **"Other"** improved significantly driven by fast-growing premium brands, in particular Monkey 47, Lillet and Avion.

In terms of geography, the improvement was driven by Asia, in particular China (despite adverse CNY phasing[2]), India and Travel Retail Asia :

- **Americas**: continued dynamism +6%[1];
- **Asia-Rest of World**: acceleration +7%1 vs. +3%[1] in H1 FY17;
- **Europe**: continued good performance +3%[1].

H1 FY18 PRO was €1,496m, with organic growth of +5.7%[1] and -0.3% reported, due to USD weakness. For full-year FY18, the FX impact on PRO[3] is estimated at c.-€180m.

The organic operating margin was up +21bps[1], driven by:

- Gross margin: +65bps[1]
    - price improving and positive mix thanks in particular to Martell, Jameson and Chivas,
    - tight management of Cost Of Goods Sold thanks to operational efficiency initiatives, but negative impact of agave cost and GST in India;
- Advertising and Promotional expenses (A&P): +7%[1]: H1 ahead of topline due to phasing and accelerated spend to internationalise Martell;
- Structure cost ratio stable.

1 At constant forex and Group structure (organic growth)
2 Chinese New Year (CNY) on 16 February 2018 vs. 28 January 2017
3 Based on average FX rates projected on 25 January 2018, particularly a EUR/USD rate of 1.25

The H1 FY18 corporate income tax rate on recurring items was c.25% and this rate should carry through for full-year FY18. The USA tax reform is not expected to have a material impact.

Group share of Net PRO[1] was €994m, +4% reported vs. H1 FY17, despite adverse FX, thanks to a reduction in financial expenses. At constant FX, growth was +10%.

Group share of Net profit was €1,147m, +25% reported vs. H1 FY17, due to a reduction in financial expenses and positive non-recurring items (including a one-off sale of bulk Scotch inventory, the reimbursement of French 3% withholding tax on FY13-17 dividends and a €55m one-off P&L positive net impact further to the reevaluation of deferred tax assets pursuant to the USA tax reform).

To note, IFRS 15 will be implemented from FY19, leading to the reclassification of certain A&P expenses in deduction of Sales and the integration of the activity of certain third-party bottlers into Sales and Cost of Goods Sold. The main proforma estimated impacts are:

- neutral on PRO and PRO margin up c. 70bps
- Sales reduced by c.3%
- GM down c. 170bps
- A&P / Sales ratio down c. 300bps to c.16%.

Free Cash Flow increased very significantly to €799m, +21% vs. H1 FY17, resulting in a Net debt decrease of €476m to €7,375m. The Net Debt/EBITDA ratio at average rates was down significantly to 2.9x[3] at 31/12/17.

The average cost of debt reduced to 3.4% vs. 4.0% in H1 FY17. The expected cost for full-year FY18 is c. 3.7%.

A. Profit from Recurring Operations

Group

(€ million)	31.12.2016 6 months	31.12.2017 6 months	Reported growth In M€	Reported growth In %	Organic* growth In M€	Organic* growth In %
Net sales	5,061	5,082	22	0%	256	5%
Gross margin after logistics expenses	3,158	3,200	42	1%	195	6%
Advertising and promotion expenses	(901)	(930)	(28)	3%	(67)	7%
Contribution after advertising and promotion	2,257	2,270	13	1%	127	6%
Profit from Recurring Operations	**1,500**	**1,496**	**(5)**	**0%**	**87**	**6%**

Pernod Ricard's H1 FY18 consolidated net sales (excluding tax and duties) increased +5.1%[1] to €5,082 million, compared to €5,061 million in H1 FY17. Overall, this was due to:

- **Continued dynamism in the Americas** (+6%[1] vs. +7%[1] in H1 FY17), with slower growth in USA and Travel Retail but acceleration in Brazil and Mexico;
- **Acceleration in Asia-Rest of World** performance (+7%[1] vs. +3%[1] in H1 FY17) thanks to improvement in China (despite adverse CNY[2] phasing) and return to good growth in India post-regulatory changes;
- **A good performance in Europe** (+3%[1] vs. +3%[1] in H1 FY17), in particular Eastern Europe, but difficulties in France and Spain;

1 At constant forex and Group structure (organic growth)
2 Chinese New Year (CNY) on 16 February 2018 vs. 28 January 2017
3 Based on average FX rates projected on 25 January 2018, particularly a EUR/USD rate of 1.25

- **Continued strong growth from the Strategic International Brands** (+5%[1] vs. +6%[1] in H1 FY17), driven in particular by Martell and Jameson :
  - Martell was very dynamic (+10%[1]), with China (+5%[1]) and Travel Retail Asia in very strong growth despite later CNY[2]. The Americas grew double digit, thanks to USA, Travel Retail and Mexico. In addition to this, there was a favourable price/mix (reflecting ongoing focus on value) and there will be price increases in H2 (impact mostly in FY19). For full-year FY18, the volume growth objective is High Single Digit)
  - Jameson's performance (+12%[1]) was driven by USA (with volume growth, annual price increase, new campaign and launch of Jameson Caskmates IPA in H2), Europe (Continuing gains particuatrly in Eastern Europe and Germany) and Africa Middle East. There was also very fast development of the growth relays (Asia, Latam…)
- **Acceleration of the Strategic Local Brands** (+5%[1] vs. +1%[1] in H1 FY17) linked to Seagram's Indian Whiskies (+9%[1] enhanced by low basis of comparison, with demonetisation in India in November 2016) and better trend on Imperial in Korea (still in decline but trend improving)
- **Strategic Wines accelerated** (+5%[1] vs. +2%[1] in H1 FY17) driven by Campo Viejo (USA, UK driven in particular by price increases)
- **"Other" performance** (+5%[1] vs. +2%[1] in H1 FY17) was driven by fast-growing premium brands, in particular Monkey 47, Avion and Lillet

Gross margin after logistics expenses totalled €3,200 million, representing organic growth of +5.7%[1]. The gross margin ratio was 63.0% (+65bps[1]). The Group delivered positive pricing, positive mix (thanks in particular to Martell, Jameson and Chivas) and continued the tight management of Costs of Goods Sold thanks to operational efficiency initiatives but with a negative impact from the cost of agave and GST in India.

A&P expenses increased +7%[1], with H1 FY18 ahead of topline growth linked to phasing and accelerated spent to internationalise Martell. Numerous initiatives to drive stronger efficiency are underway

The Contribution After Advertising and Promotion investments reached €2,270 million (+6%[1]). It represented 44.7% of sales, up +24 bps[1]compared to H1 FY17.

1 At constant forex and Group structure (organic growth)
2 Chinese New Year (CNY) on 16 February 2018 vs. 28 January 2017
3 Based on average FX rates projected on 25 January 2018, particularly a EUR/USD rate of 1.25

Business activity by geographic area

Americas

(€ million)	31.12.2016 6 months	31.12.2017 6 months	Reported growth In M€	Reported growth In %	Organic* growth In M€	Organic* growth In %
Net sales	1,431	1,399	(32)	-2%	79	6%
Gross margin after logistics expenses	972	937	(35)	-4%	52	5%
Advertising and promotion expenses	(291)	(299)	(8)	3%	(27)	9%
Contribution after advertising and promotion	681	638	(43)	-6%	25	4%
Profit from Recurring Operations	**463**	**423**	**(40)**	**-9%**	**17**	**4%**

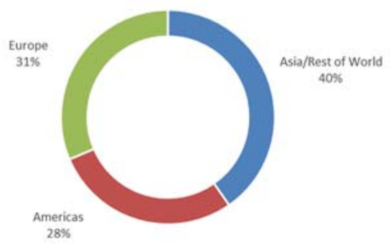
Asia/Rest of World

(€ million)	31.12.2016 6 months	31.12.2017 6 months	Reported growth In M€	Reported growth In %	Organic* growth In M€	Organic* growth In %
Net sales	2,040	2,065	25	1%	136	7%
Gross margin after logistics expenses	1,212	1,243	31	2%	103	8%
Advertising and promotion expenses	(330)	(355)	(25)	8%	(44)	13%
Contribution after advertising and promotion	883	887	4	1%	59	7%
Profit from Recurring Operations	**633**	**628**	**(5)**	**-1%**	**36**	**6%**

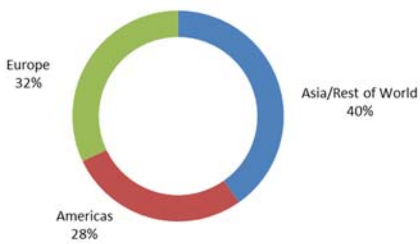
Europe

(€ million)	31.12.2016 6 months	31.12.2017 6 months	Reported growth In M€	Reported growth In %	Organic* growth In M€	Organic* growth In %
Net sales	1,589	1,619	29	2%	42	3%
Gross margin after logistics expenses	973	1,020	47	5%	39	4%
Advertising and promotion expenses	(280)	(275)	5	-2%	4	-1%
Contribution after advertising and promotion	693	745	52	7%	43	6%
Profit from Recurring Operations	**405**	**445**	**40**	**10%**	**34**	**8%**

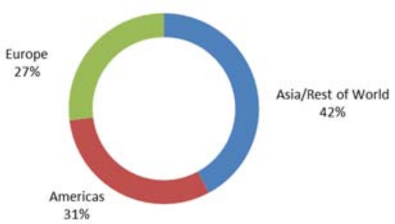
Net Sales by region, H1 FY17



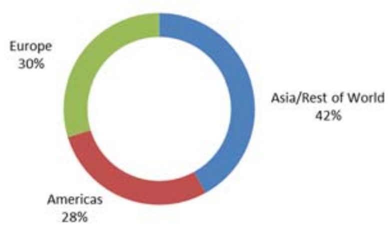
Net Sales by region, H1 FY18



Profit from Recurring Operations by region, H1 FY17



Profit from Recurring Operations by region, H1 FY18



* At constant forex and Group structure (organic growth)

Profit from Recurring Operations (PRO) in the **Americas** grew +4%[1] (-9% reported) driven by:

- Strong organic Sales growth, with good performance throughout continent;
- Gross margin rate in slight decline due to adverse geographic mix;
- A&P ahead of topline linked to phasing and investment behind priority brands (in particular Martell in USA);
- Strong negative FX impact linked to USD weakness vs. Euro.

PRO in the **Asia / Rest of World** region grew +6%[1] (-1% reported), thanks to:

- Sales acceleration thanks to China (despite later CNY[2]), India, Travel Retail and Africa Middle East, albeit with some favourable bases of comparison;
- Gross margin enhancement due to favourable mix impact from Travel Retail;
- A&P increase linked mainly to additional investments in China, in particular behind Chivas and Martell (A&P rebuild);
- Healthy organic profit growth but significant adverse FX impact from Chinese Yuan, Turkish Lira and Japanese Yen.

In **Europe**, PRO growth +8%[1], thanks to:

- Sales growth at +3%[1], thanks to Good performance in particular in Eastern Europe, but difficulties in France and Spain;
- Gross margin increase due mainly to price increases (UK, Germany) and mix (Russia, Poland);
- Tight management of A&P, in particular in Western Europe;
- Very strong PRO growth, consistent with strategy and global resource allocation.

B. Group share of Net Profit from Recurring Operations

(€ million)	31.12.2016 6 months	31.12.2017 6 months
Profit from Recurring Operations	1,500	1,496
Financial income/(expenses) from recurring operations	(201)	(153)
Corporate income tax on recurring operations	(334)	(333)
Net Profit from discontinued operations, non-controlling interests and share of net profit from equity associates	(9)	(16)
Group share of Net Profit from Recurring Operations	**957**	**994**
Group Net Profit per share from recurring operations – diluted (in euro)	**3,61**	**3,74**

Net financial expenses from recurring operations

Net financial expenses from recurring operations totalled €(153) million, €48 million lower than in the comparable period, due to an improvement in the cost of debt following refinancing (3.4%, vs. 4.0% in H1 FY17), improved cash flow and positive FX. The average cost of debt is expected to be close to 3.7% for the FY18 full financial year.

Net debt

Net debt was €7,375 million at 31 December 2017 compared to €7,851 million at 30 June 2017, a reduction of €476 million. This was due to strong Net Cash Generation before translation impact (despite full dividend payment and adverse H1 working capital seasonality) and a positive translation adjustment (EUR/USD rate 1.20 at 31/12/2017 vs. 1.14 at 30/06/2017) on USD-denominated debt (55% of Gross Debt[3] as of 31/12/2017).

Income tax on recurring operations

Income tax from recurring operations amounted to €(333) million, equating to a tax rate of 24.8% vs. 25.7% over the first half of FY17 financial year. For Full Year FY18, a tax rate close to 25% is expected.

Group share of net profit from recurring operations

Group share of Net Profit from Recurring Operations amounted to €994 million at 31 December 2017, an increase of +4% compared to H1 FY17.

1 At constant forex and Group structure (organic growth)
2 Chinese New Year (CNY) on 16 February 2018 vs. 28 January 2017
3 includes fair value and net foreign currency assets hedge derivatives

C. Group share of Net Profit

(€ million)	31.12.2016 6 months	31.12.2017 6 months
Profit from Recurring Operations	1,500	1,496
Other operating income and expenses	(0)	62
Operating profit	**1,500**	**1,558**
Financial income/(expenses) from recurring operations	(201)	(153)
Other financial income/(expenses)	(4)	4
Corporate income tax	(372)	(246)
Net Profit from discontinued operations, non-controlling interests and share of net profit from equity associates	(9)	(16)
Group share of Net Profit	**914**	**1,147**

Other operating income and expenses

Other operating income and expenses amounted €62 million at 31 December 2017 driven by Glenallachie disposal and one-off sale of bulk Scotch inventory as part of active asset management, partially offset by restructuring expenses.

Group share of net profit

Group share of net profit was €1,147 million, an increase of +25% compared to H1 FY17.

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

The major risks and uncertainties Pernod Ricard Group faces are listed under chapter "Risk management" of the 2016/17 Registration Document, available from the website of the *Autorité des Marchés Financiers* and from the Pernod Ricard website.

4. Outlook

For full-year FY18, Pernod Ricard expects:

- good diversified growth to continue across regions and brands
- pricing to start to improve vs. FY17
- ongoing focus on operational excellence and cash flow
- negative FX impact of c.€180m on PRO[1]

Pernod Ricard upgrades its FY18 full financial year guidance[2] of organic growth in Profit from Recurring Operations to between +4% and +6%.

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

Definitions and link-up of alternative performance indicators with IFRS indicators are described in the Management report of the Registration Document 2016/17.

6. Main related-party transactions

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

1 Based on average FX rates for full FY 18 projected on 25 January 2017, particularly EUR/USD = 1.25
2 Vs. Guidance provided to market on 31 August 2017 of organic growth in Profit from Recurring Operations of between +3% and +5%

3/ Condensed consolidated interim financial statements

1. Half-year consolidated income statement

(€ million)	31.12.2016	31.12.2017	Notes
Net sales	5,061	5,082	3
Cost of sales	(1,903)	(1,883)	3
Gross margin after logistics expenses	**3,158**	**3,200**	3
Advertising and promotion expenses	(901)	(930)	
Contribution after advertising and promotion expenses	**2,257**	**2,270**	
Structure costs	(756)	(774)	
Profit from recurring operations	**1,500**	**1,496**	
Other operating income/(expenses)	(0)	62	4
Operating profit	**1,500**	**1,558**	
Financial expenses	(229)	(172)	5
Financial income	24	23	5
Financial income/(expenses)	**(205)**	**(149)**	
Corporate income tax	(372)	(246)	6
Share of net profit/(loss) of associates	1	0	
Net profit	**924**	**1,163**	
o/w:			
- Non-controlling interests	10	16	
- Group share	**914**	**1,147**	
Earnings per share - basic (*in euros*)	3,46	4,34	7
Earnings per share - diluted (*in euros*)	3,44	4,32	7

2. Half-year consolidated statement of comprehensive income

(€ million)	31.12.2016	31.12.2017	Notes
Net profit for the period	**924**	**1,163**	
Non-recyclable items			
Actuarial gains/(losses) related to defined benefit plans	**(111)**	**122**	
Amounts recognised in shareholders' equity	(136)	159	12
Tax impact	25	(37)	
Recyclable items			
Net investment hedges	**7**	**4**	
Amounts recognised in shareholders' equity	7	4	
Tax impact	-	-	
Cash flow hedges	**20**	**8**	
Amounts recognised in shareholders' equity [(1)]	31	12	
Tax impact	(11)	(4)	
Available-for-sale assets	**0**	**0**	
Unrealized gains and losses recognised in shareholders' equity	0	0	
Tax impact	(0)	(0)	
Translation differences	**46**	**(321)**	
Other comprehensive income for the period, net of tax	**(38)**	**(188)**	
Comprehensive income for the period	**886**	**976**	
o/w:			
- Group share	872	964	
- Non-controlling interests	14	12	

[(1)] Including € (5) million recycled to result for the period.

3. Consolidated balance sheet

Assets

(€ million)	30.06.2017	31.12.2017	Notes
Net amounts			
Intangible assets	11,755	11,426	8
Goodwill	5,397	5,265	8
Property, plant and equipment	2,336	2,290	
Non-current financial assets	650	791	12
Investments in associates	15	16	
Non-current derivative instruments	26	10	
Deferred tax assets	2,377	1,581	6
Non-current assets	**22,557**	**21,380**	
Inventories and work in progress	5,305	5,251	9
Trade receivables and other operating receivables	1,134	1,841	
Income taxes receivable	111	144	
Other current assets	270	269	11
Current derivative instruments	24	22	
Cash and cash equivalents	677	886	13
Current assets	**7,521**	**8,412**	
Assets held for sale	10	5	
Total assets	**30,088**	**29,797**	

Liabilities

(€ million)	30.06.2017	31.12.2017	Notes
Capital	411	411	17
Share premium	3,052	3,052	
Retained earnings and currency translation adjustments	8,849	9,762	
Group net profit	1,393	1,147	
Group shareholders' equity	**13,706**	**14,372**	
Non-controlling interests	180	184	
Total shareholders' equity	**13,886**	**14,556**	
Non-current provisions	453	450	12
Provisions for pensions and other long-term employee benefits	649	598	12
Deferred tax liabilities	3,421	2,695	6
Bonds-non-current	6,900	6,677	13
Other non-current financial liabilities	480	589	13
Non-current derivative instruments	42	28	
Total non-current liabilities	**11,946**	**11,036**	
Current provisions	159	148	12
Trade payables	1,826	2,032	
Income taxes payable	156	279	
Other current liabilities	935	729	15
Bonds-current	94	92	13
Other current financial liabilities	1,071	908	13
Current derivative instruments	15	18	
Total current liabilities	**4,256**	**4,205**	
Liabilities related to assets held for sale	-	-	
Total liabilities and shareholders' equity	**30,088**	**29,797**	

4. Statement of changes in shareholders' equity

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

(1) Financial impact of IAS 41 and IAS 16 amendments disclosed in the registration document 2016/17.

(€ 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 01.07.2017	**411**	**3,052**	**11,014**	**(198)**	**(56)**	**(208)**	**(309)**	**13,706**	**180**	**13,886**
Comprehensive income for the period	-	-	1,147	122	8	(313)	-	**964**	12	**976**
Capital increase	-	-	-	-	-	-	-	**-**	-	**-**
Share-based payments	-	-	18	-	-	-	-	**18**	-	**18**
(Acquisition)/disposal of treasury shares	-	-	-	-	-	-	(19)	**(19)**	-	**(19)**
Sale and repurchase agreements	-	-	-	-	-	-	(13)	**(13)**	-	**(13)**
Dividends distributed	-	-	(284)	-	-	-	-	**(284)**	(8)	**(292)**
Changes in scope of consolidation	-	-	-	-	-	-	-	**-**	-	**-**
Other transactions with minority interests	-	-	-	-	-	-	-	**-**	1	**1**
Other movements	-	-	0	-	-	-	-	**0**	(0)	**0**
Closing position on 31.12.2017	**411**	**3,052**	**11,895**	**(76)**	**(48)**	**(521)**	**(341)**	**14,372**	**184**	**14,556**

5. Consolidated cash flow statement

(€ million)	31.12.2016	31.12.2017	Notes
Cash flow from operating activities			
Group net profit	914	1,147	
Non-controlling interests	10	16	
Share of net profit/(loss) of associates, net of dividends received	(1)	(0)	
Financial (income)/expenses	205	149	5
Tax (income)/expenses	372	246	6
Net profit from discontinued operations	-	-	
Depreciation of fixed assets	106	106	
Net change in provisions	(75)	(17)	
Net change in impairment of goodwill, property, plant and equipment and intangible assets	4	1	
Changes in fair value of commercial derivatives	1	(2)	
Changes in fair value of biological assets	-	-	
Net (gain)/loss on disposal of assets	(10)	(39)	4
Share-based payment	20	18	18
Self-financing capacity before financing interest and taxes	**1,547**	**1,625**	
Decrease/(increase) in working capital requirements	(385)	(436)	16
Interest paid	(215)	(163)	
Interest received	23	17	
Tax paid/received	(171)	(118)	
Net change in cash flow from operating activities	**800**	**925**	
Cash flow from investing activities			
Capital expenditure	(152)	(135)	
Proceeds from disposals of property, plant and equipment and intangible assets	6	5	
Change in scope of consolidation	-	-	
Purchases of financial assets and activities	(13)	(35)	
Disposals of financial assets and activities	16	46	16
Net change in cash flow from investing activities	**(142)**	**(118)**	
Cash flow from financing activities			
Dividends and interim dividends paid	(501)	(543)	17
Other changes in shareholders' equity	-	-	
Issuance of debt	194	601	16
Repayment of debt	(184)	(650)	16
(Acquisition)/disposal of treasury shares	(23)	(32)	
Other transactions with non-controlling interests	-	-	
Net change in cash flow from financing activities	**(514)**	**(625)**	
Cash flow from non-current assets held for sale	-	-	
Increase/(decrease) in cash and cash equivalents before foreign exchange impact	**144**	**182**	
Effect of exchange rate changes	15	27	
Increase/(decrease) in cash and cash equivalents after foreign exchange impact	**159**	**209**	
Cash and cash equivalents at beginning of period	**569**	**677**	
Cash and cash equivalents at end of period	**728**	**886**	

6. Notes to the consolidated financial statements

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

On 7 February 2018, the Board of Directors approved the condensed consolidated interim financial statements ended 31 December 2017.

Note 1 – Accounting policies

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

Because of its listing in a country of the European Union (EU), and in accordance with EC regulation 1606/2002, the condensed consolidated interim financial statements of the Group for the first half-year ended 31 December 2017 have been prepared in accordance with IAS 34 (interim financial reporting) of the IFRS (International Financial Reporting Standards) as adopted by the European Union.

The Group has not anticipated any standards, amendments or interpretations published by the IASB but not yet approved or not yet mandatory in the European Union, as of 31 December 2017.

Note that:

- the Group's financial year runs from 1 July to 30 June;
- condensed consolidated interim financial statements were prepared in accordance with the same accounting principles and methods as those used in the preparation of the annual consolidated financial statements at 30 June 2017, subject to the changes in accounting standards listed under section 1.3;
- the condensed consolidated interim financial statements do not include all the information required in the preparation of the consolidated financial statements and must be read in conjunction with the consolidated financial statements at 30 June 2017.

Estimates — The preparation of consolidated financial statements in accordance with IFRS requires that Management makes a certain number of estimates and assumptions, which have an impact on the Group's assets, liabilities and shareholders' equity and items of profit and loss during the financial year. These estimates are made on the assumption that the company will continue as a going concern, are based on information available at the time of their preparation. Estimates may be revised where the circumstances on which they were based change or where new information becomes available. Future outcomes can differ from these estimates. At 31 December 2017, the Management was not aware of any factors likely to call into question estimates and assumptions used in the preparation of full-year consolidated financial statements at 30 June 2017.

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

1.2 Seasonality

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

1.3 Changes in accounting policies

<u>Standards, amendments and interpretations applied from 1 July 2017</u>

The standards, amendments and interpretations applicable to Pernod Ricard with effect from 1 July 2017, relate to:

- Amendment 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;
- Amendment to IFRS 12 (Disclosure of Interests in Other Entities) on information to be disclosed on an entity's interests that are classified in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations;
- the IFRS improvements cycle 2014-2016 (subject to their adoption by the European Union).

Standards, amendments and interpretations for which application is mandatory after 1 July 2018

The standards, amendments and interpretations applicable to Pernod Ricard with effect from 1 July 2018, relate to:

- **IFRS 15 (Revenue from contracts with customers):**

  The Group will apply the full retrospective approach transitioning to the new standard.

  Based on preliminary analysis, no impact are expected:

  - on Profit from Recurring Operations (PRO);
  - on revenue recognition standards.

  Two mains topics have been identified with the following anticipated impacts:

  - services paid to direct or undirect customers on visibility or promotional arrangements: reclassification from Advertising and Promotion expenses to a decrease on Net Sales;
  - third parties manufactures in India: increase in Net Sales and Cost of Goods following the analysis of agent vs principal considerations.

  Those reclassifications represent:

  - a decrease of c.3% on Net Sales;
  - a negative impact on gross margin ratio by c.-170 basis points;
  - a decrease to c.16% of c.300 basis points of the Advertising and Promotion / Net Sales ratio;
  - a favourable impact on PRO margin by c.+70 basis points.

- **IFRS 9 (Financial instruments)**: based on a preliminary analysis no material impact are expected;

The impacts of applying the following standards are currently being assessed:

- **IFRS 16 (Leases)** applicable to financial years beginning on or after 1 July 2019 for Pernod Ricard.

Note 2 – Consolidation scope

There is no significant change in the consolidation scope in the first half of 2017/18 financial year.

Note 3 – Operating segments

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

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

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

Americas

(€ million)	31.12.2016 6 months	31.12.2017 6 months
Net sales	1,431	1,399
Gross margin after logistics costs	972	937
Advertising and promotion expenses	(291)	(299)
Contribution after A&P	681	638
Profit from Recurring Operations	**463**	**423**

Asia/Rest of World

(€ million)	31.12.2016 6 months	31.12.2017 6 months
Net sales	2,040	2,065
Gross margin after logistics costs	1,212	1,243
Advertising and promotion expenses	(330)	(355)
Contribution after A&P	883	887
Profit from Recurring Operations	**633**	**628**

Europe

(€ million)	31.12.2016 6 months	31.12.2017 6 months
Net sales	1,589	1,619
Gross margin after logistics costs	973	1,020
Advertising and promotion expenses	(280)	(275)
Contribution after A&P	693	745
Profit from Recurring Operations	**405**	**445**

Total

(€ million)	31.12.2016 6 months	31.12.2017 6 months
Net sales	5,061	5,082
Gross margin after logistics costs	3,158	3,200
Advertising and promotion expenses	(901)	(930)
Contribution after A&P	2,257	2,270
Profit from Recurring Operations	**1,500**	**1,496**

Breakdown of sales

(€ million)	31.12.2016 6 months	31.12.2017 6 months
Strategic International Brands	3,205	3,221
Priority Premium Wines	263	264
Strategic Local Brands	915	933
Other products	678	664
Total	**5,061**	**5,082**

Note 4 – Other operating income and expenses

Other operating income and expenses are broken down as follows:

(€ million)	31.12.2016 6 months	31.12.2017 6 months
Impairment of property, plant and equipment and intangible assets	-	(1)
Gains or losses on asset disposals and acquisition costs	5	33
Net restructuring and reorganisation expenses	(12)	(20)
Disputes and risks	(25)	(3)
Other non-current operating income and expenses	31	53
Other operating income/(expenses)	**(0)**	**62**

Note 5 – Financial income/(expense)

(€ million)	31.12.2016 6 months	31.12.2017 6 months
Interest expense on net financial debt	(215)	(162)
Interest income on net financial debt	23	17
Net financing cost	**(192)**	**(144)**
Structuring and placement fees	(2)	(1)
Net financial impact of pensions and other long-term employee benefits	(7)	(8)
Other net current financial income (expense)	(0)	1
Financial income/(expense) from recurring operations	**(201)**	**(153)**
Foreign currency gains/(losses)	(5)	5
Other non-current financial income/(expenses)	1	(1)
Total financial income/(expenses)	**(205)**	**(149)**

At 31 December 2017, net financing costs were mainly composed of bond interests for €126 million.

Note 6 – Income tax

Analysis of the income tax expense:

(€ million)	31.12.2016 6 months	31.12.2017 6 months
Current income tax	(282)	(206)
Deferred income tax	(90)	(41)
Total	**(372)**	**(246)**

Analysis of effective tax rate:

(€ million)	31.12.2016 6 months	31.12.2017 6 months
Operating profit	1,500	1,558
Financial income/(expense)	(205)	(149)
Taxable profit	**1,295**	**1,409**
Theoretical tax charge at the effective income tax rate in France	**(446)**	**(485)**
Impact of tax rate differences by jurisdiction	147	204
Tax impact of variation in exchange rates	12	2
Re-estimation of deferred tax assets linked to tax rate changes	10	64
Impact of tax losses used/not used	2	2
Impact of reduced/increased tax rates on taxable results	(2)	(13)
Taxes on distributions	(30)	51
Other impacts	(66)	(72)
Effective tax expense	**(372)**	**(246)**
Effective tax rate	**29%**	**17%**

The US tax reform "Tax Cuts and Jobs Act" enacted on 22 December 2017 has triggered a reevaluation of the deferred tax assets and liabilities due to the decrease of the US Federal tax rate from 35% to 21%. The net impact is a deferred tax income of €55 million.

In October 2017, the French Constitutional Court declared invalid the French system for taxing dividends, introduced in 2012, which required French companies to pay a tax in an amount equivalent to 3% of dividends paid. The total reimbursement represents an estimated income of €71 million.

Deferred taxes are broken down by nature as follows:

(€ million)	30.06.2017	31.12.2017
Margins in inventories	91	86
Fair value adjustments on assets and liabilities	96	84
Provision for pension benefits	140	108
Loss carried forward	1,314	851
Provisions (other than provisions for pensions benefits) and other items	736	452
Total deferred tax assets	**2,377**	**1,581**
Accelerated tax depreciation	107	108
Fair value adjustments on assets and liabilities	2,750	1,991
Other items	565	596
Total deferred tax liabilities	**3,421**	**2,695**

Note 7 – Earnings per share

	31.12.2016 6 months	31.12.2017 6 months
Numerator (€ million)		
Group share of net profit	914	1,147
Denominator (in number of shares)		
Average number of outstanding shares	264,273,361	264,033,746
Dilutive effect of bonus share allocations	765,633	1,050,284
Dilutive effect of stock options and subscription options	400,760	386,937
Average number of outstanding shares—diluted	**265,439,755**	**265,470,967**
Earnings per share (€)		
Earnings per share – basic	3,46	4,34
Earnings per share – diluted	3,44	4,32

Note 8 – Intangible assets and goodwill

(€ million)	30.06.2017	31.12.2017
Goodwill	5,535	5,404
Brands	12,937	12,567
Other intangible assets	382	383
Gross value	**18,854**	**18,354**
Goodwill	(138)	(139)
Brands	(1,294)	(1,246)
Other intangible assets	(270)	(278)
Depreciation/Impairment	**(1,702)**	**(1,663)**
Intangible assets, net	**17,152**	**16,691**

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

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

Note 9 – Inventories

(€ million)	30.06.2017	31.12.2017
Raw materials	125	135
Work in progress	4,500	4,425
Goods in inventory	451	491
Finished products	275	242
Gross value	**5,351**	**5,293**
Raw materials	(10)	(10)
Work in progress	(13)	(10)
Goods in inventory	(13)	(12)
Finished products	(10)	(9)
Impairment	**(46)**	**(42)**
Net inventories	**5,305**	**5,251**

At 31 December 2017, 79% of work-in-progress relate to maturing inventories intended to be used for whisky and cognac production. The Group is not significantly dependent on its suppliers.

Note 10 – Transfers of financial assets

In the first half of the period, the Group continued to implement its programs to sell the receivables of several subsidiaries. Receivables sold under these programs totaled €840 million at 31 December 2017 and €557 million at 30 June 2017. As substantially all risks and rewards associated with the receivables were transferred, they were derecognised.

Derecognised assets where there is continuing involvement

(€ million)	Carrying amount of countinuing involvement				Fair value of continuing involvement	Maximum Exposure
Continuing involvement	Amortised costs	Held to maturity	Available for sale	Financial liabilities at fair value		
Guarantee deposit – factoring and securisation	13	-	-	-	13	13

Note 11 – Other current assets

Other current assets are broken down as follows:

(€ million)	30.06.2017	31.12.2017
Advances and down payments	25	46
Tax accounts receivable, excluding income tax	146	139
Prepaid expenses	72	61
Other receivables	27	23
Total	**270**	**269**

Note 12 – Provisions

12.1 Breakdown of provisions

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

(€ million)	30.06.2017	31.12.2017	Notes
Non-current provisions			
Provisions for pensions and other long-term employee benefits	649	598	12.3
Other non-current provisions for risks and charges	453	450	12.2
Current provisions			
Provisions for restructuring	46	44	12.2
Other current provisions for risks and charges	113	104	12.2
Total	**1,261**	**1,195**	

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

At 31 December 2017, the amount of provisions booked by the Group in respect of all disputes or risks in which it is involved amounted to €554 million. The Group does not provide details (with exceptions), as it believes the disclosure of the amount of any provision booked in consideration of each pending dispute would be likely to cause serious harm to the Group.

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

(€ million)	30.06.2017	Movements of the period: Allowances	Used	Unused reversals	Translation adjustments	Other movements	31.12.2017
Provisions for restructuring	46	15	(16)	(1)	(1)	-	44
Other current provisions	113	7	(8)	(4)	(4)	0	104
Other non-current provisions	453	25	(1)	(14)	(12)	(0)	450
Total Provisions	**612**	**48**	**(25)**	**(20)**	**(18)**	**(0)**	**598**

12.3 Provisions for pensions and other long-term employee benefits

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

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

(€ million)	31.12.2016	31.12.2017
Net liability / (asset) at beginning of period	**113**	**128**
Net expense/(income) for the period	(25)	34
Actuarial (gains)/losses[1]	136	(159)
Employer contributions and benefits paid directly by the employer	(38)	(47)
Changes in scope of consolidation	0	(0)
Foreign currency gains and losses	30	(8)
Net liability / (asset) at end of period	**216**	**(52)**
Amount recognised in assets	559	650
Amount recognised in liabilities	**775**	**598**

[1] Recognised as items of other comprehensive income.

On 31 December 2017, non-current financial assets (€791 million) include €650 million of plan surplus related to employee benefits.

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

(€ million)	31.12.2016	31.12.2017
Service cost	26	24
Interest on provision	1	2
Fees/levies/premiums	5	5
Impact of plan amendments / Reduction of future rights	(58)	2
Impact of liquidation of benefits	-	-
Net expense/(income) recognised in Profit and Loss	**(25)**	**34**

Note 13 – Financial liabilities

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

13.1 Breakdown of net financial debt by nature and maturity

(€ million)	30.06.2017 Current	30.06.2017 Non-current	30.06.2017 Total	31.12.2017 Current	31.12.2017 Non-current	31.12.2017 Total
Bonds	**94**	**6,900**	**6,993**	**92**	**6,677**	**6,769**
Syndicated loan	-	319	319	-	209	209
Commercial paper	630	-	630	730	-	730
Other loans and financial debts	441	161	601	177	380	558
Other financial liabilities	**1,071**	**480**	**1,551**	**908**	**589**	**1,497**
Gross financial debt	1,165	7,379	8,545	1,000	7,266	8,266
Fair value hedge derivatives instruments – assets	(6)	(17)	(22)	(3)	(5)	(8)
Fair value hedge derivatives instruments – liabilities	-	7	7	-	8	8
Fair value hedge derivatives	**(6)**	**(9)**	**(15)**	**(3)**	**3**	**0**
Net assets hedging derivative instruments - assets	(2)	-	(2)	(6)	-	(6)
Net asset hedging derivative instruments	**(2)**	**-**	**(2)**	**(6)**	**-**	**(6)**
Financial debt after hedging	1,158	7,370	8,528	991	7,269	8,260
Cash and cash equivalents	(677)	-	(677)	(886)	-	(886)
Net financial debt	**481**	**7,370**	**7,851**	**106**	**7,269**	**7,375**

13.2 Breakdown of debt by currency before and after foreign exchange hedging instruments at 30 June 2017 and 31 December 2017

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%**

On 31.12.2017 (€ million)	Gross financial debt	Amount hedged	Debt after hedging	Cash	Net debt after hedging	% debt after hedging	% net debt after hedging
EUR	3,697	384	4,081	(237)	3,845	49%	52%
USD	4,438	72	4,510	(102)	4,408	55%	60%
GBP	5	(350)	(345)	(43)	(387)	-4%	-5%
SEK	9	(127)	(118)	(21)	(139)	-1%	-2%
Other currencies	116	15	132	(483)	(352)	2%	-5%
Financial debt by currency	**8,266**	**(5)**	**8,260**	**(886)**	**7,375**	**100%**	**100%**

13.3 Breakdown of debt by currency and type of rate hedging at 30 June 2017 and 31 December 2017

On 30.06.2017 (€ million)	Debt after hedging by currency	Fixed-rate debt [(1)]	Capped floating-rate debt	Floating-rate debt	% (fixed-rate + capped floating-rate debt)/ Debt after hedging	Cash	% (fixed-rate + capped floating-rate debt)/ net debt
EUR	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%**

On 31.12.2017 (€ million)	Debt after hedging by currency	Fixed-rate debt [(1)]	Capped floating-rate debt	Floating-rate debt	% (fixed-rate + capped floating-rate debt)/ Debt after hedging	Cash	% (fixed-rate + capped floating-rate debt)/ net debt
EUR	4,081	2,651	-	1,430	65%	(237)	69%
USD	4,510	3,012	-	1,498	67%	(102)	68%
GBP	(345)	-	-	(345)	N.M.	(43)	N.M.
SEK	(118)	-	-	(118)	N.M.	(21)	N.M.
Other currencies	132	74	-	58	N.M.	(483)	N.M.
Total	**8,260**	**5,737**	**-**	**2,523**	**69%**	**(886)**	**78%**

N.M.: not meaningful.

[(1)] Hedge accounting and other derivatives.

13.4 Breakdown of fixed-rate/floating rate debt before and after interest rate hedging instruments at 30 June 2017 and 31 December 2017

(€ million)	30.06.2017				31.12.2017			
	Debt before hedging		Debt after hedging		Debt before hedging		Debt after hedging	
Fixed-rate debt	6,827	80%	5,819	68%	6,696	81%	5,737	69%
Capped floating-rate debt	-	-	-	-	-	-	-	-
Floating-rate debt	1,701	20%	2,709	32%	1,564	19%	2,523	31%
Financial debt after hedging by type of rate	**8,528**	**100%**	**8,528**	**100%**	**8,260**	**100%**	**8,260**	**100%**

At 31 December 2017, before taking into account of any hedges, 81% of the Group's gross debt was fixed-rate and 19% floating-rate. After hedging, the floating-rate part was 31%.

13.5 Schedule of financial liabilities at 30 June 2017 and 31 December 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 at 30 June 2017 and 31 December 2017.

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)**

On 31.12.2017 (€ 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		(8,235)	(872)	(38)	(21)	(871)	(1,022)	(2,407)	(3,003)
Interest		(1,979)	(125)	(122)	(247)	(247)	(203)	(146)	(890)
Gross financial debt	**(8,266)**	**(10,214)**	**(997)**	**(160)**	**(268)**	**(1,118)**	**(1,225)**	**(2,553)**	**(3,893)**
Cross currency swaps:	-								
Flows payable		-	-	-	-	-	-	-	-
Flows receivable		-	-	-	-	-	-	-	-
Derivative instruments - liabilities	(46)	(47)	(20)	(6)	(11)	(10)	(1)	0	0
Derivative instruments - liabilities	**(46)**	**(47)**	**(20)**	**(6)**	**(11)**	**(10)**	**(1)**	**0**	**0**
Total financial liabilities	**(8,313)**	**(10,262)**	**(1,017)**	**(166)**	**(279)**	**(1,128)**	**(1,226)**	**(2,553)**	**(3,893)**

13.6 Syndicated loan

On 31 December 2017, the multi-currency syndicated loan of €2,500 million was drawn at $250 million.

13.7 Bonds

Nominal amount	Interest rate	Issue date	Maturity	Carrying amount at 31.12.2017 *(€ million)*
EUR 850 million	2,00%	20.03.2014	22.06.2020	856
USD 1,000 million	5,75%	07.04.2011	07.04.2021	841
USD 201 million	Spread + 6-month LIBOR	26.01.2016	26.01.2021	170
USD 1,500 million	4,45%	25.10.2011	15.01.2022	1,290
USD 800 million	4,25%	12.01.2012	15.07.2022	676
EUR 500 million	1,88%	28.09.2015	28.09.2023	483
EUR 650 million	2,13%	29.09.2014	27.09.2024	650
EUR 600 million	1,50%	17.05.2016	18.05.2026	603
USD 600 million	3,25%	08.06.2016	08.06.2026	488
USD 850 million	5,50%	12.01.2012	15.01.2042	713
TOTAL BONDS				**6,769**

Note 14 – Financial instruments

(€ million)	Measurement level	Breakdown by accounting classification: Fair value – profit	Fair value shareholders' equity	Loans and receivables	Liabilities at amortised cost	30.06.2017: 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

(€ million)	Measurement level	Breakdown by accounting classification: Fair value – profit	Fair value shareholders' equity	Loans and receivables	Liabilities at amortised cost	31.12.2017: Balance sheet value	Fair value
Assets							
Available-for-sale financial assets	Level 3	-	17	-	-	17	17
Guarantees, deposits, investment-related receivables		-	-	124	-	124	124
Trade receivables and other operating receivables		-	-	1,841	-	1,841	1,841
Other current assets		-	-	269	-	269	269
Derivative instruments – assets	Level 2	31	-	-	-	31	31
Cash and cash equivalents	Level 1	886	-	-	-	886	886
Liabilities							
Bonds		-	-	-	6,769	6,769	7,235
Bank debt		-	-	-	1,463	1,463	1,463
Finance lease debt		-	-	-	34	34	34
Derivative instruments – liabilities	Level 2	46	-	-	-	46	46

The methods used are as follows:

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

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

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

In accordance with IFRS 13, derivatives were measured taking into account the Credit Valuation Adjustment (CVA) and the Debt Valuation Adjustment (DVA). The measurement is based on historical data (rating of counterparty banks and probability of default). At 31 December 2017, the impact was not significant.

Note 15 – Other current liabilities

Other current liabilities are broken down as follows:

(€ million)	30.06.2017	31.12.2017
Taxes and social payables	611	686
Other operating payables	324	43
Other payables	-	-
Total	**935**	**729**

Note 16 – Notes to the consolidated cash flow statement

16.1 Working capital requirement

The working capital requirement has increased by €436 million due to a usually stronger activity at the end of December compared to the end of June. It is mainly explained as follows:

- trade receivables: +€769 million;
- trade payables: €(260) million;
- others: €(73) million.

16.2 Bond issues/repayment of debt

The Group made repayments net of drawdowns from the syndicated loan of €110 million and increased the stock of commercial paper for €100 million.

16.3 Disposals of financial assets and activities

Disposals of financial assets and activities relates mainly to the sale of the Glenallachie Distillery to Billy Walker, Graham Stevenson and Trisha Savage, comprising The GlenAllachie Consortium.

Note 17 – Shareholders' equity

17.1 Share capital

Pernod Ricard's share capital changed as follows between 1 July 2017 and 31 December 2017:

	Number of shares	Amount (€ million)
Share capital on 30 June 2017	265,421,592	411
Share capital on 31 December 2017	**265,421,592**	**411**

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

17.2 Treasury shares

On 31 December 2017, Pernod Ricard SA and its controlled subsidiaries held 1,394,367 Pernod Ricard shares for a value of €125 million.

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

17.3 Dividends paid and proposed

Following the resolution agreed upon during the Shareholders' Meeting of 9 November 2017, the total dividend in respect of the financial year ended 30 June 2017 was €2.02 per share. An interim dividend payment of €0.94 per share having been paid on 7 July 2017, the balance amounting to €1.08 per share has been paid on 22 November 2017.

Note 18 – Share-based payments

The Group recognised an expense of €17 million within operating profit relating to stock option and performance-based share applicable on 31 December 2017.

Stock option, performance-based share and free share plans are equity settled.

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

	Units
Number of outstanding options / shares at 30 June 2017	**2,785,617**
Number of options exercised / shares acquired during the period	(332,933)
Number of options / shares cancelled over the period	(58,271)
Number of options / shares newly granted over the period	495,561
Number of outstanding options / shares at 31 December 2017	**2,889,974**

Note 19 – Off-balance sheet commitments

The Group's off-balance sheet commitments given are broadly stable at €2,224 million as of 31 December 2017. Off-balance sheet commitments received are decreasing to €2,369 million as of 31 December 2017.

This is mainly due to the drawdown on the multi-currency revolving credit facility of $250 million on 31 December 2017 when it was undrawn for an amount of €2,500 million on December 2016 closing.

Note 20 – Contingent liabilities

Pernod Ricard has received several notices of tax adjustment for the financial years 2006/07 to 2013/14, specifically concerning, for an amount of 6,174 million Indian rupees (equivalent to €80 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 21 – Disputes

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

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

The provisions recorded by Pernod Ricard as at 31 December 2017, for all litigation and risks in which it is involved, amounted to €554 million, compared to €566 million at 30 June 2017 (see Note 12 - *Provisions*). Pernod Ricard provides no further details (other than in exceptional circumstances), as disclosing the amount of any provision for ongoing litigation could cause the Group serious harm.

To the Company's best knowledge, there are no other governmental, legal or arbitration proceedings pending or threatened, including any proceeding of which the Company is aware, which may have or have had over the last 12 months a significant impact on the profitability of the Company and/or the Group, other than those described below.

Disputes relating to brands

Havana Club

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

In 1998, the United States passed a law relating to the conditions for the protection of brands previously used by 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.

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.

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 being discussed before the Supreme Court, 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 20 – Contingent liabilities).

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

Commercial disputes

Colombia

A complaint was filed before the Colombian Competition Agency (the Superintendencia De Industria Y Comercio) on 14th November 2017 by the Department of Cundinamarca and its wholly owned distilling company Empresa de Licores de Cundinamarca against Pernod Ricard S.A., Pernod Ricard Colombia S.A. and a competitor company. The complaint alleges that the defendants have committed violations of the Colombian Unfair Competition Act and, in particular, Articles 7 and 18 thereof through the illegal import of spirits into Colombia. The complaint alleges that the defendant companies have gained an unfair market advantage over local producers through such activity. The plaintiffs seek to reclaim lost profits and taxes for a four year period between 2013 and 2017. Pernod Ricard intends to vigorously defend itself against such allegations. This recent complaint contains allegations that are similar to those made in prior legal proceedings before the New York courts brought by Cundinamarca, the Republic of Colombia and several other Colombian departments in 2004. The New York proceedings were dismissed volontarily by the parties in 2012.

Note 22 – Related parties

During the first half-year ended 31 December 2017, relations between the Group and its associates remained the same as in the financial year ended 30 June 2016, as mentioned in the 2016/17 registration document. In particular, no transactions considered unusual with regards to their nature or amount occurred over the period.

Note 23 – Subsequent Events

On 2nd January 2018, Pernord Ricard USA became the unique shareholders of the company Avion Spirits LLC by acquiring minority interests.

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

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

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

For the period from July 1 to December 31, 2017

To the Shareholders,

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

- the review of the accompanying condensed consolidated interim financial statements of Pernod Ricard, for the period from July 1 to December 31, 2017, and
- the verification of the information presented in the half-yearly management report.

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

I. Conclusion on the financial statements

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

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

II. Specific verification

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

The Statutory Auditors

Paris La Défense and Neuilly-sur-Seine, February 7, 2018

French original signed by

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

PERNOD RICARD

PERNOD RICARD IS A FRENCH PUBLIC LIMITED COMPANY
(SOCIÉTÉ ANONYME - SA)
WITH SHARE CAPITAL OF €411,403,467.60

REGISTERED OFFICE

12, PLACE DES ÉTATS-UNIS
75783 PARIS CEDEX 16 - FRANCE
TEL: 33 (0)1 41 00 41 00
FAX: 33 (0)1 41 00 41 41
RCS PARIS REGISTRATION NO. 582 041 943

Pernod Ricard
Créateurs de convivialité