Pernod Ricard

PERNOD RICARD
Limited Company with a share capital of € 409,868,052
Registered office: 12, place des Etats– Unis, 75783 Paris Cedex 16
Company registration number: 582 041 943 R.C.S. Paris.

HALF-YEAR FINANCIAL REPORT
for the half-year ended 31 December 2010

Unofficial translation, for information purposes only, of the French language

RAPPORT FINANCIER SEMESTRIEL Semestre clos le 31 décembre 2010 of PERNOD RICARD GROUP

The present interim financial report relates to the half-year ended 31 December 2010 and was prepared in accordance with Articles L 451-1-2 III of the French Monetary and Financial Code and 222-4 and subsequent of AMF General Regulations.

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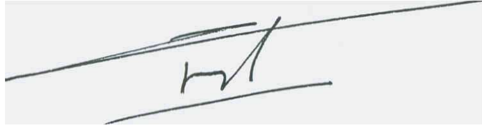
I. Certification by the person assuming responsibility for the half-year financial report

I certify that to the best of my knowledge the 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.



Pierre Pringuet

Chief Executive Officer

II. Half-year activity report

SIGNIFICANT EVENTS DURING THE PERIOD

On 21 July 2010, the Group sold Marques de Arienzo™, Viña Eguía™, the related Bodega, as well as related vineyards for €28 million.
On 31 August 2010, the Group sold the securities it held in Ambrosio Velasco, a company that notably owns the Pacharan Zoco brand, Navarre wine Palacio de la Vega, as well as related assets for €32.4 million.
On 3 December 2010, the Group sold cognac brand Renault, as well as certain finished goods inventories for €10 million.
On 22 December 2010, the Group sold New Zealand wine brand Lindauer™, as well as several other New Zealand wine brands from the Gisborne and Hawke's Bay regions, as well as related inventories and production assets for €89 million New Zealand Dollars, being approximately €48 million.

KEY FIGURES AND BUSINESS ANALYSIS

In the first half of its 2010/2011 financial year (from 1 July to 31 December 2010), during which the global economic environment improved, Pernod Ricard achieved a very strong performance, including:

- ✓ significant sales growth up 7% organically, enhanced by a very favourable foreign exchange effect,
- ✓ an increase in gross margin to 60.8%, reflecting a favourable price / mix effect and good input cost control,
- ✓ increased advertising and promotion expenditure and a strong innovation policy,
- ✓ an operating margin (profit from recurring operations / sales) of 28.3%, an increase of 30 bps, in spite of the strengthened investment, both at the level of the brands and at the level of the commercial networks,
- ✓ a group share of net profit from recurring activities totalled € 726 million, a 12% growth compared to the first half of the 2009/10 financial year. It reflected the above items, as well as the stability of financial expenses,
- ✓ a group share of net profit totalled € 666 million, a 10% increase compared to the first half of the 2009/10 financial year,
- ✓ continued rapid debt reduction, with net debt of €9,720 million at 31 December 2010.

Profit from recurring operations

(€ million)	31/12/2009 6 months	31/12/2010 6 months	Organic growth In M€	Organic growth In %
Net sales	3,789	4,282	272	7%
Gross margin after logistics costs	2,263	2,604	188	8%
Contribution after advertising and promotional (A&P) expenses	1,621	1,839	117	7%
Profit from recurring operations	1,062	1,210	82	8%

Pernod Ricard's **2010/11 1st half-year consolidated net sales** (excluding tax and duties) increased 13% to **€ 4,282 million**, compared to € 3,789 million in HY1 2009/10. This was due to:

- ✓ 7% organic growth, with a diversification of growth drivers, both for brands (Martell, Jameson, The Glenlivet, Chivas, Perrier-Jouët …) and markets. Business was buoyant in emerging markets (China, India, Vietnam, Eastern Europe...), and the Group also benefitted from a gradual recovery in North America and an improvement in Western Europe,
- ✓ a very favourable 9% foreign exchange effect, primarily due to the rise, at the average rate, in the US Dollar and in many other currencies
- ✓ a 3% negative group structure effect, primarily due to the disposals of certain Scandinavian and Spanish operations.

Gross margin totalled € 2,604 million, a significant increase of 15%, being organic growth of 8%, a negative group structure effect of 2% and a positive foreign exchange effect of 8%. The substantial increase in the gross margin rate, which rose by 110 bps, from 59.7% to 60.8% of sales, resulted from a favourable price/mix effect, good control of input costs and the favourable trend in foreign exchange rates.

Advertising and promotion expenditure grew significantly to € 765 million, reflecting the Group's intent to develop its strategic brands over the long term. They represented 23% of sales for the 14 strategic brands and were targeted on premium brands (87% of growth) and emerging markets (51% of growth). Overall, the advertising and promotion expenditure to sales ratio reached 17.9% over the 1st half of 2010/11, compared to 17.0% over the same period of the previous financial year. The Group intends to continue its sustained investment policy.

The contribution after advertising and promotion expenditure increased by 13% to € 1,839 million, with organic growth of 7%. It represented 42.9% of sales, up 10 bps compared to the previous financial year, under the double effect of an improved mix and price increases which offset the strong increase in advertising and promotion expenditure.

Profit from recurring operations increased 14% to €1,210 million, resulting from organic growth of 8%, a 9% positive foreign exchange effect and a 3% negative group structure effect. The operating margin was 28.3%, a rise of 30 bps compared to the first half of the previous financial year.

Business activity by geographic area

France:

(€ million)	31/12/2009 6 months	31/12/2010 6 months	Organic growth	
			In M€	In %
Net sales	397	415	18	5%
Gross margin after logistics costs	291	303	14	5%
Contribution after A&P expenses	202	201	1	0%
Profit from recurring operations	116	118	4	3%

Europe excluding France:

(€ million)	31/12/2009 6 months	31/12/2010 6 months	Organic growth	
			In M€	In %
Net sales	1,247	1,235	24	2%
Gross margin after logistics costs	715	722	20	3%
Contribution after A&P expenses	543	541	14	3%
Profit from recurring operations	338	328	11	4%

Americas:

(€ million)	31/12/2009 6 months	31/12/2010 6 months	Organic growth	
			In M€	In %
Net sales	1,000	1,151	38	4%
Gross margin after logistics costs	621	713	21	3%
Contribution after A&P expenses	449	513	13	3%
Profit from recurring operations	302	339	2	1%

Asia and Rest of the World:

(€ million)	31/12/2009 6 months	31/12/2010 6 months	Organic growth	
			In M€	In %
Net sales	1,145	1,481	191	17%
Gross margin after logistics costs	635	866	133	21%
Contribution after A&P expenses	426	584	90	22%
Profit from recurring operations	305	424	66	23%

- ✓ **France:** profit from recurring operations grew by 2%, being organic growth of 3% due to the commercial performance of Top 14 brands, specifically Ricard, Absolut, Chivas, Mumm, Ballantine’s and Havana Club.

- ✓ **Europe excluding France**: profit from recurring operations grew organically by 4% and declined by 3%, primarily due to a negative group structure effect of 6% (disposal of certain Scandinavian and Spanish operations). The activity shows a strong growth in Central and Eastern Europe and a moderate growth in Western Europe with situations which remain very mixed according to countries and categories.

- ✓ **Americas:** profit from recurring operations in the region grew by 12%, of which 1% organic growth due to increased investment (advertising & promotion and sales force) in priority markets: US, Mexico and Brazil. The rise in the average US dollar rate during the period generated a favourable foreign exchange effect of 13% on the region's profit from recurring operations.

- ✓ **Asia/Rest of World:** outstanding growth of 39% (23% organic) due in particular to Martell in China, local whiskies in India, some other emerging markets (Vietnam, Africa and Turkey), the recovery in South Korea, Taiwan and on the Duty Free market. Asian growth was magnified by certain technical effects (Chinese New Year celebrated earlier in 2011…).

Group share of net profit from recurring operations

	31/12/2009 6 months	31/12/2010 6 months
(€ million)		
Profit from recurring operations......................................	1,062	1,210
Interest (expenses) income from recurring operations......	(246)	(243)
Corporate income tax on recurring operations	(157)	(224)
Net profit from discontinued operations, minority interests and share of net income from associates..	(10)	(18)
Group share of net profit from recurring operations..	**648**	**726**
Group net profit per share from recurring operations – diluted (in euro)	**2.45**	**2.74**

Net financial expense from recurring operations

Net financial expenses from recurring operations totalled € 243 million:

- ✓ debt-related financial interest charges totalled €232 million, an increase of € 13 million. The effects of the rise in value of the US dollar, of € 9 million, and the netimpact of the March 2010 bond issue, of € 15 million were partly offset by the € 8 million effect of the reduction in debt,
- ✓ other financial expenses from recurring operations totalled € 11 million, a € 16 million improvement, primarily due to the favourable impact of pension funds in the first half of 2010/11.

Net debt

Net debt was €9,720 million at 31 December 2010, compared to €10,584 million at 30 June 2010. The trend of the self-financing capacity is in line with the operating profit growth. In addition, good management of working capital requirements, the optimisation of trade receivable factoring programmes and the impact of the decrease in value of the closing rate of the US dollar on net debt contributed to the significant decrease in net debt.

The average cost of borrowing was 4.6% over the first half of 2010/11 versus 4.2% over the first half of 2009/10.

Income tax on recurring operations

Income tax on items from recurring operations amounted to € (224) million, being a tax rate of 23, 1%.

Group share of net profit from recurring operations

Group share of net profit from recurring operations amounted to €726 million at 31 December 2010, an increase of 12%.

Group share of net profit

(€ million)	31/12/2009 6 months	31/12/2010 6 months
Profit from recurring operations	1,062	1,210
Other operating income and expenses	(93)	(29)
Operating profit	969	1,181
Interest (expenses) income from recurring operations	(246)	(243)
Other financial income/ (expenses)	18	8
Income tax	(126)	(263)
Net profit from discontinued operations, minority interests and share of net income from associates	(10)	(18)
Group share of net profit	**604**	**666**

Other operating income and expenses

Other operating income and expenses amounted to a negative €29 million at 31 December 2010 and included:

- Net losses on disposals of assets of €(10) million;
- Asset impairment of €(3) million;
- Net restructuring expenses of €(9) million;
- Other non-recurring income and expenses of € (7) million.

Group share of net profit

Group share of net profit was €666 million, an increase of 10%.

Net result and retained earnings of the Parent company

The net profit and retained earnings of the parent company, Pernod Ricard S.A., amounted to a loss of €72 million and a balance of €1,063 million, respectively, at 31 December 2010.

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 2009/10 reference document, available from the website of the Autorité des Marchés Financiers or from the Pernod Ricard website.

This risk analysis remains valid for the assessment of major risks over the second half of the financial year.

Outlook

The first half of 2010/11 confirmed the business recovery.

Due to good brand performance, in particular the Top 14 brands, supported by stronger marketing investment, we are confident in our ability to achieve a good performance over the full financial year.

Main related-party transactions

Information related to related parties transactions are detailed in note 17 of the notes to the condensed consolidated interim financial statements included in this document.

III. Condensed consolidated interim financial statements

Consolidated income statement.

(€ million)	31/12/2009	31/12/2010	Notes
Net sales	3,789	4,282	
Cost of sales	(1,526)	(1,678)	
Gross margin after logistics costs	2,263	2,604	
A&P costs	(642)	(765)	
Contribution after A&P expenses	1,621	1,839	
Selling, general and administrative expenses	(559)	(629)	
Profit from recurring operations	1,062	1,210	
Other operating income	16	33	
Other operating expenses	(109)	(62)	6
Operating profit	969	1,181	
Financial expenses	(234)	(270)	
Financial income	6	35	
Financial income (expenses)	(228)	(235)	5
Income tax	(126)	(263)	7
Share of net profit/(loss) of associates	1	1	
Net profit from continuing operations	615	685	
Net profit from discontinued operations	0	0	
Net profit	615	685	
Including:			
- Attributable to minority interests	11	19	
- Attributable to equity holders of the Parent	604	666	
Earnings per share - basic (in euros)	2.30	2.54	8
Earnings per share - diluted (in euros)	2.28	2.52	8
Net earnings per share from continuing operations (excluding discontinued operations) — basic (in euros)	2.30	2.54	8
Net earnings per share from continuing operations (excluding discontinued operations) — diluted (in euros)	2.28	2.52	8

Consolidated statement of comprehensive income

(€ million)	31/12/2009	31/12/2010
Net profit for the period	615	685
Net investment hedges		
Amounts recognised in shareholders' equity	27	233
Amount recycled in net profit	-	-
Cash flow hedges		
Amounts recognised in shareholders' equity	94	167
Amount recycled in net profit	(89)	(88)
Available-for-sale financial assets		
Unrealized gains and losses recognised in shareholders' equity	-	-
Amount removed from equity and included in profit/loss following a disposal	-	-
Exchange differences	18	(405)
Tax on items recognised directly in shareholders' equity	0	(33)
Components of other comprehensive income, net of tax	49	(127)
Statement of comprehensive income	664	558
Including:		
- Attributable to equity holders of the Parent	649	542
- Attributable to minority interests	15	16

Consolidated balance sheet

Assets (€ million)	30/06/2010	31/12/2010	Notes
Net amounts			
Non-current assets			
Intangible assets	12,364	11,840	9
Goodwill	5,393	5,180	9
Property, plant & equipment	1,823	1,778	
Biological assets	116	110	
Non-current financial assets	118	136	
Investments in associates	6	7	
Deferred tax assets	1,307	1,270	7
Non-current derivative instruments	20	15	
Non-current assets	21,148	20,334	
Current assets			
Inventories	4,007	3,815	10
Operating receivables	944	1,481	
Income tax receivable	37	32	
Other current assets	218	174	
Current derivative instruments	12	37	
Cash and cash equivalents	701	1,007	12
Current assets	5,918	6,546	
Assets held for sale	42	2	
Total assets	27,107	26,882	

Liabilities and shareholders' equity (€ million)	30/06/2010	31/12/2010	Notes
Shareholders' equity			
Share capital	410	410	14
Additional paid-in capital	3,022	3,026	
Retained earnings and currency translation adjustments	4,739	5,377	
Net profit attributable to equity holders of the parent	951	666	
Shareholders' equity - attributable to equity holders of the parent	9,122	9,480	
Minority interests	216	224	
Total shareholders' equity	9,337	9,704	
Non-current liabilities			
Non-current provisions	691	660	11
Provisions for pensions and other long-term employee benefits	408	336	11
Deferred tax liabilities	2,500	2,565	7
Bonds-non-current	2 893	3,018	12
Non-current derivative instruments	375	280	12
Other non-current financial liabilities	6,925	6 ,294	12
Total non-current liabilities	13,792	13,153	
Current liabilities			
Current provisions	312	284	11
Operating payables	1,871	2,152	
Income tax payable	104	110	
Other current liabilities	224	69	
Bond-current	317	298	12
Other current financial liabilities	934	940	12
Current derivative instruments	212	173	
Total current liabilities	3,975	4,025	
Liabilities held for sale	2	-	
Total liabilities and shareholders' equity	27,107	26,882	

Statement of changes in shareholders' equity

(€ million)	Share capital	Addi-tional paid-in capital	Consolidated reserves	Changes in fair value	Currency translation adjustments	Treasury shares	Total attributable to equity holders of the Parent	Minority interests	Total shareholders' equity
At 01/07/2009 - published	401	3,019	5,340	(173)	(1,045)	(111)	**7,431**	185	**7,615**
Amendment to IAS 38			(7)				**(7)**		**(7)**
At 01/07/2009 - restated	401	3,019	5,332	(173)	(1,045)	(111)	**7,423**	185	**7,608**
Statement of comprehensive income	-	-	604	4	41	-	**649**	15	**664**
Capital increase	8	(4)	-	-	-	-	**4**	-	**4**
Share-based payment	-	-	13	-	-	-	**13**	-	**13**
Purchase/sale of treasury shares	-	-	-	-	-	2	**2**	-	**2**
Dividends distributed	-	-	1		-	-	**1**	-	**1**
Changes in scope of consolidation	-	-	(1)	-	-	-	**(1)**	-	**(1)**
Other movements	-	-	1	0	0	-	**2**	(0)	**1**
At 31/12/2009	409	3,015	5,951	(169)	(1,004)	(110)	**8,094**	200	**8,294**

(€ million)	Share capital	Addi-tional paid-in capital	Consolidated reserves	Changes in fair value	Currency translation adjustments	Treasury shares	Total attributable to equity holders of the Parent	Minority interests	Total shareholders' equity
At 01/07/2010	410	3,022	6,145	(222)	(84)	(149)	**9,122**	216	**9,337**
Statement of comprehensive income	-	-	666	54	(178)	-	**542**	16	**558**
Capital increase	-	5	-	-	-	-	**5**	-	**5**
Share-based payment	-	-	14	-	-	-	**14**	-	**14**
Purchase/sale of treasury shares	-	-	-	-	-	(5)	**(5)**	-	**(5)**
Sale with option of repurchase	-	-	-	-	-	(7)	**(7)**	-	**(7)**
Dividends distributed	-	-	(191)	-	-	-	**(191)**	(8)	**(198)**
Changes in scope of consolidation	-	-	0	-	-	-	**0**	(0)	**0**
Other movements	-	-	(0)	-	-	-	**(0)**	(0)	**(0)**
At 31/12/2010	410	3,026	6,635	(168)	(263)	(161)	**9,480**	224	**9,704**

Consolidated cash flow statement

(€ million)	31/12/2009	31/12/2010	Notes
Cash flow from operating activities			
Net profit attributable to equity holders of the parent	604	666	
Minority interests	11	19	
Share of net profit/(loss) of associates, net of dividends received	(1)	(1)	
Financial (income) expense	228	235	5
Income tax expense	126	263	7
Net profit from discontinued operations	0	(0)	
Depreciation and amortisation	75	79	
Net changes in provisions	(61)	(108)	
Net change in impairment of goodwill and intangible assets	1	3	
Impact of derivatives hedging trading transactions	5	5	
Fair value adjustments on biological assets	(1)	1	
Net (gain)/loss on disposal of assets	47	10	6
Share-based payment	13	14	15
Self-financing capacity before interest and tax	1,049	1,185	
Decrease/(increase) in working capital	(202)	(142)	13
Interest paid	(247)	(268)	
Interest received	6	21	
Income tax paid	(87)	(142)	
Income tax received	15	24	
Cash flow from operating activities	**533**	**678**	
Cash flow from investing activities			
Capital expenditure	(71)	(83)	13
Proceeds from disposals of property, plant and equipment and intangible assets	138	6	13
Change in consolidation scope	2	0	
Cash expenditure on acquisition of non-current financial assets	(18)	(20)	
Cash proceeds from the disposals of non-current financial assets	0	112	
Cash flow from investing activities	**51**	**14**	
Cash flow from financing activities			
Dividends paid	(133)	(355)	15
Other changes in shareholders' equity	5	5	
Issuance of long term debt	473	302	13
Repayment of long term debt	(677)	(362)	13
(Acquisition)/disposal of treasury shares	2	(12)	
Cash flow from financing activities	**(330)**	**(422)**	
Cash from discontinued activities	0	0	
Increase/(decrease) in cash and cash equivalents (before effect of exchange rate changes)	254	270	
Net effect of exchange rate changes	(6)	36	
Increase/(decrease) in cash and cash equivalents (after effect of exchange rate changes)	**248**	**306**	
Cash and cash equivalents at beginning of period	**520**	**701**	
Cash and cash equivalents at end of period	**768**	**1,007**	

Notes to the condensed consolidated interim 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, 75116 Paris and is listed on the Paris stock market. The condensed consolidated interim financial statements reflect the accounting position of Pernod Ricard and its subsidiaries (hereafter the "Group"). They are reported in million of euros (€), rounded to the nearest million.

The Group manufactures and sells wine and spirits.

On 16 February 2011, the Board of Directors approved the consolidated interim financial statements for the first half-year ended 31 December 2010.

Note 1. – Accounting policies.

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 2010 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 IFRS standards and interpretations as adopted by the European Union are available at the following website:

http://ec.europa.eu/internal_market/accounting/ias/index_fr.htm

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 2010, 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 2010.

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 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 2010, 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 2010.

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.

2. Seasonality. — Premium wine 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 ending 30 June are generally higher than in the second half-year.

3. Changes in accounting policies.

No standards and interpretations became applicable for Pernod Ricard Group, starting 1 July 2010.

Condensed consolidated interim financial statements do not take into account:

– Draft standards and interpretations which still have the status of exposure drafts of the IASB and the IFRIC at the balance sheet date,

– New standards, revisions of existing standards and interpretations published by IASB but not yet approved by the European accounting regulatory committee at the date of the condensed consolidated interim financial statements.

– Standards published by the IASB, adopted at a European level but whose application becomes compulsory in respect of financial years begun after 1 July 2010. These include IFRIC 14 (Prepayments of a minimum funding requirement) and the amended IAS 24 (related party disclosures).

Note 2. – Key events of the period.

Pernod Ricard sold:

- On 21 July 2010, Spanish wine brands Marqués de Arienzo™ and Viña Eguía™, the related Bodega and 358 hectares of vineyards and lands to a consortium of buyers made up of Vinos de los Herederos del Marqués de Riscal SA and Gangutia S.L. (Bodegas Muriel) for a cash consideration of €28 million.
- On 31 August 2010, the securities it held in Ambrosio Velascoto Diego Zamora for a cash consideration of €32.4 million
- On 3 December 2010, cognac brand Renault, as well as certain finished goods inventories for €10 million
- On 22 December 2010, Lindauer™, as well as several other New Zealand wine brands from the Gisborne and Hawke's Bay regions, as well as related inventories and production assets for €89 million New Zealand Dollars, being approximately €48 million. The consortium of buyers is made up of Lion Nathan New Zealand and Indevin.

Note 3. – Consolidation scope.

No significant acquisition or disposal was carried out during the period.

Note 4. – Operating segments

Following its various restructuring initiatives, the Group is focused on the single business line of Wine and Spirits sales. The Group is structured into four primary operating segments constituted by the following geographical areas: France, Europe excluding France, the Americas and Asia/Rest of the 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.

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.

France:

(€ million)	31/12/2009 6 months	31/12/2010 6 months
Net sales	397	415
Gross margin after logistics costs	291	303
Contribution after A&P expenses	202	201
Profit from recurring operations	116	118

Europe excluding France:

(€ million)	31/12/2009 6 months	31/12/2010 6 months
Net sales	1,247	1,235
Gross margin after logistics costs	715	722
Contribution after A&P expenses	543	541
Profit from recurring operations	338	328

Americas:

(€ million)	31/12/2009 6 months	31/12/2010 6 months
Net sales	1,000	1,151
Gross margin after logistics costs	621	713
Contribution after A&P expenses	449	513
Profit from recurring operations	302	339

Asia and Rest of the World:

(€ million)	31/12/2009 6 months	31/12/2010 6 months
Net sales	1,145	1,481
Gross margin after logistics costs	635	866
Contribution after A&P expenses	426	584
Profit from recurring operations	305	424

Total:

(€ million)	31/12/2009 6 months	31/12/2010 6 months
Net sales	3,789	4,282
Gross margin after logistics costs	2,263	2,604
Contribution after A&P expenses	1,621	1,839
Profit from recurring operations	1,062	1,210

Note 5. – Financial income/(expenses)

(€ million)	31/12/2009 6 months	31/12/2010 6 months
Financial expenses	(225)	(253)
Financial income	6	21
Net financing cost	(219)	(232)
Structuring and placement fees	(6)	(5)
Net financial impact of pensions and other long-term employee benefits	(23)	(6)
Other financial income (expenses) from recurring operations	1	0
Financial income (expense) from recurring operations	(246)	(243)
Foreign currency gains and losses	21	14
Other non current financial income (expenses)	(3)	(6)
Financial income (expenses)	**(228)**	**(235)**

At 31 December 2010, the main items making up net financing costs were financial expenses on the syndicated loan €(59) million, bonds payments of €(81) million, commercial paper payments of €(1) million, and interest rate and currency hedges €(91) million.

Note 6. – Other operating income and expenses

Other operating income and expenses are broken down as follows:

(€ million)	31/12/2009 6 months	31/12/2010 6 months
Restructuring expenses	(15)	(9)
Impairment of assets	(1)	(3)
Capital gains/(losses) on the disposal of assets	(51)	(10)
Other non-current expenses	(42)	(40)
Other non-current income	16	33
Other operating income/(expense)	**(93)**	**(29)**

Note 7. – Income tax

Analysis of the income tax expense in the consolidated income statement:

(€ million)	31/12/2009 6 months	31/12/2010 6 months
Current tax	(111)	(272)
Deferred tax	(16)	10
Total	**(126)**	**(263)**

Analysis of effective tax rate - Net profit from continuing operations before tax:

(€ million)	31/12/2009 6 months	31/12/2010 6 months
Operating profit	969	1,181
Financial income (expense)	(228)	(235)
Taxable profit	741	946
Expected income tax expense at French Statutory tax rate (34.43%)	(255)	(325)
Impact of differences in tax rates	63	77
Tax impact of exchange rate fluctuations	(18)	(34)
Impact of tax losses used	10	0
Impact of differences between the carrying amounts and tax bases of assets sold	61	0
Impact of reduced tax rates	3	3
Impact of Contribution to Companies' Value Added	-	(3)
Other impacts	9	20
Effective income tax expense	(126)	(263)
Effective tax rate	17%	28%

The improvement in the effective tax rate is explained chiefly by the following factors:

- the unequal rate of profit growth between subsidiaries taxed at different rates,
- the tax impacts of exchange rate fluctuations during the period.

In France, the Group considers that the Contribution to Companies' Value Added (CCVA) component of the Territorial Economic Contribution (TEC), which came into force on 1 January 2010, is a tax that meets the definition of income tax in IAS 12 (Tax).

Deferred taxes are broken down as follows by nature:

(€ million)	30/06/2010	31/12/2010
Unrealised margins in inventories	84	77
Value adjustments to assets and liabilities	42	37
Provision for pension benefits	121	113
Deferred tax assets related to losses eligible for carry-forward	501	529
Provisions (other than provisions for pensions and other long-term employee benefits) and other	560	514
Total deferred tax assets	**1,307**	**1,270**
Accelerated depreciation	40	32
Value adjustments to assets and liabilities	2,299	2,319
Other	161	214
Total deferred tax liabilities	**2,500**	**2,565**

Detail of tax on items recognised directly in shareholders' equity:

(€ million)	31/12/2009			31/12/2010		
	Amount before tax	**Tax impact**	**Amount after tax**	**Amount before tax**	**Tax impact**	**Amount after tax**
Net investment hedges	27	0	27	233	(9)	224
Cash flow hedges	5	(1)	4	79	(25)	54
Available-for-sale financial assets	0	0	0	0	0	0
Exchange differences	18	0	18	(405)	-	(405)
Other adjustments	0	0	0	0	0	0
Components of other comprehensive income	49	0	49	(93)	(33)	(127)

Note 8. – Earnings per share

Earnings per share and net earnings per share from continuing operations:

	31/12/2009 6 months	31/12/2010 6 months
Numerator (€ million)		
Group share of net profit	604	666
Group share of net profit from continuing operations	604	666
Denominator (in number of shares)		
Average number of shares in circulation	262,616,021	262,495,824
Dilutive effect of free shares	311,128	376,592
Dilutive effect of stock options and subscription of stock options	1,742,178	1,884,124
Average number of outstanding shares—diluted	264, 669,337	264,756,540
Earnings per share (€) – Group share		
Earnings per share – basic	2.30	2.54
Earnings per share – diluted	2.28	2.52
Net earnings per share from continuing operations – basic	2.30	2.54
Net earnings per share from continuing operations – diluted	2.28	2.52

Note 9. – Intangible assets and goodwill

(€ million)	30/06/2010	31/12/2010
Goodwill	5,579	5,364
Brands	12,566	12,023
Other intangible assets	206	206
Gross amounts	**18,350**	**17,593**
Goodwill	(186)	(183)
Brands	(295)	(271)
Other intangible assets	(112)	(119)
Amortisation	**(593)**	**(573)**
Net intangible assets	**17,757**	**17,020**

Goodwill. — This item primarily includes goodwill originating from the acquisitions of Allied Domecq in July 2005 and of Vin&Sprit in July 2008.

Brands. — The main brands recognised in the balance sheet are: Absolut, Ballantine's, Beefeater, Chivas Regal, Kahlúa, Malibu, Martell, Mumm, Perrier–Jouët and Brancott Estate, most of which were recognised upon the acquisition of Seagram, Allied Domecq and V&S.

The Group is not dependent on any specific patent or licence.

Note 10. – Inventories

The breakdown of the carrying amount of inventories at the balance sheet date is as follows

(€ million)	30/06/2010	31/12/2010
Raw materials	163	147
Work-in-progress	3,205	3,123
Goods purchased for resale	461	424
Finished goods	263	193
Gross amounts	**4,092**	**3,887**
Raw materials	(24)	(23)
Work-in-progress	(34)	(24)
Goods purchased for resale	(15)	(13)
Finished goods	(11)	(12)
Provision for writedown	**(85)**	**(72)**
Inventories net	**4,007**	**3,815**

At 31 December 2010, 97% of work-in-progress relate to maturing inventories intended to be used for whisky and cognac production. Pernod Ricard is not significantly dependent on its suppliers.

As a consequence of the application of IAS 38 amendment, €11 million of inventories were written off with an impact on equity, on June 30th 2010.

Note 11. – Provisions

1. Breakdown of provisions. — The breakdown of provision amounts in the balance sheet is as follows:

(€ million)	30/06/2010	31/12/2010	Ref.
Non-current provisions			
Provisions for pensions and other long-term employee benefits	408	336	11.3
Other non-current provisions for liabilities and charges	691	660	11.2
Current provisions			
Provisions for restructuring	28	18	11.2
Other current provisions for liabilities and charges	284	266	11.2
Total	**1,411**	**1,287**	

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

(€ million)	Movements in the period						
	30/06/2010	Charges	Utilisations	Unused reversals	Translation adjustments	Other movements	31/12/2010
Provisions for restructuring	28	1	(9)	-	(1)	(0)	18
Other current provisions	284	19	(17)	(3)	(6)	(12)	266
Other non-current provisions	691	66	(30)	(41)	(25)	0	660
Provisions	**1,003**	**86**	**(56)**	**(44)**	**(32)**	**(13)**	**944**

3. Provisions for pensions and other long-term employee benefits. — The Group grants pension and retirement benefits and other post-employment benefits (sickness insurance or life insurance), in the form of defined contribution or defined benefit plans.

The table below presents a roll-forward of the provision between 30 June 2009 and 31 December 2010:

(€ million)	2009	2010
	All benefits	All benefits
Provision at 30 June	405	408
(Income)/expense for the period	39	14
Plans in surplus	10	0
Employer contributions and benefits paid directly by the employer	(61)	(72)
Change in scope of consolidation	0	0
Translation adjustments	1	(14)
Provision at 31 December	**394**	**336**

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

(€ million)	31/12/2009	31/12/2010
	All benefits	All benefits
Benefits acquired in the period	15	20
Interest cost (discounting effect)	98	103
Expected return on plan asset	(75)	(98)
Amortisation of past service cost	1	(2)
Amortisation of actuarial (gains) and losses	0	0
Effect of ceiling on plan assets	0	0
Effect of settlements and curtailments	0	(9)
Changes in plans	0	0
Net expense (income) recognised in income	**39**	**14**

Note 12. – Financial liabilities.

Net debt, as defined and used by the Group, corresponds to total gross debt (translated at balance sheet date exchange rates), including the amount of transaction, cash flow hedge and fair value hedge derivatives, less cash and cash equivalents.

At 31 December 2010, net debt includes the following items:

(€ million)	30/06/2010	31/12/2010
Bonds issued	3,826	3,958
Current financial liabilities (excluding bonds)	317	298
Non-current financial liabilities (excluding bonds)	6,925	6,294
Total financial liabilities	**11,068**	**10,550**
Non-current derivative instruments (in asset positions) used as fair value hedges of financial assets and liabilities	(20)	(14)
Non-current derivative instruments (in liability positions) used as fair value hedges of financial assets and liabilities	105	60
Current derivative instruments (in liability positions) used as fair value hedges of financial assets and liabilities	131	133
Total derivative instruments	**216**	**178**
Cash and cash equivalents	**(701)**	**(1,007)**
Net debt	**10,584**	**9,720**

1. Breakdown of gross debt by maturity:

(€ million)	30/06/2010	31/12/2010
Short-term debt	277	252
Portion of long-term debt due within 1 year	1,106	1,118
Total current debt (less than 1 year)	**1,382**	**1,370**
Portion of long-term debt due between 1 to 5 years	8,616	8,004
Portion of long-term debt due in more than 5 years	1,307	1,368
Total non-current debt (more than 1 year)	**9,923**	**9,372**
Gross debt	**11,305**	**10,742**

Maturities due within 1 year accounted for 13% of total gross debt.

2. Breakdown of net debt by type and by currency, after the effects of hedging, at 30 June 2010 and at 31 December 2010:

At 30.06.10 (€ million)	Total	Syndicated loan (section 6)	Commercial paper	Bonds (section 7&8)	Cash and cash equivalents	Exchange rate swap and others
EUR	4,206	1,312	176	2,906	(194)	6
USD	6,709	5,556	0	0	(45)	1,197
JPY	91	0	0	0	(6)	97
GBP	472	0	0	920	(10)	(438)
Other currencies	(892)	0	0	0	(446)	(447)
Total	**10,584**	**6,868**	**176**	**3,826**	**(701)**	**415**

At 31.12.10 (€ million)	Total	Syndicated loan (section 6)	Commercial paper	Bonds (section 7&8)	Cash and cash equivalents	Exchange rate swap and others
EUR	4,615	1,221	115	2,940	(461)	800
USD	5,614	4,878	0	149	(67)	653
JPY	115	0	0	0	(3)	118
GBP	169	0	0	868	(44)	(655)
Other currencies	(792)	0	0	0	(431)	(361)
Total	**9,720**	**6,099**	**115**	**3,958**	**(1,007)**	**556**

3. Breakdown of net debt by currency and by maturity, after the effects of hedging, at 30 June 2010 and at 31 December 2010:

At 30.06.10 (€ million)	Total	< 1 year	> 1 year and < 5 years	> 5 years	Cash and cash equivalents
EUR	4,206	795	3,006	598	(194)
USD	6,709	543	5,559	652	(45)
JPY	91	97	0	0	(6)
GBP	472	442	40	0	(10)
Other currencies	(892)	(494)	12	35	(446)
Total	**10,584**	**1,382**	**8,616**	**1,286**	**(701)**

At 31.12.10 (€ million)	Total	< 1 year	> 1 year and < 5 years	> 5 years	Cash and cash equivalents
EUR	4,615	1,413	2,944	719	(461)
USD	5,614	67	5,015	599	(67)
JPY	115	118	0	0	(3)
GBP	169	179	34	0	(44)
Other currencies	(792)	(407)	11	35	(431)
Total	**9,720**	**1,370**	**8,004**	**1,353**	**(1,007)**

4. Breakdown of types of interest rate hedge by currency at 30 June 2010 and at 31 December 2010:

At 30.06.10 (€ million)	Net debt by currency	Fixed debt	"Capped" variable debt	Non-hedged variable debt	Cash and cash equivalents	% debt hedged/fixed
EUR	4,206	2,438	750	1,212	(194)	76%
USD	6,709	3,647	815	2,292	(45)	67%
JPY	91	0	0	97	(6)	0%
GBP	472	0	0	482	(10)	0%
Other currencies	(892)	0	0	(447)	(446)	0%
Total	**10,584**	**6,085**	**1,565**	**3,635**	**(701)**	**72%**

At 31.12.10 (€ million)	Net debt by currency	Fixed debt	"Capped" variable debt	Non-hedged variable debt	Cash and cash equivalents	% debt hedged/fixed
EUR	4,615	2,438	750	1,888	(461)	69%
USD	5,614	3,274	748	1,658	(67)	72%
JPY	115	0	0	118	(3)	0%
GBP	169	0	0	213	(44)	0%
Other currencies	(792)	0	0	(361)	(431)	0%
Total	**9,720**	**5,712**	**1,498**	**3,517**	**(1,007)**	**74%**

Of the total €7,210 million of hedged fixed rate debt, €5,712 million originated from debt raised or swapped at a fixed rate.

5. Schedule of financial liabilities at 30 June 2010 and at 31 December 2010. —

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 30 June 2010 and 31 December 2010 rates.

At 30.06.10 (€ 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
Interest-bearing loans and borrowings:	(11,067)	(12,148)	(418)	(1,063)	(538)	(271)	(7,649)	(915)	(1,294)
Cross currency swaps:	(201)	-	-	-	-	-	-	-	-
- Payable flows	-	(1,736)	(11)	(675)	(10)	(10)	(378)	(0)	(652)
- Receivable flows	-	1,551	15	583	18	18	323	0	594
Derivative instruments – liability position :	(390)	(512)	(132)	(112)	(114)	(109)	(27)	(17)	0
Total	**(11,658)**	**(12,844)**	**(546)**	**(1,266)**	**(644)**	**(373)**	**(7,731)**	**(932)**	**(1,353)**

(*) : including interests

At 31.12.10 (€ 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
Interest-bearing loans and borrowings:	(10,549)	(11,512)	(1,330)	(79)	(287)	(6,872)	(429)	(1,092)	(1,424)
Cross currency swaps:	(193)	-	-	-	-	-	-	-	-
- Payable flows	-	(1,661)	(674)	(4)	(8)	(8)	(371)	2	(598)
- Receivable flows	-	1,488	554	-	17	17	307	-	594
Derivative instruments – liability position :	(254)	(404)	(96)	(59)	(118)	(74)	(33)	(20)	(5)
Total	**(10,996)**	**(12,089)**	**(1,546)**	**(142)**	**(397)**	**(6,937)**	**(526)**	**(1,110)**	**(1,433)**

(*): including interests

In order to manage its liquidity risk, the Group has cash on hand at 31 December 2010 for €1,007 million as well as facilities available for €2.2 billion. These facilities allow the Group to be able to reimburse its short term financial debt (less than one year), without any additional financing.

6. Vin&Sprit syndicated loan — On 23 July 2008, Pernod Ricard drew down part of the credit facilities made available under the multi-currency syndicated loan agreement signed on 27 March 2008 for a total available amount of €4,988 million (of which €2,020 million multi-currency) and $10,138 million. At 31 December 2010, drawdowns on this credit facility amounted to €1,221 million, $6,518 million, being a total amount of €6,099 million. The credit facilities, whether revolving or with fixed maturity, denominated in euros, US dollars or multi-currency, bear interest at a rate corresponding to the applicable LIBOR (or, for euro-denominated borrowings, EURIBOR), increased by a pre-determined margin and other mandatory costs. These facilities have maturities ranging from one to five years. These borrowings enabled the Group to repay the amounts due under the syndicated loan signed in August 2005, to finance the cash portion of the Allied Domecq acquisition price and to repay certain debt owed by the Group.

In the context of the syndicated loan, the Group committed itself to complying with the net debt/EBITDA ratio and the EBITDA/financial costs ratio. At 31 December 2010, the Group fully complies with both ratios.

7. Bond issue. — On 6 December 2006, the Group issued bonds for a total amount of €850 million in two tranches which have the following features:

- Tranche 1 – variable rate

The €300 million tranche 1 has a residual maturity of six months (maturity date: 6 June 2011) and carries interest at the Euribor 3-month rate plus 50 basis points.

- Tranche 2 – fixed rate

The €550 million tranche 2 has a residual maturity of three years (maturity date: 6 December 2013), and carries interest at a fixed rate of 4.625%.

On 15 June 2009, Pernod Ricard SA issued €800 million of bonds with the following characteristics: remaining period to maturity of four years (maturity date: 15 January 2015) and bearing fixed-rate interest of 7%.

On 18 March 2010, Pernod Ricard SA issued €1,200 million of bonds with the following characteristics: remaining period to maturity of five years and three months (maturity date: 18 March 2016) and bearing fixed-rate interest of 4,875%.

On 21 December 2010, Pernod Ricard SA issued $201 million of bonds at variable rate with the following characteristics: remaining period to maturity of five years (maturity date: 21 December 2015) and carrying interest at the Libor 3-months rate increased by a pre-determined margin.

8. Allied Domecq bonds. — At 31 December 2010, bonds issued by Allied Domecq Financial Services Ltd are composed of an amount of £450 million bearing a nominal interest rate of 6.625% maturing on 18 April 2011 and an amount of £250 million bearing a nominal interest rate of 6.625% maturing on 12 June 2014.

Note 13. – Notes to the consolidated cash flow statement.

1. Changes in working capital requirements. — It has increased by €142 million due to a strong activity at the end of December 2010 compared to the end of June 2010. It is explained as follows:
   - inventories: €(99) million;
   - trade receivables: €545 million;
   - trade payables: €(186) million;
   - others: € (118) million.

2. Capital expenditure. — Capital expenditures comprise mainly the building of new warehouses and the renewal of equipments in the production subsidiaries.

3. Disposals of tangibles and intangible assets. — The main disposals were the sale of:
   - the securities held in Ambrosio Velasco for €32million;
   - the cognac brand Renault inventories for €10 million;
   - Lindauer ™ brand for €48 million;
   - Palacio de la Vega et Pacharan Zoco brands for €28 million.

4. Increase/decrease in loans. — The Group has proceeded to a reimbursement of €317 million of the syndicated loan. It has also issued $201 million of bonds (€153 million) and has subscribed to €150 million of bank debts.

Note 14. – Shareholders' equity.

1. Share capital. — Pernod Ricard's share capital changed as follows between 1 July 2010 and 31 December 2010:

	Number of shares	Amount (€ million)
Share capital at 1 July 2010	264, 232,313	410
Exercise of options as part of share subscription plans	198,688	0
Share capital at 31 December 2010	264, 431,001	410

Only one category of shares, fully paid ordinary shares, exists. These shares obtain double voting rights if they have been nominally registered for an uninterrupted period of 10 years.

2. Treasury shares. — At 31 December 2010, Pernod Ricard SA and its controlled subsidiaries held 1,553, 096 Pernod Ricard shares for a value of €102 million.

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

3. Dividends paid and proposed. — Following the resolution agreed upon during the Shareholders' Meeting of 10 November 2010, the total dividend in respect of the financial year ended 30 June 2010 was €1.34 per share.

Note 15. – Share-based payments.

The Group recognised an expense of €14 million within operating profit relating to the stock option plans applicable at 31 December 2010 and a €0.8 million expense in respect of the SARs programme (Stock Appreciation Right). A liability of €0.8 million is recognised in other current liabilities at 31 December 2010 in respect of the SARs programmes.

All plans are either equity or cash-settled.

The number of unexercised options changed as follows between 30 June 2010 and 31 December 2010:

	Units
Number of unexercised options at 30 June 2010	9,735,717
Number of options exercised during the period	763,811
Number of options cancelled over the period	47,482
Number of options newly granted over the period	70,000
Number of unexercised options at 31 December 2010	8,994,424

Note 16. – Off-balance sheet commitments and litigation.

At 31.12.10 (€ million)	Total	*< 1 year*	*>1 year and < 5 years*	*> 5 years*
Guarantees received	55,865	47,082	4,769	4,013
Guarantees granted	227,336	184,071	3,271	39,995
Contractual obligations:	**1,281,279**	**333,527**	**778,098**	**169,654**
- Unconditional purchase obligations	1,043,620	273,467	673,187	96,966
- Operating lease agreements	225,949	52,449	102,045	71,455
- Other contractual obligations	11,710	7,611	2,866	1,233

1. Details of main commitments and obligations.

In the context of past acquisitions, warranties with respect to the adequacy of liabilities, notably of a tax-related nature, were granted. Provisions have been recognised to the extent of the amount of the risks as estimated by Group.

Main guarantees granted:

— The Group guaranteed the Allied Domecq pension fund for the contributions owed to it by Allied Domecq Holdings Ltd and its subsidiaries. In addition, the Group granted a guarantee to the holders of the Allied Domecq bonds, whose amount was €813 million at 31 December 2010.

2. Contractual obligations. — In the context of their wine and champagne production operations, the Group's Australian, New Zealand and French subsidiaries, namely, PR Australia, PR New Zealand and Mumm Perrier–Jouët are committed at 31 December 2010, respectively, in amounts of €162 milion, €29 million and €328 million under certain purchase obligations of grapes.

In the context of its cognac production activity, the Group's French subsidiary, Martell, is committed in an amount of €408 million under matured spirit supply agreements.

3. Financial instruments.

— Fair value of financial instruments.

(€ million)	IAS 39 category		Fair value at 31/12/2010	Carrying amount at 31/12/2010	Financial instruments included in net debt
Assets					
Trade receivables	Receivables at amortised cost		1,481	1,481	
Other current assets	Receivables at amortised cost		174	174	
Non-current financial assets:					
- Available-for-sale financial assets	Available-for-sale financial assets at fair value through equity	Level 3	38	38	
- Guarantees and deposits	Receivables at amortised cost		78	78	
- Investment-related loans and receivables	Receivables at amortised cost		4	4	
- Other financial assets	Financial assets at fair value through equity	Level 2	16	16	
Derivative instruments - assets	Financial assets at fair value	Level 2	52	52	14
Cash and cash equivalents	Financial assets at fair value through profit or loss	Level 1	1,007	1,007	1,007
Cash and cash equivalents					**1,021**
Liabilities					
Bank loans – current:					
- Bonds	Financial liabilities at amortised cost		836	940	940
- Syndicated loan	Financial liabilities at amortised cost		-	-	-
- Commercial paper	Financial liabilities at amortised cost		115	115	115
- Other	Financial liabilities at amortised cost		183	183	183
Bank loans – non-current:					
- Bonds	Financial liabilities at amortised cost		3,210	3,018	3,018
- Syndicated loan	Financial liabilities at amortised cost		6,099	6,099	6,099
- Other	Financial liabilities at amortised cost		133	133	133
Finance lease obligations	Financial liabilities at amortised cost		61	61	61
Derivative instruments – liabilities	Financial liabilities at fair value	Level 2	453	453	193
Gross financial debt					**10,742**
Net financial debt					**9,720**

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;
- 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 fair value of forward foreign currency and interest rate and foreign currency swaps were calculated based on available market price and using standard valuation models.

The hierarchical levels for fair value disclosures below accord with the definitions in the amended version of IFRS7 (financial instrument 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.

4. Litigation. — Other than non-material litigation and/or litigation arising in the normal course of the Group's business, only developments affecting litigations mentioned in the annual report on the consolidated financial statements at 30 June 2010 are mentioned hereafter:

Disputes relating to brands

Havana Club

The Havana Club brand is owned in most countries by a joint-venture company called Havana Club Holding S.A. (HCH), of which Pernod Ricard is a shareholder. In some countries, including the United States, the brand is owned by a Cuban company called Cubaexport. Ownership of this brand is currently being challenged, particularly in the United States and in Spain, by a competitor of Pernod Ricard.

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

1. The United States Office of Foreign Assets Control (OFAC) decided that this law had the effect of preventing any renewal of the U.S. trademark registration for the "Havana Club" brand, which is owned in the United States by Cubaexport. In August 2006, the United States Patent and Trademark Office (USPTO) denied Cubaexport's application for renewal of the Havana Club registration following guidance from OFAC. Cubaexport has petitioned the Director of the USPTO to reverse this decision and has also filed a claim against OFAC in the Federal District Court for the District of Columbia, challenging OFAC's decision and the law and regulations applied by OFAC. On 30 March 2009, the United States District Court for the District of Columbia ruled against Cubaexport. Cubaexport lodged an appeal, against the ruling. The appeal was heard on 24 September 2010; a decision on the appeal in the OFAC proceeding could be rendered in the first half of 2011. Cubaexport's petition against the USPTO's decision has been stayed pending the final and binding outcome of the OFAC proceedings.
2. A competitor of the Group has petitioned the USPTO to cancel the Havana Club trademark, which is registered in the name of Cubaexport. On 29 January 2004, the USPTO denied the petition and refused to cancel the trademark registration. As this decision was appealed, proceedings are now pending before the Federal District Court for the District of Columbia. These proceedings have been stayed pending the outcome of Cubaexport's petition to the USPTO (which, as noted above, itself is stayed pending the final and binding outcome to the OFAC proceedings).
3. In August 2006, this competitor introduced a Havana Club rum in the United States which is manufactured in Puerto Rico. Pernod Ricard USA has instituted proceedings in the Federal District Court for the District of Delaware on the grounds that the competitor is falsely claiming to own the Havana Club trademark and that this false claim and the use of the "Havana Club" trademark on rum of non-Cuban origin is misleading to consumers and should be prohibited. In April 2010, the United States District of Delaware Court ruled against Pernod Ricard USA. Pernod Ricard USA filed an appeal against the decision. A decision could be rendered by the end of 2011.
4. HCH's rights relating to the Havana Club brand were confirmed in June 2005 by the Spanish Court of First Instance as a result of proceedings initiated in 1999, in particular by this same competitor. The decision was appealed by the plaintiffs before the Madrid Provincial Court, but their appeal was rejected in February 2007. They have appealed before the Spanish Supreme Court, which dismissed all their claims in a decision rendered on 3 February 2011.

Stolichnaya Trademark

Allied Domecq International Holdings B.V. and Allied Domecq Spirits & Wine USA, Inc., together with SPI Spirits and other parties, are defendants in an action brought in the United States District Court for the Southern District of New York by entities that claim to represent the interests of the Russian Federation on matters relating to ownership of the trademarks for vodka products in the United States. In the action, the plaintiffs challenged Allied Domecq International Holdings B.V.'s then-ownership of the Stolichnaya trademark in the United States and sought damages based on vodka sales by Allied Domecq in the United States and disgorgement of the related profits. On 31 March 2006, Judge George Daniels dismissed all of the plaintiffs' claims concerning Allied Domecq International Holdings B.V.'s then-ownership of the Stolichnaya trademark in the United States. The plaintiffs subsequently filed in the United States Court of Appeals for the Second Circuit an appeal of the portion of the 31 March 2006 decision dismissing their trademark ownership, trademark infringement and fraud claims (as well as the dismissal of certain claims brought only against the SPI entities).

The Court of Appeals on October 8, 2010 (i) affirmed the dismissal of plaintiffs' fraud and unjust enrichment claims and (ii) reinstated plaintiffs' claims for trademark infringement, misappropriation and unfair competition related to the use of the Stolichnaya trademarks. The Court of Appeals has remanded the case to the District Court for further proceedings. The District Court has set a schedule for plaintiffs filing a third amended complaint and defendants responding to that complaint. Defendants intend to file a motion to dismiss the third amended complaint; that motion is expected to be decided later in 2011 or in 2012.

Origin of Stolichnaya

On 18 October 2006, Russian Standard Vodka (USA), Inc. and Roust Trading Limited brought an action against Allied Domecq Spirits & Wine USA, Inc. ("ADSW USA") and Pernod Ricard USA, LLC ("PR USA") in the United States District Court for the Southern District of New York. On 4 December 2006, the plaintiffs filed an amended complaint adding S.P.I. Group SA and S.P.I. Spirits (Cyprus) Limited (together, "SPI") as defendants. The plaintiffs allege that the defendants are engaged in false advertising under federal and New York State law, and also in unlawful trade practices and unfair competition, by advertising and promoting Stolichnaya vodka as "Russian vodka" and by making certain claims on their website and in their advertising campaigns. The plaintiffs also sought a declaration by the court that they had not engaged in false advertising by virtue of their public statements challenging the "Russian" character of Stolichnaya vodka. They also sought all applicable types of damages and the disgorgement of all the Company's related profits. The parties have since been engaged in motion practice and discovery.

On 7 April 2010, ADSW USA and PR USA reached agreement with the plaintiffs under which all claims were definitively dismissed, with no acknowledgment of liability and no payment by either party to the other and without injunctive relief for or against any party or any of its affiliates.

Commercial disputes

Claim brought by the Republic of Colombia against Pernod Ricard, Seagram and Diageo

The Republic of Colombia, as well as several Colombian regional departments, brought a lawsuit in October 2004 before the US District Court for the Eastern District of New York against Pernod Ricard S.A., Pernod Ricard USA LLC, Diageo Plc, Diageo North America Inc. (formely known as Guinness UDV America Inc. f/k/a UDV North America Inc f/k/a Heublein Inc.), United Distillers Manufacturing Inc., UDV North America Inc. and Seagram Export Sales Company Inc.

The plaintiffs' claims are that these companies have committed an act of unfair competition against the Colombian government and its regional departments (which hold a constitutional monopoly on the production and distribution of spirits) by selling their products through illegal distribution channels and by receiving payments from companies involved in money laundering. Pernod Ricard contests these claims.

The defendants moved to dismiss the lawsuit on a variety of grounds, including that the Court lacks subject matter jurisdiction, that Colombia is a more convenient forum, and that the Complaint fails to state a legal claim. On 19 June 2007, the District Court granted in part and denied in part the defendants' motions to dismiss.

On 18 January 2008, the Second Circuit Court of Appeals refused to review the District Court's decision.

The parties are now in discovery regarding the plaintiffs' claims that were not dismissed. Pernod Ricard will continue to vigorously defend itself against the claims.

On September 21, 2009, Pernod Ricard and Diageo, in exchange for a payment of $10,000,000 made to each of Diageo and Pernod Ricard, released Vivendi SA and Vivendi I Corp. from any obligation to indemnify Pernod Ricard and Diageo for certain Colombia litigation losses based on conduct of Seagram that pre-dates its acquisition by Pernod Ricard and Diageo, if Seagram were ever found liable in this litigation.

Customs duties in Turkey

Allied Domecq Istanbul Iç ve Dis Ticaret Ltd. Sti ("Allied Domecq Istanbul"), as well as some of its competitors, is involved in a customs dispute over the customs valuation of certain Turkish imports. The main issue is whether the duty free sales price can be used as the basis for declaring the customs value of Turkish imports. The customs authorities have taken legal action against Allied Domecq Istanbul in Turkey for non-compliance with customs regulations in respect of 249 imports. Allied Domecq Istanbul is actively defending its position. The Turkish Parliament approved a tax amnesty law on February 12, 2011. Once the law and its implementation provisions become effective, Allied Domecq Istanbul will evaluate its consequences on this dispute.

Customs duties in India

Pernod Ricard India (P) Ltd has an ongoing dispute with Indian Customs over the declared transaction value of concentrate of alcohol beverage (CAB) imported by Seagram 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 on 26th 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 and is actively working with the authorities to finalise the remaining provisional assessments.

Apart from the above-mentioned procedures, there are no other government, legal or arbitration procedures pending or threatened, including all procedures of which the Company is aware, which are likely to have or which have had over the last 6 months a significant impact on the profitability of the Company and/or Group.

The above-mentioned suits are only provisioned, under other provisions for contingencies and charges (see note 11), if it is likely 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 provisions taken is the best estimate of the outflow of resources to extinguish this obligation.

Note 17. – Related parties.

During the first half-year ended 31 December 2010, relations between the Group and its associates remained the same as in the financial year ended 30 June 2010, as mentioned in the annual report. In particular, no transactions considered unusual with regards to their nature or amount occurred over the period.

Note 18. – Events after the balance sheet date.

No events after the balance sheet date.

IV. Statutory auditors' report on the interim financial statements *Period of July 1st to December 31st, 2010*

This is a free translation into English of the statutory auditors' report on the interim financial statements issued in the French language and is provided solely for the convenience of English speaking readers. The report must be read in conjunction and construed in accordance with French law and French auditing professional standards.

To the Board of Directors,

In accordance with our appointment as statutory auditors by your General Meeting, and in application of article L.451-1-2 III of the French monetary and financial code (*Code monétaire et financier*), we have performed:

- a limited review of the accompanying interim condensed consolidated financial statements of Pernod Ricard for the period from July 1st to December 31st, 2010;
- verifications on the information provided in the interim management report.

These condensed interim consolidated financial statements were prepared under the responsibility of the Board of Directors. Our role is to express our conclusion on these financial statements, based on our limited review.

1. Conclusion on the financial statements

We have conducted our limited review in accordance with professional standards applicable in France.

A limited review mainly consists of interviewing management in charge of accounting and financial matters and applying analytical procedures. These procedures are less broad in scope that those required for an audit performed in accordance with French auditing standards. Accordingly, a limited review only provides moderate assurance, which is less assurance than that provided by an audit, that the financial statements taken as a whole are free of material misstatements.

Based on our limited review, we did not identify any material misstatements that would cause us to believe that the interim condensed consolidated financial statements did not comply with IAS 34, the IFRS standard relating to interim financial reporting adopted by the European Union.

2. Specific verification

We have also verified the information presented in the half-yearly management report commenting on the interim condensed consolidated financial statements that were the subject of our limited review.

We have nothing to report with respect to the fairness of such information and its consistency with the interim condensed consolidated financial statements.

Neuilly-sur-Seine and Courbevoie, February 17th, 2011

The statutory auditors

Deloitte & Associés	Mazars
Marc de Villartay	Loïc Wallaert