PERNOD RICARD
Limited Company with a share capital of €411,403,467.60
Registered office: 12, place des Etats–Unis - 75116 Paris - France
Company registration number: 582 041 943 R.C.S. Paris.

HALF-YEAR FINANCIAL REPORT

for the half-year ended 31 December 2014

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

RAPPORT FINANCIER SEMESTRIEL Semestre clos le 31 décembre 2014 of PERNOD RICARD GROUP

The present interim financial report relates to the half-year ended 31 December 2014 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.

CONTENTS

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.

Alexandre Ricard

Chairman & CEO

II. Half-year activity report

1. Significant events in half year 2014/15

1.1 Purchase

On 10 July 2014, Pernod Ricard announced the acquisition by Pernod Ricard USA of a block of shares in Avión Spirits LLC with its partner, Tequila Avión. Following this transaction, Pernod Ricard USA holds a large majority of the company that owns Avión, the ultra-premium tequila brand. This transaction reflects Pernod Ricard's confidence in Avión's growth potential and the importance given to the brand to support the Group's ambitions in the United States, its largest market. This acquisition further illustrates Pernod Ricard's ability of to seize tactical acquisition opportunities in the super-premium+ segment in the United States, complementing its innovation strategy.

1.2 Disposal

On 19 December 2014, Pernod Ricard announced the signing of an agreement with Grupo Bepensa for the sale of Caribe Cooler, a major brand in the Mexican ready-to-drink market. The transaction also includes the bottling line related to the production of Caribe Cooler together and the relevant inventories. This disposal is in line with the Group's strategy to focus on its priority spirits and wines brands. The closing of the transaction is subject to customary conditions, including its clearance by the Mexican Anti-Trust authorities, and is expected to take place before the end of the fiscal year 2014/15.

1.3 Bond issues

On 29 September 2014, Pernod Ricard issued bonds for a total amount of €650 million with the following characteristics: remaining period to maturity of ten years (maturity date: 27 September 2024) and bearing fixed-rate interest of 2,125%.

2. Key figures and business analysis

In the first half of its 2014/15 financial year (from 1 July to 31 December 2014), Pernod Ricard generated, at constant forex and Group structure, a gradual improvement in the growth in sales (+1%*) corresponding to +2%* restated for phasing impact of Chinese New Year (19 February 2015 vs. 31 January 2014). As for sales by category, sales of the Top 14 were virtually-stable*, with a growth driven by whiskies and champagnes.

Half-year performance of the Profit from Recurring Operations (PRO) is slightly better than the "slight decline" guidance given in October 2014. The growth in the PRO restated for phasing impact of Chinese New Year reaches +2%*, also consistent with 2014/15 full financial year guidance of PRO growth between +1%* and +3%*.

Key figures are as follows:

- ✓ Gradual improvement in organic and reported growth in sales compared to the first half of the 2013/14 financial year;
- ✓ Decline in gross margin ratio, from 63.6% to 62.5% (-106 bps*) due to a challenging and competitive pricing environment (stable prices), and a negative mix effect driven by geographic mix (growth in India vs. decline in China), and quality mix (Martell);
- ✓ Slight reduction in Advertising & Promotion (A&P) ratio to 17.7%, while increasing support for key innovation projects;
- ✓ Strong decline in structure costs compared to the first half of the 2013/14 financial year (-3%*) driven by Allegro;
- ✓ PRO totalled €1,358 million, stable in terms of organic and reported growth compared to the first half of the 2013/14 financial year. This reflects the elements stated above;
- ✓ Group share of net profit totalled €834 million, a +1% increase compared to the first half of the 2013/14 financial year vs. stable growth of the PRO, mainly due to a slight decrease in the current tax rate;
- ✓ Improvement in Free Cash Flow from recurring operations (€492 million, +38%);
- ✓ Increase in net debt to €9,034 million mainly driven by a mechanical forex impact (€517 million due to variation of EUR/USD parity between 30 June 2014 at 1.37 and 31 December 2014 at 1.21).

* At constant forex and Group structure (organic growth)

Profit from recurring operations

Group

(€ million)	31/12/2013 6 months	31/12/2014 6 months	Organic* growth	
			In M€	In %
Net sales...	4,570	4,621	24	1%
Gross margin after logistics costs..........................	2,909	2,889	(33)	-1%
Advertising and promotional (A&P) expenses......	(821)	(819)	12	-1%
Contribution after A&P.......................................	2,088	2,070	(21)	-1%
Profit from recurring operations	**1,359**	**1,358**	**(3)**	**0%**

Pernod Ricard's 2014/15 first half-year consolidated net sales (excluding tax and duties) increased +1%* to €4,621 million, compared to €4,570 million in the first half-year of the financial year 2013/14. This was due to:

- ✓ Gradual improvement:
  - o improving trend driven in Asia-Rest of World (stable* and +3%* restated for Chinese New Year phasing compared to the first half of the 2013/14 financial year), driven by a continued strong performance in India, Africa-Middle East, Travel Retail, and a gradual improvement of underlying trends in China (yet to be confirmed with upcoming Chinese New Year);
  - o growth in Americas (+2%* vs. +3%* in the first half of the 2013/14 financial year) due to a good performance in Brazil and Travel Retail despite a challenging business environment in the United States;
  - o stable* sales in Europe (vs. +4%* in the first half of the 2013/14 financial year), resulting from a slowdown in Eastern Europe (partly due to a technical impact in Poland), Germany and Travel Retail, but improving trends in Spain and United Kingdom.
- ✓ Growth driven by whiskies:
  - o continued strong performance of Jameson, The Glenlivet, Ballantine's and Indian whiskies, and also of champagnes Mumm et Perrier-Jouët;
  - o improving trend of Martell: volumes up but sales are still declining due to an unfavourable mix;
  - o Absolut is impacted by a challenging US market but is growing outside the United States.

Gross margin after logistics costs totalled €2,889 million, representing organic and reported decline of -1%. Decline in gross margin ratio from 63.6% to 62.5% (-106 bps*) is due to a challenging and competitive pricing environment (stable prices), and a negative mix effect driven by geographic mix (growth in India vs. decline in China) and quality mix (Martell).

Advertising and Promotion (A&P) expenses in the first half of the 2014/15 financial year totalled €819 million, representing a slight reduction in A&P ratio to 17.7%, while increasing support for key innovation projects (Absolut Elyx, tequila Avión).

The contribution after advertising and promotion expenditure reached €2,070 million (-1%*). It represented 44.8% of sales, down -70 bps* compared to the previous financial year.

The structure costs were down sharply compared to the first half of the 2013/14 financial year (-3%*). These savings are driven by Allegro. Savings generated by Allegro are confirmed at €150 million in total. Structure costs are expected in slight decline for the 2014/15 full financial year.

Profit from Recurring Operations is stable at €1,358 million. Organic growth is comparable to the reported growth due to a neutral Group structure effect and a limited forex impact (the stronger US dollar, Chinese yuan and Indian rupee are offset by the devaluation of the Russian ruble and Venezuelan bolivar). The operating margin amounts to 29.4%, -22 bps* compared to the first half of the 2013/14 financial year.

Business activity by geographic area

Europe:

(€ million)	31/12/2013 6 months	31/12/2014 6 months	Organic* growth	
			In M€	In %
Net sales	1,612	1,579	7	0%
Gross margin after logistics costs	1,025	988	4	0%
A&P expenses	(292)	(282)	6	-2%
Contribution after A&P.......................................	734	706	10	1%
Profit from recurring operations	**419**	**412**	**24**	**6%**

* At constant forex and Group structure (organic growth)

Americas:

(€ million)	31/12/2013 6 months	31/12/2014 6 months	Organic[*] growth	
			In M€	In %
Net sales	1,209	1,242	21	2%
Gross margin after logistics costs	794	808	1	0%
A&P expenses	(231)	(242)	(6)	2%
Contribution after A&P	563	566	(4)	-1%
Profit from recurring operations	**356**	**375**	**14**	**4%**

Asia/Rest of World:

(€ million)	31/12/2013 6 months	31/12/2014 6 months	Organic[*] growth	
			In M€	In %
Net sales	1,749	1,801	(4)	0%
Gross margin after logistics costs	1,089	1,093	(38)	-4%
A&P expenses	(298)	(296)	12	-4%
Contribution after A&P	791	797	(27)	-3%
Profit from recurring operations	**584**	**570**	**(41)**	**-7%**

- ✓ Sales in **Europe** were stable[*] but there was a significant increase in Profit from Recurring Operations of + 6%[*]. This growth is driven by premiumisation, through the strengthening of the Top 14 brands (+2%[*]) and the tight management of resources (A&P expenses and structure costs). Reported decrease in PRO is largely due to the depreciation of the Russian ruble.
- ✓ Profit from Recurring Operations from **Americas** improved by +4%[*] despite a reduction in gross margin ratio due to an adverse geographic mix (lesser share of the United States). This strengthening of Profit from Recurring Operations comes mainly from the strict structure costs discipline.
- ✓ Profit from Recurring Operations in the **Asia - Rest of the World** region (-7%[*]) is impacted by Chinese New Year phasing (-2%[*] restated). However, the sales growth is better than in FY 2013/14. The difference between organic growth (-7%[*]) and reported growth (-2%) of Profit from Recurring Operations is due to a more favorable foreign exchange (in particular on Chinese yuan and Indian rupee).

Group share of net profit from recurring operations

(€ million)	31/12/2013 6 months	31/12/2014 6 months
Profit from recurring operations	1,359	1,358
Interest (expenses) income from recurring operations	(227)	(235)
Corporate income tax on recurring operations	(295)	(284)
Net profit from discontinued operations, non-controlling interests and share of net income from associates	(11)	(6)
Group share of net profit from recurring operations	**826**	**834**
Group net profit per share from recurring operations – diluted (in euro)	**3.11**	**3.13**

Net financial expenses from recurring operations

Net financial expenses from recurring operations totalled €(235) million, €(7) million higher than the amount in the comparable period. Average cost of debt amounted to 4.6%, stable compared to the first half of the 2013/14 financial year.

The average cost of debt is still expected to be close to 4.5% for the 2014/15 full financial year.

[*] At constant forex and Group structure (organic growth)

Net debt

Net debt was €9,034 million at 31 December 2014 compared to €8,353 million at 30 June 2014, an increase of €681 million, mainly due to an unfavourable forex impact (€517 million).

Income tax on recurring operations

Income tax on items from recurring operations amounted to €(284) million, equating to a tax rate of 25.3% vs. 26.1% over the first half of 2013/14 financial year.

The 2014/15 full financial year tax rate is still expected to be near 26%.

Group share of net profit from recurring operations

Group share of net profit from recurring operations amounted to €834 million at 31 December 2014, an increase of +1%, slightly better than the stable PRO, mainly due to a slight decrease in the current tax rate.

Group share of net profit

(€ million)	31/12/2013 6 months	31/12/2014 6 months
Profit from recurring operations	1,359	1,358
Other operating income and expenses	(20)	(28)
Operating profit	1,339	1,330
Interest (expenses) income from recurring operations	(227)	(235)
Other financial income/ (expenses)	2	(11)
Income tax	(275)	(290)
Net profit from discontinued operations, non-controlling interests and share of net income from associates	(11)	(6)
Group share of net profit	**828**	**788**

Other operating income and expenses

Other operating income and expenses amounted to €(28) million at 31 December 2014 and included:

- ✓ Net restructuring expenses of €(19) million;
- ✓ Other non-recurring income and expenses of €(10) million.

They are mainly impacted by €(23) million costs linked to Allegro.

Group share of net profit

Group share of net profit was €788 million, a decrease of -5%.

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 2013/14 registration document, available from the website of the *Autorité des Marchés Financiers* or from the Pernod Ricard website.

4. Outlook

Pernod Ricard confirms its 2014/15 financial year guidance with an organic growth in Profit from Recurring Operations between +1% and +3%. The Group also forecasts a positive forex impact on Profit from Recurring Operations expected on the 2014/15 financial year of €140 million (based on average forex rates for the 2014/15 full financial year projected on 9 February 2015, particularly EUR/USD = 1.21).

5. Main related-party transactions

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

III. Condensed consolidated interim financial statements

1. Consolidated income statement

(€ million)	31/12/2013	31/12/2014	Notes
Net sales	4,570	4,621	3
Cost of sales	(1,662)	(1,732)	3
Gross margin after logistics costs	**2,909**	**2,889**	3
A&P costs	(821)	(819)	
Contribution after A&P expenses	**2,088**	**2,070**	
Selling, general and administrative expenses	(729)	(712)	
Profit from recurring operations	**1,359**	**1,358**	
Other operating income	37	24	5
Other operating expenses	(56)	(52)	5
Operating profit	**1,339**	**1,330**	
Financial expenses	(234)	(276)	4
Financial income	9	30	4
Financial income (expenses)	**(225)**	**(245)**	4
Income tax	(275)	(290)	6
Share of net profit/(loss) of associates	0	1	
Net profit from continuing operations	**839**	**795**	
Net profit from discontinued operations	-	-	
Net profit	**839**	**795**	
Including:			
- Attributable to non-controlling interests	11	7	
- Attributable to equity holders of the Parent	828	788	
Earnings per share - basic (in euros)	3.15	2.99	7
Earnings per share - diluted (in euros)	3.12	2.96	7
Net earnings per share from continuing operations (excluding discontinued operations) — basic (in euros)	3.15	2.99	7
Net earnings per share from continuing operations (excluding discontinued operations) — diluted (in euros)	**3.12**	**2.96**	7

2. Half-year consolidated statement of comprehensive income

(€ million)	31/12/2013	31/12/2014
Net profit for the period	**839**	**795**
Items not reclassified to profit or loss		
Actuarial gains/(losses) related to employee defined benefit plans	**18**	**106**
Amounts recognised in shareholders' equity	23	133
Tax impact	(5)	(27)
Items that may be reclassified to profit or loss		
Net investment hedges	**120**	**(53)**
Amounts recognised in shareholders' equity	120	(53)
Tax impact	-	-
Cash flow hedges	**35**	**(24)**
Amounts recognised in shareholders' equity	49	(30)
Tax impact	(13)	6
Available-for-sale financial assets	**-**	**(1)**
Unrealized gains and losses recognised in shareholders' equity	-	(1)
Tax impact	-	-
Exchange differences	**(323)**	**560**
Items reclassified to profit or loss		
Cash flow hedges	**(7)**	**(5)**
Amount recycled in net profit	(11)	(8)
Tax impact	4	3
Available-for-sale financial assets	**-**	**-**
Amount removed from equity and included in profit/loss following a disposal	-	-
Tax impact	-	-
Other comprehensive income, net of tax	**(157)**	**585**
Comprehensive net profit for the period	**681**	**1,380**
Including:		
- Attributable to equity holders of the Parent	677	1,366
- Attributable to non-controlling interests	4	14

3. Consolidated balance sheet

3.1 - Assets

Assets (€ million)	30/06/2014	31/12/2014	Notes
Net amounts			
Non-current assets			
Intangible assets	11,542	12,281	8
Goodwill	4,907	5,241	8
Property, plant and equipment	2,016	2,043	
Biological assets	150	151	
Non-current financial assets	349	543	
Investments in associates	15	16	
Non-current derivative instruments	63	72	14
Deferred tax assets	1,926	2,091	6
Non-current assets	**20,968**	**22,437**	
Current assets			
Inventory and work in progress	4,861	4,962	9
Trade receivables	1,051	1,729	
Income taxes receivable	37	36	
Other current assets	194	214	11
Current derivative instruments	26	43	14
Cash and cash equivalents	477	581	13
Current assets	**6,646**	**7,565**	
Assets held for sale	2	26	
Total assets	**27,616**	**30,028**	

3.2 – Liabilities

Liabilities and shareholders' equity (€ million)	30/06/2014	31/12/2014	Notes
Shareholders' equity			
Share capital	411	411	17
Share premium	3,052	3,052	
Retained earnings and currency translation adjustments	7,142	8,529	
Group net profit	1,016	788	
Group shareholders' equity	**11,621**	**12,780**	
Non-controlling interests	157	165	
Total shareholders' equity	**11,778**	**12,945**	
Non-current liabilities			
Non-current provisions	564	589	12
Provisions for pensions and other long-term employee benefits	569	590	12
Deferred tax liabilities	3,041	3,235	6
Bonds-non-current	6,844	7,813	13
Non-current derivative instruments	85	157	14
Other non-current financial liabilities	830	490	13
Total non-current liabilities	**11,933**	**12,873**	
Current liabilities			
Current provisions	251	202	12
Trade payables	1,463	1,669	
Income taxes payable	56	126	
Other current liabilities	887	760	15
Other current financial liabilities	290	180	13
Bonds-current	929	1,199	13
Current derivative instruments	29	73	14
Total current liabilities	**3,905**	**4,209**	
Liabilities related to assets held for sale	-	0	
Total liabilities and shareholders' equity	**27,616**	**30,028**	

4. Statement of changes in shareholders’ equity

(€ million)	Share capital	Additional paid-in capital	Consolidated reserves	Actuarial gains and losses	Changes in fair value	Currency translation adjustments	Treasury shares	Total attribuable to equity holders of the Parents	Non - controlling interests	Total shareholders' equity
At 01/07/2013	**411**	**3,052**	**8,384**	**(158)**	**(95)**	**(347)**	**(234)**	**11,014**	**165**	**11,179**
Statement of comprehensive income	-	-	828	18	28	(197)	-	**677**	4	**681**
Capital increase	-	-	-	-	-	-	-	**-**	-	**-**
Share-based payment	-	-	19	-	-	-	-	**19**	-	**19**
Purchase/sale of treasury shares	-	-	-	-	-	-	(21)	**(21)**	-	**(21)**
Sale with option of repurchase	-	-	-	-	-	-	-	**-**	-	**-**
Dividends distributed	-	-	(222)	-	-	-	-	**(222)**	(7)	**(229)**
Changes in scope of consolidation	-	-	-	-	-	-	-	**-**	-	**-**
Other movements	-	-	(1)	-	-	-	-	**(1)**	-	**(1)**
At 31/12/2013	**411**	**3,052**	**9,009**	**(140)**	**(67)**	**(544)**	**(254)**	**11,467**	**162**	**11,629**

(€ million)	Share capital	Additional paid-in capital	Consolidated reserves	Actuarial gains and losses	Changes in fair value	Currency translation adjustments	Treasury shares	Total attribuable to equity holders of the Parents	Non - controlling interests	Total shareholders' equity
At 01/07/2014	**411**	**3,052**	**8,998**	**(255)**	**(74)**	**(265)**	**(247)**	**11,621**	**157**	**11,778**
Statement of comprehensive income	-	-	788	106	(29)	500	-	**1,366**	14	**1,380**
Capital increase	-	-	-	-	-	-	-	**-**		**-**
Share-based payment	-	-	12	-	-	-	-	**12**	-	**12**
Purchase/sale of treasury shares	-	-	-	-	-	-	1	**1**	-	**1**
Sale with option of repurchase	-	-	-	-	-	-	-	**-**	-	**-**
Dividends distributed	-	-	(215)	-	-	-	-	**(215)**	(15)	**(230)**
Changes in scope of consolidation	-	-	-	-	-	-	-	**-**	8	**8**
Other movements	-	-	(4)	-	-	-	-	**(4)**	-	**(4)**
At 31/12/2014	**411**	**3,052**	**9,579**	**(148)**	**(103)**	**235**	**(246)**	**12,780**	**165**	**12,945**

5. Consolidated cash flow statement

(€ million)	31/12/2013	31/12/2014	Notes
Cash flow from operating activities			
Net profit attributable to equity holders of the parent	828	788	
Non-controlling interests	11	7	
Share of net profit/(loss) of associates, net of dividends received	-	(1)	
Financial (income) expense	225	245	4
Income tax expense	275	290	6
Net profit from discontinued operations	-	-	
Depreciation and amortisation	97	101	
Net changes in provisions	(68)	(77)	
Net change in impairment of goodwill and intangible assets	3	0	
Impact of derivatives hedging trading transactions	(3)	(0)	
Fair value adjustments on biological assets	(4)	0	
Net (gain)/loss on disposal of assets	-	(14)	5
Share-based payment	19	12	18
Self-financing capacity before interest and tax	**1,384**	**1,352**	
Decrease/(increase) in working capital	(536)	(444)	16
Interest paid	(223)	(254)	
Interest received	4	30	
Income tax paid / received	(195)	(182)	
Cash flow from operating activities	**433**	**502**	
Cash flow from investing activities			
Capital expenditure	(140)	(139)	16
Proceeds from disposals of property, plant and equipment and intangible assets	6	3	16
Change in consolidation scope	-	0	
Cash expenditure on acquisition of non-current financial assets	(26)	(90)	
Cash proceeds from the disposals of non-current financial assets	9	5	
Cash flow from investing activities	**(151)**	**(222)**	
Cash flow from financing activities			
Dividends paid	(441)	(445)	17
Other changes in shareholders' equity	-	-	
Issuance of long term debt	1,520	1,173	16
Repayment of long term debt	(1,281)	(929)	16
(Acquisition)/disposal of treasury shares	(20)	1	
Cash flow from financing activities	**(222)**	**(201)**	
Cash from discontinued activities	-	-	
Increase/(decrease) in cash and cash equivalents (before effect of exchange rate changes)	**60**	**79**	
Net effect of exchange rate changes	(4)	24	
Increase/(decrease) in cash and cash equivalents (after effect of exchange rate changes)	**56**	**104**	
Cash and cash equivalents at beginning of period	**597**	**477**	
Cash and cash equivalents at end of period	**653**	**581**	

6. 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 NYSE 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 11 February 2015, the Board of Directors approved the consolidated interim financial statements for the first half-year ended 31 December 2014.

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 2014 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

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 2014.

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 2014, 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 2014.

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 2014, 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 2014.

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

<u>Standards, amendments and interpretations applied from 1 July 2014</u>

The standards, amendments and interpretations applicable to Pernod Ricard with effect from 1 July 2014, relate to:

- IFRIC 21, Levies, an interpretation issued in May 2013 and endorsed by the European Union in June 2014. This interpretation clarifies that the triggering event for the recognition of a liability for levies (i.e. miscellaneous taxes, duties and other taxes not within the scope of IAS 12) is determined by reference to the terms of the relevant legislation, regardless of the period used as the basis for calculating the levy. Consequently, a liability for payment of a levy cannot be recognized progressively in interim financial statements if there is no present obligation at the interim reporting date. The impact related to the retrospective application of this new standard has been calculated and judged as not material for the Pernod Ricard Group. Accordingly it has been decided to not restate comparative periods.
- IFRS 10, IFRS 11 and IFRS 12 on consolidation, which redefine the concept of the control exercised over an entity, remove the possibility of using proportional consolidation to consolidate jointly-controlled entities, with only the equity method permitted, and supplement the disclosures required in the Notes to the financial statements. The application of this interpretation has no significant impact on the consolidated financial statements.
- Revision of IAS 27 Separate Financial Statements: the application of this interpretation has no significant impact on the consolidated financial statements.
- Revision of IAS 28 Investments in Associates and Joint Ventures: the application of this interpretation has no significant impact on the consolidated financial statements.

Standards, amendments and interpretations for which application is mandatory after 1 July 2015

At the end of December 2014, no new accounting policies applicable after the 1 July 2015 will have significant impact on the Group financial statements.

The annual consolidated 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, amendments to existing standards and interpretations published by the IASB but not yet approved by the European Accounting Regulatory Committee in the annual consolidated financial statements at the balance sheet date.

Note 2. – Consolidation scope

As described in the significant events of the half year activity report, the Group purchased through Pernod Ricard USA a block of shares in Avión Spirits LLC from its partner, Tequila Avión. Following this operation, the consolidation method of Avión Spirits LLC in the consolidated financial statements of the Group changed from equity method to full consolidation method.

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

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 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.

Europe:

(€ million)	31/12/2013 6 months	31/12/2014 6 months
Net sales	1,612	1,579
Gross margin after logistics costs	1,025	988
A&P expenses	(292)	(282)
Profit from recurring operations	**419**	**412**

Americas:

(€ million)	31/12/2013 6 months	31/12/2014 6 months
Net sales	1,209	1,242
Gross margin after logistics costs	794	808
A&P expenses	(231)	(242)
Profit from recurring operations	**356**	**375**

Asia and Rest of the World:

(€ million)	31/12/2013 6 months	31/12/2014 6 months
Net sales	1,749	1,801
Gross margin after logistics costs	1,089	1,093
A&P expenses	(298)	(296)
Profit from recurring operations	**584**	**570**

Total:

(€ million)	31/12/2013 6 months	31/12/2014 6 months
Net sales	4,570	4,621
Gross margin after logistics costs	2,909	2,889
A&P expenses	(821)	(819)
Profit from recurring operations	**1,359**	**1,358**

Breakdown of sales :

(€ million)	31/12/2013 6 months	31/12/2014 6 months
Top 14 Spirits & Champagne	2,913	2,934
Priority Premium Wines	227	243
18 key local spirits brands	784	818
Other	646	627
Total	**4,570**	**4,621**

Note 4. – Financial income/(expenses)

(€ million)	31/12/2013 6 months	31/12/2014 6 months
Financial expenses	(223)	(250)
Financial income	6	30
Net financing cost	**(217)**	**(220)**
Structuring and placement fees	(2)	(2)
Net financial impact of pensions and other long-term employee benefits	(9)	(10)
Other financial income (expenses) from recurring operations	1	(3)
Financial income (expense) from recurring operations	**(227)**	**(235)**
Foreign currency gains (losses)	2	(6)
Other non current financial income (expenses)	-	(5)
Financial income (expenses)	**(225)**	**(245)**

At 31 December 2014, the cost of net debt is mainly composed of financial expenses on the syndicated loan for €5 million, bonds payments of €193 million, interest rate and currency hedges for €10 million and factoring and securitisation agreements totalling €6 million.

Note 5. – Other operating income and expenses

Other operating income and expenses are broken down as follows:

(€ million)	31/12/2013 6 months	31/12/2014 6 months
Restructuring expenses	(6)	(19)
Impairment of assets	(3)	-
Capital gains (losses) on the disposal of assets	-	14
Other non-current expenses	(47)	(34)
Other non-current income	37	9
Other operating income/(expenses)	**(20)**	**(28)**

Note 6. – Income tax

Analysis of the income tax expense:

(€ million)	31/12/2013 6 months	31/12/2014 6 months
Current tax	(230)	(238)
Deferred tax	(45)	(52)
Total	**(275)**	**(290)**

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

(€ million)	31/12/2013 6 months	31/12/2014 6 months
Operating profit	1,339	1,330
Financial income (expense)	(225)	(245)
Taxable profit	**1,114**	**1,085**
Expected income tax expense at French Statutory tax rate (38%)	(423)	(412)
Impact of differences in tax rates	167	154
Tax impact of exchange rate fluctuations	6	11
Re-estimation of deferred tax linked to rate changes	37	(3)
Impact of tax losses used	(1)	4
Impact of reduced/increased tax rates	3	3
Withholding tax and other tax on dividends	(22)	(14)
Other impacts	(41)	(34)
Effective income tax expense	**(275)**	**(290)**
Effective tax rate	**25%**	**27%**

Deferred taxes are broken down as follows by nature:

(€ million)	30/06/2014	31/12/2014
Unrealised margins in inventories	83	86
Value adjustments to assets and liabilities	22	22
Provision for pension benefits	138	141
Deferred tax assets related to losses eligible for carry-forward	931	1,038
Provisions (other than provisions for pensions and other long-term employee benefits) and other	751	805
Total deferred tax assets	**1,926**	**2,091**
Accelerated depreciation	55	57
Value adjustments to assets and liabilities	2,492	2,619
Other	495	560
Total deferred tax liabilities	**3,041**	**3,235**

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

(€ million)	31/12/2013			31/12/2014		
	Amount before tax	Tax impact	Amount after tax	Amount before tax	Tax impact	Amount after tax
Actuarial gains and losses..	23	(5)	18	133	(27)	106
Net investment hedges..	120	-	120	(53)	-	(53)
Cash flow hedges..	37	(9)	28	(38)	9	(29)
Available-for-sale financial assets..	-	-	-	1	-	1
Exchange differences..	(323)	-	(323)	560	-	560
Components of other comprehensive income..	**(143)**	**(14)**	**(157)**	**603**	**(18)**	**585**

Note 7. – Earnings per share

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

	31/12/2013 6 months	31/12/2014 6 months
Numerator (€ million)		
Group share of net profit	828	788
Group share of net profit from continuing operations	828	788
Denominator (in number of shares)		
Average number of shares in circulation	263,265,464	263,928,233
Dilutive effect of performance-based shares	1,098,806	973,185
Dilutive effect of stock options and subscription options	1,402,012	1,141,562
Average number of outstanding shares—diluted	**265,766,282**	**266,042,980**
Earnings per share (€) – Group share		
Earnings per share – basic..	3.15	2.99
Earnings per share – diluted..	3.12	2.96
Net earnings per share from continuing operations – basic	3.15	2.99
Net earnings per share from continuing operations – diluted	3.12	2.96

Note 8. – Intangible assets and goodwill

(€ million)	30/06/2014	31/12/2014
Goodwill	5,047	5,379
Brands	11,865	12,623
Other intangible assets	298	320
Gross amounts	**17,210**	**18,322**
Goodwill	(140)	(139)
Brands	(431)	(454)
Other intangible assets	(189)	(207)
Amortisation	**(761)**	**(800)**
Net intangible assets	**16,449**	**17,522**

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 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

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

(€ million)	30/06/2014	31/12/2014
Raw materials	132	131
Work-in-progress	4,039	4,208
Goods purchased for resale	471	471
Finished goods	272	213
Gross amounts	**4,915**	**5,022**
Raw materials	(12)	(13)
Work-in-progress	(12)	(13)
Goods purchased for resale	(21)	(26)
Finished goods	(9)	(9)
Provision for writedown	**(54)**	**(61)**
Inventories net	**4,861**	**4,962**

At 31 December 2014, 79% 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.

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 €733 million at 31 December 2014 and €479 million at 30 June 2014. As substantially all risks and rewards associated with the receivables were transferred, they were derecognized.

Derecognised assets where there is continuing involvement

(€ million)	Carrying amount of countinuing involvement				Fair value of continuing involvement	Exposition maximale
Continuing involvement	*Amortised cost*	*Held to maturity*	*Available for sale*	*Financial liabilities at fair value*		
Guarantee deposit – factoring and securisation	**38**				**38**	**38**

Note 11. – Other current assets

Other current assets are broken down as follows:

(€ million)	30/06/2014	31/12/2014
Advances and down payments	17	29
Tax accounts receivable, excluding income tax	98	108
Prepaid expenses	58	59
Other receivables	21	19
Total	**194**	**214**

Note 12. – Provisions

1. Breakdown of provisions.

The breakdown of provision amounts in the balance sheet is as follows:

(€ million)	30/06/2014	31/12/2014	Notes
Non-current provisions			
Provisions for pensions and other long-term employee benefits	569	590	12.3
Other non-current provisions for liabilities and charges	564	589	12.2
Current provisions			
Provisions for restructuring	101	75	12.2
Other current provisions for liabilities and charges	150	127	12.2
Total	**1,384**	**1,381**	

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

(En millions d'euros)	Movements in the period						
	30/06/2014	Allowances	Used	Unused reversals	Translation adjustments	Other movements	31/12/2014
Provisions for restructuring	101	10	(35)	(3)	2	-	75
Other current provisions	150	15	(7)	(5)	(0)	(25)	127
Other non-current provisions	564	16	(26)	(7)	12	29	589
Provisions	**815**	**42**	**(68)**	**(15)**	**14**	**3**	**791**

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 and 31 December during half-year 2013/14 and half-year 2014/15:

(€ million)	2013	2014
Net liability recognised in the balance sheet at 30 June	294	306
(Income)/expense for the period	31	31
Employer contributions and benefits paid directly by the employer	(71)	(65)
Change in scope of consolidation	-	(0)
Translation adjustments	(19)	10
Actuarial gains and losses	(23)	(133)
Net liability recognised in the balance sheet at 31 December	**211**	**149**
Plan surplus	355	441
Provision at 31 December	**566**	**590**

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

(€ million)	31/12/2013	31/12/2014
Benefits acquired in the period	23	23
Net interest cost	5	4
Taxes, Expenses and Premiums	3	5
Effect of Past Service Cost and Curtailment	0	(0)
Effect of Non-Routine Settlement	-	-
Net expense (income) recognised in income	**31**	**31**

Note 13. – Financial liabilities

Net debt, as defined and used by the Group, corresponds to total gross debt (translated at closing rate), including fair value and net investment hedge derivatives, less cash and cash equivalents.

1. Breakdown of net financial debt by nature and maturity

(€ million)	30/06/2014			31/12/2014		
	Current	Non-current	Total	Current	Non-current	Total
Bonds	**929**	**6,844**	**7,773**	**1,199**	**7,813**	**9,012**
Syndicated loan	-	346	346	-	-	-
Commercial paper	191	-	191	76	-	76
Other loans and long-term debts	99	483	582	104	490	594
Other financial liabilities	**290**	**830**	**1,119**	**180**	**490**	**670**
Gross financial debt	**1,219**	**7,673**	**8,893**	**1,379**	**8,303**	**9,682**
Fair value hedge derivatives – assets	-	(56)	(56)	-	(72)	(72)
Fair value hedge derivatives – liabilities	-	1	1	-	-	-
Fair value hedge derivatives	**-**	**(54)**	**(54)**	**-**	**(72)**	**(72)**
Net investment hedge derivatives – assets	(1)	(7)	(8)	-	-	-
Net investment hedge derivatives – liabilities	-	-	-	5	-	5
Net investment hedge derivatives	**(1)**	**(7)**	**(8)**	**5**	**-**	**5**
Financial debt after hedges	**1,218**	**7,612**	**8,830**	**1,385**	**8,231**	**9,615**
Cash and cash equivalents	**(477)**	**-**	**(477)**	**(581)**	**-**	**(581)**
Net financial debt	**741**	**7,612**	**8,353**	**803**	**8,231**	**9,034**

2. Breakdown of debt by currency before and after foreign exchange hedge instruments at 30 June 2014 and 31 December 2014

At 30/06/2014 (€ million)	Debt before hedging	Amount hedged	Debt after hedging	Cash	Net debt after hedging	% debt after hedging	% net debt after hedging
EUR..	4,778	(335)	4,442	(90)	4,353	50%	52%
USD..	4,053	1,001	5,054	(48)	5,006	57%	60%
GBP..	2	(256)	(254)	(41)	(295)	-3%	-4%
SEK..	10	(203)	(193)	(58)	(251)	-2%	-3%
Other currencies..............................	50	(269)	(219)	(240)	(460)	-2%	-6%
Financial debt by currency............	**8,893**	**(63)**	**8,830**	**(477)**	**8,353**	**100%**	**100%**

At 31/12/2014 (€ million)	Debt before hedging	Amount hedged	Debt after hedging	Cash	Net debt after hedging	% debt after hedging	% net debt after hedging
EUR..	5,195	(714)	4,481	(173)	4,308	47%	48%
USD..	4,415	1,067	5,482	(51)	5,431	57%	60%
GBP..	1	(364)	(363)	(10)	(373)	-4%	-4%
SEK..	9	(150)	(140)	(8)	(148)	-1%	-2%
Other currencies..............................	60	95	156	(340)	(184)	2%	-2%
Financial debt by currency............	**9,682**	**(67)**	**9,615**	**(581)**	**9,034**	**100%**	**100%**

3. Breakdown of debt by currency and type of rate hedging at 30 June 2014 and 31 December 2014

Au 30/06/2014 (€ million)	Debt after hedging by currency	Fixed-rate debt*	'Capped' floating rate debt	Non-hedged floating rate debt	% (fixed + capped floating rate debt)/ debt after hedging	Cash	% (fixed + capped floating rate debt)/ net debt
EUR..............................	4,442	3,233	-	1,209	73%	(90)	74%
USD..............................	5,054	4,263	-	791	84%	(48)	85%
GBP..............................	(254)	-	-	(254)	N/S	(41)	NS
SEK..............................	(193)	-	-	(193)	N/S	(58)	NS
Other currencies............	(219)	-	-	(219)	N/S	(240)	NS
Total................................	**8,830**	**7,497**	**-**	**1,333**	**85%**	**(477)**	**90%**

At 31/12/2014 (€ million)	Debt after hedging by currency	Fixed-rate debt*	'Capped' floating rate debt	Non-hedged floating rate debt	% (fixed + capped floating rate debt)/ debt after hedging	Cash	% (fixed + capped floating rate debt)/ net debt
EUR..............................	4,481	3,881	-	599	87%	(173)	90%
USD..............................	5,482	4,803	-	679	88%	(51)	88%
GBP..............................	(363)	-	-	(363)	N/S	(10)	NS
SEK..............................	(140)	-	-	(140)	N/S	(8)	NS
Other currencies............	156	-	-	156	N/S	(340)	NS
Total................................	**9,615**	**8,684**	**-**	**931**	**90%**	**(581)**	**96%**

*Hedge accounting and other derivatives

4. Breakdown of fixed-rate/floating rate debt before and after interest rate hedge instruments at 30 June 2014 and 31 December 2014

(€ million)	30/06/2014				31/12/2014			
	Debt before hedging		Debt after hedging		Debt before hedging		Debt after hedging	
Fixed-rate debt...................................	7,456	84%	7,497	85%	8,563	89%	8,684	90%
'Capped' floating-rate debt.................	-	-	-	-	-	-	-	-
Floating-rate debt..............................	1,374	16%	1,333	15%	1,052	11%	931	10%
Financial debt after hedging by nature of hedges	**8,830**	**100%**	**8,830**	**100%**	**9,615**	**100%**	**9,615**	**100%**

At 31 December 2014, before taking account of any hedges, 89% of the Group's gross debt was fixed-rate and 11% floating-rate. After hedging, the floating-rate part was 10%.

5. Schedule of financial liabilities at 30 June 2014 and 31 December 2014

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 2014 and 31 December 2014.

At 30/06/2014 (€ 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...		(2,375)	(88)	(274)	(301)	(250)	(171)	(168)	(1,122)
Nominal value.....................................		(8,790)	(220)	(869)	(1,380)	(1,663)	(368)	(357)	(3,934)
Gross financial debt:	**(8,893)**	**(11,164)**	**(308)**	**(1,143)**	**(1,681)**	**(1,913)**	**(539)**	**(525)**	**(5,056)**
Cross currency swaps:									
Payable flows................................	-	-	-	-	-	-	-	-	-
Receivable flows............................	-	-	-	-	-	-	-	-	-
Derivative instruments - liabilities........	(114)	(155)	(32)	(26)	(32)	(18)	(17)	(17)	(12)
Derivative instruments - liabilities:	**(114)**	**(155)**	**(32)**	**(26)**	**(32)**	**(18)**	**(17)**	**(17)**	**(12)**
Total financial liabilities....................	**(9,007)**	**(11,319)**	**(340)**	**(1,169)**	**(1,713)**	**(1,931)**	**(556)**	**(542)**	**(5,068)**

At 31/12/2014 (€ 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...		(9,400)	(916)	(195)	(1,235)	(2,063)	(5)	(5)	(4,980)
Nominal value.....................................		(2,641)	(283)	(111)	(331)	(272)	(200)	(200)	(1,245)
Gross financial debt:	**(9,682)**	**(12,041)**	**(1,199)**	**(306)**	**(1,566)**	**(2,335)**	**(205)**	**(205)**	**(6,225)**
Cross currency swaps:									
Payable flows................................	-	(661)	(1)	(1)	(659)	-	-	-	-
Receivable flows............................	-	594	-	-	594	-	-	-	-
Derivative instruments - liabilities........	-	(179)	(57)	(32)	(30)	(19)	(19)	(19)	(3)
Derivative instruments - liabilities:	**-**	**(247)**	**(58)**	**(33)**	**(96)**	**(19)**	**(19)**	**(19)**	**(3)**
Total financial liabilities....................	**(9,682)**	**(12,288)**	**(1,258)**	**(340)**	**(1,662)**	**(2,353)**	**(224)**	**(224)**	**(6,228)**

6. Syndicated loan

The €2.5 billion multi-currency revolving credit facility was the subject of an amendment in October 2013 which, among other things, extended its maturity by 18 months and reduced margins. The revolving drawdowns, denominated in euros, US dollars or multi-currency, incur interest at the applicable LIBOR (or, for euro-denominated drawdowns, EURIBOR), plus a predetermined spread and mandatory costs. At 31 December 2014, the undrawn amount of the multi-currency revolving credit facility was €2,500 million.

7. Bonds

Nominal amount	Interest rate	Issue date	Maturity	Carrying amount at 31/12/2014 (€ million)
650 MEUR	2.13%	29/09/2014	27/09/2024	648
850 MEUR	2.00%	20/03/2014	22/06/2020	856
800 MEUR	7.00%	15/06/2009	15/01/2015	854
1,200 MEUR	4.88%	18/03/2010	18/03/2016	1,261
201 MUSD	Spread + 3-month LIBOR	21/12/2010	21/12/2015	165
1,000 MEUR	5.00%	15/03/2011	15/03/2017	1,036
1,000 MUSD	5.75%	07/04/2011	07/04/2021	843
1,500 MUSD	4.45%	25/10/2011	15/01/2022	1,266
850 MUSD	2.95%	12/01/2012	15/01/2017	708
800 MUSD	4.25%	12/01/2012	15/07/2022	671
850 MUSD	5.50%	12/01/2012	15/01/2042	703
Total bonds				**9,012**

Note 14. – Financial instruments

Fair value of financial instruments

(€ million)	Measurement level	Breakdown by accounting classification				30/06/2014	
		Fair value – profit	Fair value shareholders' equity	Loans and receivables	Liabilities at amortised cost	Balance sheet value	Fair value
Assets							
Available-for-sale financial assets	Level 3	-	19	-	-	19	19
Guarantees, deposits, investment-related receivables		-	-	63	-	63	63
Other non-current financial assets	Level 2	267	-	-	-	267	267
Trade receivables		-	-	1,051	-	1,051	1,051
Other current assets		-	-	194	-	194	194
Derivative instruments – assets	Level 2	89	-	-	-	89	89
Cash and cash equivalents	Level 1	477	-	-	-	477	477
Liabilities and shareholders' equity							
Bonds		-	-	-	7,773	7,773	8,346
Bank debt		-	-	-	1,119	1,119	1,119
Finance lease obligations		-	-	-	45	45	45
Derivative instruments – liabilities	Level 2	114	-	-	-	114	114

(€ million)	Measurement level	Breakdown by accounting classification				31/12/2014	
		Fair value – profit	Fair value shareholders' equity	Loans and receivables	Liabilities at amortised cost	Balance sheet value	Fair value
Assets							
Available-for-sale financial assets.............	Level 3	-	19	-	-	19	19
Guarantees, deposits, investment-related receivables		-	-	79	-	79	79
Other non-current financial assets............	Level 2	445	-	-	-	445	445
Trade receivables.....................................		-	-	1,729	-	1,729	1,729
Other current assets.................................		-	-	213	-	213	213
Derivative instruments – assets................	Level 2	115	-	-	-	115	115
Cash and cash equivalents.........................	Level 1	581	-	-	-	581	581
Liabilities and shareholders' equity							
Bonds...		-	-	-	9,012	9,012	9,678
Bank debt...		-	-	-	670	670	670
Finance lease obligations..........................		-	-	-	42	42	42
Derivative instruments – liabilities...........	Level 2	230	-	-	-	230	230

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 recognised in the financial statements at the balance sheet date was calculated on the basis of available market data, using current valuation models.

The hierarchical levels for fair value disclosures below 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 2014, the impact was not significant.

Note 15. – Other current liabilities

Other current liabilities are broken down as follows:

(€ million)	30/06/2014	31/12/2014
Taxes and social security	576	687
Other operating payables	302	57
Other payables	9	16
Total	**887**	**760**

Note 16. – Notes to the consolidated cash flow statement

1. Working capital requirement

The working capital requirement has increased by €444 million due to a usually stronger activity at the end of December compared to the end of June. It is explained as follows:

- inventories: +€26 million;
- trade receivables: +€670 million;
- trade payables: €(177) million;
- others: €(75) million.

2. Capital expenditure

Capital expenditures comprise the rise in capacities of production (distilleries) but also new warehouses and the renewal of equipment (wine storehouses, barrels…) in the production subsidiaries.

3. Disposals of tangibles and intangible assets

No main disposals carried out during the semester.

4. Increase/decrease in loans

The Group issued bonds for a total amount of €650 million in order notably to reimburse multi-currency revolving credit facility drawdown.

Note 17. – Shareholders' equity

1. Share capital

Pernod Ricard's share capital changed as follows between 1 July 2014 and 31 December 2014:

	Number of shares	Amount (€ million)
Share capital at 1 July 2014	265,421,592	411
Share capital at 31 December	**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.

2. Treasury shares

At 31 December 2014, Pernod Ricard SA and its controlled subsidiaries held 1,428,314 Pernod Ricard shares for a value of €108 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 6 November 2014, the total dividend in respect of the financial year ended 30 June 2014 was €1.64 per share. An interim dividend payment of €0.82 per share having been paid on 8 July 2014, the balance amounting to €0.82 per share has been detached on 13 November 2014 and paid on 17 November 2014.

Note 18. – Share-based payments

The Group recognised an expense of €11.7 million within operating profit relating to the stock option and the free shares plans applicable at 31 December 2014 and €0,5 expense in respect of the Stock Appreciation Rights programmes (Stock Appreciation Rights). A liability of €3.7 million was recognised in other current liabilities at 31 December 2014 in respect of the SARs programmes.

The stock option and the free shares plans are equity settled. The SARs programmes are cash settled options.

The number of options and outstanding free shares changed as follows between 30 June 2014 and 31 December 2014:

	Units
Number of outstanding options / shares at 30 June 2014	6,561,094
Number of options exercised / shares acquired during the period	(879,913)
Number of options / shares cancelled over the period	(60,300)
Number of options / shares newly granted over the period	583,240
Number of outstanding options / shares at 31 December 2014	**6,204,121**

Note 19. – Off-balance sheet commitments

The Group's off-balance sheet commitments given and received, which amounted respectively to €1,865 million and €2,466 million as of 30 June 2014, rose by €6 million and €301 million in the first half of the 2014/15 financial year. This variation is mainly due to no drawdown on the multi-currency revolving credit facility which undrawn amount was €2,500 million on 31 December 2014.

Note 20. – Contingent liabilities

In March 2014, Pernod Ricard India received a tax reassessment proposal for the financial years 2006/07 to 2010/11 of an estimated amount of INR 7,785 million, including interest, or €101 million and mainly related to the tax deductibility of advertising and promotion expenses.

In February 2015, Pernod Ricard received a final tax reassessment for the above mentioned financial years for a total amount of INR 6,732 million, including interest, or €88 million. This final order is mainly related to the tax deductibility of advertising and promotion expenses. After consulting with its tax advisors, 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) 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 2014, for all litigation and risks in which it is involved, amounted to €715 million, compared to €714 million at 30 June 2014 (see Note 12). Pernod Ricard provides no further details (other than in exceptional circumstances), as disclosing the amount of any provision for ongoing litigation could cause the Group serious harm.

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

Disputes relating to brands

Havana Club

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

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

1. The United States Office of Foreign Assets Control (OFAC) decided that this law had the effect of preventing any renewal of the US trademark registration for the Havana Club brand, which, in the United States, has been owned by Cubaexport since 1976. In August 2006, the United States Patent and Trademark Office (USPTO) denied the renewal of the said Havana Club registration, following guidance from the OFAC. Cubaexport petitioned the Director of the USPTO to reverse this decision and also filed a claim against the OFAC challenging both the OFAC's decision and the law and regulations applied by the 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. This decision has no impact on the Group's accounts. The USPTO must now decide whether or not it should cancel Cubaexport's registration. In the meantime, Pernod Ricard has announced the launch of a Cuban rum, produced using the same processes as the Havana Club range, and which will be distributed in the United States once the embargo is lifted. This product will be sold under the Havanista® trademark, registered with the USPTO since August 2011.

2. A competitor of the Group has petitioned the USPTO to cancel the Havana Club trademark, which is registered in the name of Cubaexport. In January 2004, the USPTO denied the petition and refused to cancel the trademark registration. As this decision was appealed, proceedings are now 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.

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.

Stolichnaya

Allied Domecq International Holdings BV 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 the ownership of the trademarks for vodka products in the United States. In the action, the plaintiffs challenged Allied Domecq International Holdings BV's then-ownership of the Stolichnaya trademark in the United States and sought damages and interest based on vodka sales by Allied Domecq in the United States and disgorgement of the related profits. Their claims concerning Allied Domecq International Holdings BV's then-ownership of the Stolichnaya trademark in the United States having been dismissed in March 2006, the plaintiffs subsequently filed an appeal for the portion of the decision dismissing their trademark ownership, trademark infringement and fraud claims (as well as the dismissal of certain claims brought only against the SPI Group entities).

In October 2010, the Court of Appeals (i) affirmed the dismissal of the plaintiffs' fraud and unjust enrichment claims and (ii) reinstated the 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 plaintiffs filed their Third Amended Complaint in February 2011, alleging trademark infringement (and related claims) and misappropriation against Allied Domecq, the SPI Group entities and newly-added defendants William Grant & Sons USA and William Grant & Sons, Inc., (the current distributors of Stolichnaya vodka in the United States). All defendants moved to dismiss the plaintiffs' Third Amended Complaint.

On 1 September 2011, the plaintiffs' trademark and unfair competition claims were dismissed with prejudice on the ground that the plaintiffs lacked standing to bring these claims in the name of the Russian Federation. Because he dismissed the federal trademark claims, the judge declined to exercise jurisdiction over the remaining common law misappropriation claim and thus he dismissed that claim without prejudice to the plaintiffs refiling that claim in a state court.

The District Court having entered judgment on 8 September 2011, the plaintiffs filed a notice of appeal in October 2011.

On 5 August 2013, the Court of Appeals confirmed that the plaintiffs lacked standing to bring claims in the name of the Russian Federation and dismissed their Third Amended Complaint. The plaintiffs' petition to the Supreme Court for review of the case was denied on 24 February 2014.

On 4 February 2014 and certainly in anticipation of the Supreme Court denial the plaintiffs filed a new action in the United States District Court for the Southern District of New York, asserting many of the same claims as the previous action and some additional claims arising from the same alleged facts, including common law claims for trademark infringement and unfair competition. Plaintiffs attached to the complaint a purported assignment of the Russian Federation's alleged US trademark rights, and they asserted that that assignment cured the lack of standing that was the basis for the courts' dismissal of the first action. Defendants filed a motion to dismiss the new action on a number of grounds, including that the assignment is ineffective to confer standing on the plaintiffs, the claims are untimely, and the claims are barred because of the dismissal of the plaintiffs' previous action.

On 25 August 2014, Judge Shira Scheindlin denied defendants' motion to dismiss plaintiffs' federal claims for trademark infringement but granted defendants' motion to dismiss plaintiffs' other claims. Defendants then filed a motion for reconsideration or to authorize an immediate appeal, and plaintiffs filed a cross-motion for reconsideration; Judge Scheindlin denied both motions. Judge Scheindlin, however, allowed defendants to renew their motion to dismiss on the ground that plaintiffs lack standing to pursue their claims. The parties had until 6 October 2014, to submit reports from Russian law experts on issues relevant to the plaintiffs' standing.

On 24 November 2014, Judge Shira Scheindlin rejected the plaintiffs' new claim for lack of standing. After hearing testimony from Russian law experts, Jugde Scheindlin decided that the Russian Civil Code prohibited the plaintiffs from owning intellectual property. The plaintiffs appealed this decision.

On 26 January 2015, the plaintiffs and the "Allied Domecq" parties signed a settlement agreement to bring an end to their dispute. On 2 February 2015, the Appeal Court of New York ordered the "Allied Domecq" parties to be removed from the proceedings.

Commercial disputes

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

In October 2004, the Republic of Colombia, as well as several Colombian regional departments, brought a lawsuit before the United States District Court for the Eastern District of New York against Pernod Ricard SA, Pernod Ricard USA LLC, Diageo Plc, Diageo North America Inc., United Distillers Manufacturing Inc., IDV 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 is not competent to hear this dispute, that Colombia is a more convenient forum, and that the complaint fails to state a legal claim. In June 2007, the District Court granted in part and denied in part the defendants' motions to dismiss.

In January 2008, the United States Court of Appeals for the Second Circuit refused to review the District Court's decision.

After a period of discovery regarding the plaintiffs' claims that were not dismissed, in March 2011 Pernod Ricard filed a new motion to dismiss based on recent case law regarding the extraterritorial application of the "RICO" law. The discovery has been stayed in its entirety until the Court rules on this motion.

In September 2009, Pernod Ricard and Diageo, in exchange for a payment of US$10 million 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.

On 8 November 2012, the plaintiffs voluntarily dismissed all their remaining claims without prejudice, and the Court so ordered. Pernod Ricard will continue to work with the Colombian Regional Departments in a cooperative effort to fight against smuggling and counterfeit products and to promote competitive markets that benefit consumers and producers alike.

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

Furthermore, Pernod Ricard India received a tax reassessment proposal in March 2014 and a final tax reassessment in February 2015 for the financial years 2006/07 to 2010/11 mainly relating to the tax deductibility of advertising and promotion 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), when it is likely that a current liability stemming from a past event will require the payment of an amount which can be reliably estimated. The amount of the provision is the best estimate of the outflow of resources required to extinguish this liability.

Note 22. – Related parties

During the first half-year ended 31 December 2014, relations between the Group and its associates remained the same as in the financial year ended 30 June 2014, as mentioned in the annual report. In particular, no transactions considered unusual with regards to their nature or amount occurred over the period.

Note 23. – Events after the balance sheet date

On 15 January 2015, Pernod Ricard repaid bonds for a total amount of €800 million bearing fixed-rate of 7%.

Mr Alexandre Ricard was appointed as Chairman & CEO of the Group by the Board of Directors held on 11 February 2015.

IV. Statutory auditors' report on the interim financial statements

Statutory auditors' review report on the first half-yearly financial information

Period of July 1st to December 31st, 2014

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

To the shareholders,

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

- the review of the accompanying condensed half-yearly consolidated financial statements of Pernod Ricard for the period from July 1st to December 31st, 2014, and

- the verification on the information contained in the half-yearly management report.

These condensed half-yearly consolidated 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.

1. 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 condensed half-yearly consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 – standard of the IFRSs as adopted by European Union applicable to interim financial information.

2. Specific verification

We have also verified the information presented in the interim management report in respect of the condensed half-yearly consolidated financial statements subject to our review.

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

Neuilly-sur-Seine & Courbevoie, February 12th 2015

The statutory auditors

French original signed by

Deloitte & Associés	Mazars
David Dupont-Noel	Isabelle Sapet