

6. Consolidated Financial Statements

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6.1 Consolidated income statement

The word “restated” refers solely to the restatement of the FY18 financial statements required by the application of IFRS 15 (see detail in Note 1.1.2.1.1 to the consolidated financial statements below). When the information presented is not restated, this means that the aggregates in question are not impacted by IFRS 15.

€ million	30.06.2018 restated	30.06.2019	Notes
Net sales	8,722	9,182	2
Cost of sales	(3,433)	(3,533)	2
Gross margin after logistics expenses	5,289	5,648	2
Advertising and promotion expenses	(1,429)	(1,512)	2
Contribution after advertising and promotion expenses	3,860	4,137	2
Structure costs	(1,502)	(1,556)	
Profit from Recurring Operations	2,358	2,581	
Other operating income and expenses	(62)	(206)	3.1
Operating profit	2,296	2,375	
Financial expenses	(375)	(346)	3.2
Financial income	74	36	3.2
Financial results	(301)	(310)	
Corporate income tax	(392)	(582)	3.3
Share of net profit/(loss) of associates	0	0	
NET PROFIT	1,603	1,482	
O/w:			
• non-controlling interests	26	27	
• Group share	1,577	1,455	
Earnings per share – basic (<i>in euros</i>)	5.97	5.51	3.4
Earnings per share – diluted (<i>in euros</i>)	5.94	5.48	3.4

6.2 Consolidated statement of comprehensive income

€ million	30.06.2018	30.06.2019
Net profit for the period	1,603	1,482
Non-recyclable items		
Actuarial gains/(losses) related to defined benefit plans	257	267
<i>Amount recognised in shareholders' equity</i>	321	319
<i>Tax impact</i>	(64)	(52)
Equity instruments		66
<i>Unrealised gains and losses recognised in shareholders' equity</i>		67
<i>Tax impact</i>		(1)
Recyclable items		
Net investment hedge	1	(3)
<i>Amount recognised in shareholders' equity</i>	1	(3)
<i>Tax impact</i>	-	-
Cash flow hedges ⁽¹⁾	18	7
<i>Amount recognised in shareholders' equity</i>	26	11
<i>Tax impact</i>	(8)	(4)
Translation differences	(178)	112
Other comprehensive income for the period, net of tax	99	448
COMPREHENSIVE INCOME FOR THE PERIOD	1,701	1,930
O/w:		
• Group share	1,680	1,900
• non-controlling interests	21	30

(1) Including €(2) million recycled through profit or loss in FY19.

6.3 Consolidated balance sheet

Assets

€ million	30.06.2018	30.06.2019	Notes
Net amounts			
Non-current assets			
Intangible assets	11,539	11,683	4.1
Goodwill	5,319	5,391	4.1
Property, plant and equipment	2,424	2,549	4.2
Non-current financial assets	886	1,419	4.3
Investments in associates	11	14	
Non-current derivative instruments	2	20	4.3/4.10
Deferred tax assets	1,556	1,590	3.3
TOTAL NON-CURRENT ASSETS	21,737	22,665	
Current assets			
Inventories and work in progress	5,472	5,756	4.4
Trade receivables and other operating receivables	1,122	1,226	4.5
Income taxes receivable	177	105	
Other current assets	280	359	4.6
Current derivative instruments	17	6	4.3/4.10
Cash and cash equivalents	754	923	4.8
TOTAL CURRENT ASSETS	7,821	8,375	
Assets held for sale	0	5	
TOTAL ASSETS	29,558	31,045	

Liabilities and shareholders' equity

€ million	30.06.2018	30.06.2019	Notes
Shareholders' equity			
Capital	411	411	6.1
Share premium	3,052	3,052	
Shared earnings and currency translation adjustments	9,757	11,069	
Group net profit	1,577	1,455	
Group shareholders' equity	14,797	15,987	
Non-controlling Interests	181	195	
TOTAL SHAREHOLDERS' EQUITY	14,978	16,182	
Non-current liabilities			
Non-current provisions	448	420	4.7
Provisions for pensions and other long-term employee benefits	526	559	4.7
Deferred tax liabilities	2,593	2,756	3.3
Bonds – non-current	6,777	6,071	4.8
Other non-current financial liabilities	463	363	4.8
Non-current derivative instruments	31	16	4.10
TOTAL NON-CURRENT LIABILITIES	10,838	10,185	
Current liabilities			
Current provisions	143	149	4.7
Trade payables	1,951	2,187	
Income tax payable	225	157	
Other current liabilities	960	1,058	4.11
Bonds – current	93	944	4.8
Other current financial liabilities	360	177	4.8
Current derivative instruments	11	5	4.10
TOTAL CURRENT LIABILITIES	3,743	4,676	
Liabilities related to assets held for sale	-	2	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	29,558	31,045	

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Changes in consolidated shareholders' equity

6.4 Changes in consolidated shareholders' equity

€ million	Capital	Premiums	Consolidated reserves	Actuarial gains and losses	Changes in fair value	Currency translation adjustments	Treasury shares	Equity attributable to equity holders of the Parent	Non-controlling Interests	Total shareholders' equity
Opening position on 01.07.2017	411	3,052	11,014	(198)	(56)	(208)	(309)	13,706	180	13,886
Comprehensive income for the period	-	-	1,577	257	18	(172)	-	1,680	21	1,701
Capital increase	-	-	-	-	-	-	-	-	-	-
Expense related to share-based payments	-	-	34	-	-	-	-	34	-	34
(Acquisition)/disposal of treasury shares	-	-	-	-	-	-	8	8	-	8
Sale and repurchase agreements	-	-	-	-	-	-	(28)	(28)	-	(28)
Dividends and interim dividends distributed	-	-	(551)	-	-	-	-	(551)	(23)	(574)
Changes in scope of consolidation	-	-	-	-	-	-	-	-	-	-
Other transactions with non-controlling interests	-	-	-	-	-	-	-	-	-	-
Other movements	-	-	(52)	-	-	-	-	(52)	2	(50)
CLOSING POSITION ON 30.06.2018	411	3,052	12,022	59	(38)	(380)	(329)	14,797	181	14,978

€ million	Capital	Premiums	Consolidated reserves	Actuarial gains and losses	Changes in fair value	Currency translation adjustments	Treasury shares	Equity attributable to equity holders of the Parent	Non-controlling Interests	Total shareholders' equity
Opening position on 01.07.2018	411	3,052	12,022	59	(38)	(380)	(329)	14,797	181	14,978
IFRS 9 impact ⁽¹⁾	-	-	(1)	-	-	-	-	(1)	-	(1)
Opening position on 01.07.2018 restated	411	3,052	12,022	59	(38)	(380)	(329)	14,797	181	14,977
Comprehensive income for the period	-	-	1,455	268	73	104	-	1,900	30	1,930
Capital increase	-	-	-	-	-	-	-	-	-	-
Expense related to share-based payments	-	-	40	-	-	-	-	40	-	40
(Acquisition)/disposal of treasury shares	-	-	-	-	-	-	(54)	(54)	-	(54)
Sale and repurchase agreements	-	-	-	-	-	-	(5)	(5)	-	(5)
Dividends and interim dividends distributed	-	-	(668)	-	-	-	-	(668)	(19)	(687)
Changes in scope of consolidation	-	-	-	-	-	-	-	-	-	-
Other transactions with non-controlling interests	-	-	-	-	-	-	-	-	-	-
Other movements	-	-	(22)	-	-	-	-	(22)	4	(19)
CLOSING POSITION ON 30.06.2019	411	3,052	12,826	327	34	(276)	(388)	15,987	195	16,182

(1) IFRS 9 impact analysis set out in Note 1.1.2.1.2 to the consolidated financial statements below.

6.5 Consolidated cash flow statement

€ million	30.06.2018	30.06.2019	Notes
Cash flow from operating activities			
Group net profit	1,577	1,455	
Non-controlling interests	26	27	
Share of net profit/ (loss) of associates, net of dividends received	0	0	
Financial (income)/ expenses	301	310	
Tax (income)/ expenses	392	582	
Net profit from discontinued operations	-	-	
Depreciation of fixed assets	216	226	
Net change in provisions	(35)	7	
Net change in impairment of goodwill, property, plant and equipment and intangible assets	73	69	
Changes in fair value of commercial derivatives	3	(3)	
Changes in fair value of biological assets	(4)	(3)	
Net (gain)/ loss on disposal of assets	(48)	0	
Share-based payments	35	40	
Self-financing capacity before financing interest and taxes	2,535	2,711	
Decrease/(increase) in Working Capital Requirements	(100)	(181)	5.1
Interest paid	(361)	(340)	
Interest received	73	32	
Tax paid/received	(371)	(521)	
NET CHANGE IN CASH FLOW FROM OPERATING ACTIVITIES	1,776	1,701	
Cash flow from investing activities			
Capital expenditure	(374)	(388)	5.2
Proceeds from disposals of property, plant and equipment and intangible assets	17	50	
Change in the scope of consolidation	-	-	
Purchases of financial assets and activities	(109)	(192)	
Disposals of financial assets and activities	62	14	
NET CHANGE IN CASH FLOW FROM INVESTING ACTIVITIES	(404)	(516)	
Cash flow from financing activities			
Dividends and interim dividends paid	(551)	(645)	
Other changes in shareholders' equity	-	-	
Issuance of long-term debt	320	163	5.3
Repayment of long-term debt	(1,033)	(431)	5.3
(Acquisitions)/disposals of treasury shares	(23)	(121)	
Other transactions with non-controlling interests	-	-	
NET CHANGE IN CASH FLOW FROM FINANCING ACTIVITIES	(1,287)	(1,034)	
Cash flow from non-current assets held for sale	-	-	
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (BEFORE FOREIGN EXCHANGE IMPACT)	85	151	
Opening IFRS 15 impact		16	
Foreign currency translation adjustments	(8)	1	
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (AFTER FOREIGN EXCHANGE IMPACT)	77	169	
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	677	754	
CASH AND CASH EQUIVALENTS AT END OF PERIOD	754	923	

6.6 Notes to the consolidated financial statements

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

The Group's business is the production and sale of wines and spirits.

The consolidated financial statements for the financial year ended 30 June 2019 were approved by the Board of Directors on 28 August 2019.

Note 1 Accounting principles and significant events

Note 1.1 Accounting principles and policies

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

Because of its listing in a country of the European Union, and in accordance with EC Regulation 1606/02, the Group's consolidated financial statements for the financial year ended 30 June 2019 have been prepared in accordance with IFRS (International Financial Reporting Standards) as adopted by the European Union.

The accounting principles used to prepare the consolidated financial statements to 30 June 2019 are consistent with those used for the consolidated financial statements to 30 June 2018, with the exception of standards and interpretations adopted by the European Union applicable to the Group from 1 July 2018 (see Note 1.1.2 – *Changes in accounting standards*). The Group does not adopt early application of standards or interpretations.

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

2. Changes in accounting standards

Standards, amendments and interpretations for which implementation is mandatory for financial years commencing from 1 July 2018

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

- IFRS 15 (Revenue from Contracts with Customers): see Note 1.1.2.1.1 below;
- IFRS 9 (Financial Instruments): see Note 1.1.2.1.2 below;
- the amendments to IFRS 2 (Classification and Measurement of Share-based Payment Transactions);
- IFRIC 22 (Foreign currency transactions and advance consideration);
- the amendments to IAS 28 (Investments in associates and joint ventures);
- the IFRS improvements cycle 2014-2016.

Other than IFRS 15 and IFRS 9, the impacts of which are described in Notes 1.1.2.1.1 and 1.1.2.1.2 below, none of these amendments and interpretations had an impact on the Group's financial statements.

Standards, amendments and interpretations for which application is mandatory after 1 July 2019

The standards, amendments and interpretations applicable to Pernod Ricard from 1 July 2019 are as follows:

IFRS 16 (Leases)

The Group will apply the simplified retrospective transition method. The choice of this transition method means that comparative information from previous periods will not be restated.

The identification of existing contracts and the collection of the data needed to estimate the impact of IFRS 16 on the Group's results and financial position have been finalised. The estimated impacts related to the first-time application of the standard, based on leases identified to date, are as follows:

- increase of approximately €500 million in the total balance sheet (assets and liabilities), in line with the amount of lease commitments at 30 June 2019 (see Note 6.3). The bulk of the impacts relates to premises occupied by the Group;
- immaterial full-year impact of less than €10 million on each of operating profit, financial income and net income;
- full-year improvement of between €80 million and €90 million in cash flows from operating activities and decline in cash flows from financing operations in the same amount.

The standard provides for various simplification measures, and the Group has adopted those that allow the exclusion of contracts with a term of less than 12 months and those relating to low-value assets, as well as those enabling application of the new standard to leases that qualified as finance leases under IAS 17. In addition, the value of the right-of-use asset is deemed to be equal to the amount of the lease liability.

IFRIC 23 (Uncertainty over Income Tax Treatments)

The Group does not expect to see a material impact on its consolidated financial statements following the adoption of this interpretation.

Other standards and amendments

- the amendments to IFRS 9 (Prepayment Features with Negative Compensation);
- the IFRS improvements cycle 2015-2017.

2.1 Impacts related to the first-time application of IFRS 15 and IFRS 9

2.1.1 IFRS 15 (Revenue from Contracts with Customers)

Accounting principles amended following the application of IFRS 15 are presented in Note 2 – *Segment information*.

This new standard replaces previously existing provisions, including IAS 11 (Construction Contracts) and IAS 18 (Revenue from Ordinary Activities).

The Group has applied the full retrospective method of transition to the new standard, which has been applied in its financial statements since 1 July 2018. The comparative periods have been restated for the impacts of the standard, with the exception of the balance sheet and the cash flow statement, for which the impacts are immaterial. At 30 June 2018, the main impacts of IFRS 15 on the balance sheet were an increase of €16 million in cash and a reduction of net working capital in an equivalent amount.

The impact of its application is immaterial as regards revenue recognition. In particular, it has no impact on:

- Profit from Recurring Operations;
- revenue recognition standards.

The two main areas of potential impact identified to date are:

- services paid to direct or indirect customers for visibility or promotional arrangements: reclassification from advertising and promotion expenses to a decrease on net sales;
- third-party bottling contracts for Group products in India: increase in net sales and cost of sales following the analysis of agent vs. principal considerations.

The impacts of the new standard on the comparative financial statements are presented below.

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Notes to the consolidated financial statements

Restatement of the financial statements

Consolidated income statement for the period ended 30 June 2018:

<i>€ million</i>	30.06.2018 as reported	IFRS 15 impact	30.06.2018 restated
Net sales	8,987	(265)	8,722
Cost of sales	(3,383)	(50)	(3,433)
Gross margin after logistics expenses	5,604	(315)	5,289
Advertising and promotion expenses	(1,720)	291	(1,429)
Contribution after advertising and promotion expenses	3,884	(24)	3,860
Structure costs	(1,526)	24	(1,502)
Profit from Recurring Operations	2,358	-	2,358
Other operating income and expenses	(62)		(62)
Operating profit	2,296		2,296
Financial expenses	(375)		(375)
Financial income	74		74
Financial results	(301)		(301)
Corporate income tax	(392)		(392)
Share of net profit/(loss) of associates	-		-
NET PROFIT	1,603		1,603
O/w:			
• non controlling interests	26		26
• Group share	1,577		1,577
Earnings per share – basic (<i>in euros</i>)	5.97		5.97
Earnings per share – diluted (<i>in euros</i>)	5.94		5.94

Segment information at 30 June 2018

<i>€ million</i>	30.06.2018 as reported	IFRS 15 impact	30.06.2018 restated
Net sales	8,987	(265)	8,722
Gross margin after logistics expenses	5,604	(315)	5,289
Advertising and promotion expenses	(1,720)	291	(1,429)
Contribution after advertising and promotion expenses	3,884	(24)	3,860
PROFIT FROM RECURRING OPERATIONS	2,358	-	2,358

America

<i>€ million</i>	30.06.2018 as reported	IFRS 15 impact	30.06.2018 restated
Net sales	2,546	(62)	2,485
Gross margin after logistics expenses	1,690	(62)	1,629
Advertising and promotion expenses	(533)	38	(495)
Contribution after advertising and promotion expenses	1,157	(24)	1,134
PROFIT FROM RECURRING OPERATIONS	735	-	735

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Notes to the consolidated financial statements

Asia/Rest of the World

€ million	30.06.2018 as reported	IFRS 15 impact	30.06.2018 restated
Net sales	3,648	(84)	3,564
Gross margin after logistics expenses	2,164	(134)	2,030
Advertising and promotion expenses	(662)	134	(528)
Contribution after advertising and promotion expenses	1,502	-	1,502
PROFIT FROM RECURRING OPERATIONS	996	-	996

Europe

€ million	30.06.2018 as reported	IFRS 15 impact	30.06.2018 restated
Net sales	2,792	(119)	2,674
Gross margin after logistics expenses	1,749	(119)	1,630
Advertising and promotion expenses	(525)	119	(406)
Contribution after advertising and promotion expenses	1,224	-	1,224
PROFIT FROM RECURRING OPERATIONS	626	-	626

Breakdown of net sales

€ million	30.06.2018 as reported	IFRS 15 impact	30.06.2018 restated
Strategic International Brands	5,623	(218)	5,405
Priority Premium Wines	480	(5)	475
Strategic Local Brands	1,717	(56)	1,661
Other income	1,166	15	1,181
TOTAL	8,987	-	8,722

2.1.2 IFRS 9 (Financial Instruments)

Accounting principles amended following the application of IFRS 9 are as follows:

- financial assets in Note 4.3 – *Financial assets*;
- trade receivables in Note 4.5 – *Trade receivables and other operating receivables*;
- financial liabilities in Note 4.8 – *Financial liabilities*;
- derivatives in Note 4.10 – *Interest rate, foreign exchange and commodity derivatives*.

IFRS 9 is applied in accordance with the retrospective method for phases 1 and 2, and the prospective method for phase 3 as of 1 July 2018, without restating comparable periods. This standard replaces IAS 39, which was applied until 30 June 2018.

At that date, consolidated shareholders' equity was negatively impacted in the amount of €(1) million by the first-time application of IFRS 9. The impact stems from the impairment of trade receivables.

None of the other provisions of IFRS 9 had an impact on consolidated equity at 1 July 2018. The analyses conducted by the Group and their various conclusions are set out by phase below.

Phase 1 – Classification and measurement of financial assets and financial liabilities

The Group analysed its financial assets in the context of the new classification proposed by IFRS 9, based on its management model and the contractual characteristics of its financial assets. The Group's financial assets (excluding assets covered by IAS 19) consist mainly of equity instruments (chiefly securities of non-consolidated companies), loans, receivables and deposits.

Following this analysis, equity instruments that were previously classified as "Available-for-sale financial assets" under IAS 39 (€13 million at 30 June 2018) have been reclassified as "Equity instruments measured at fair value through equity" under IFRS 9. This reclassification is justified by the fact that:

- these assets, by their nature, do not generate cash flows consisting solely of the payment of interest and the repayment of principal at specified dates;
- the Group did not use the option of classifying these assets at fair value through profit or loss. In the future, and whenever equity instruments are purchased, analysis will be conducted to determine the Group's management intention, which will govern the method used to account for changes in fair value.

Fair value measurement methods are set out in Note 4.9 – *Financial instruments* of these notes. They have not been modified.

Financial assets are still presented on the "Financial assets" line in the balance sheet, and are classified (excluding assets governed by IAS 19) depending on their category and measurement method, as described in Note 4.9 – *Financial instruments* of these notes.

Other financial assets (loans, receivables, deposits and guarantees) are not affected by a change in valuation method and continue to be measured using the amortised cost method.

The analysis carried out did not result in the identification of financing renegotiation operations requiring restatement.

Phase 2 – Financial asset impairment model

The analysis focused mainly on the impairment of trade receivables, as the Group does not have material non-Group loans, or any financial receivables.

The Group opted for the simplified method for measuring impairment losses on its trade receivables. The review of the history of losses recorded on these receivables did not reveal a material amount. In addition, receivables are often insured against possible payment defaults, thereby reducing the risk of loss. The adjustment recognised (negative impact of €(1) million on the Group's shareholders' equity) relates to several receivables that are individually immaterial.

Phase 3 – Hedge accounting

The analysis carried out did not result in the identification of changes to be made to the Group's accounting method for hedging instruments.

3. Measurement basis

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

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

Estimates

The preparation of consolidated financial statements in accordance with IFRS means that Group Management makes a certain number of estimates and assumptions which have an impact on the amount of the Group's assets and liabilities, and items of profit and loss during the financial year. These estimates are made on the assumption that the Company will continue as a going concern, and are based on information available at the time of their preparation. Estimates may be revised where the circumstances on which they were based change or where new information becomes available. Future results may differ from these estimates.

Goodwill and intangible assets

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

Provisions for pensions and other post-employment benefits

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

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

These assumptions are generally updated annually. The assumptions used in the preparation of the financial statements for the year ended 30 June 2019 and the procedures used in their determination are set out in Note 4.7 – *Provisions*. The Group considers that the actuarial assumptions used are appropriate and justified. However, such actuarial assumptions may change in the future and this may have a material impact on the amount of the Group's benefit obligations and on its profits.

Deferred tax

As indicated in Note 3.3 – *Corporate income tax*, the deferred tax assets recognised result mainly from tax loss carryforwards and from temporary differences between the tax base and the carrying amounts of assets and liabilities. Deferred tax assets in respect of tax losses are recognised if it is probable that the Group will have future taxable profits against which such losses will be used. The assessment of whether the Group will be able to use these tax losses is largely a matter of judgement. Analyses are carried out to decide whether or not these tax loss carryforwards are likely to be usable in the future.

Provisions

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

Judgements

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

Hyperinflation

In accordance with the provisions of IAS 29, Argentina has been considered a hyperinflationary economy since 1 July 2018.

However, in view of the contribution of business carried out in Argentina to the Group's financial statements, the impact of the application of IAS 29 was deemed immaterial, and no corresponding restatements have been made.

5. Business combinations

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

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

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

6. Foreign currency translation

6.1 Reporting currency used in the consolidated financial statements

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

6.2 Functional currency

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

6.3 Translation of transactions denominated in foreign currencies

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

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

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

7. Assets held for sale and discontinued operations

In accordance with IFRS 5 (Non-current assets held for sale and discontinued operations), where they are significant, assets and liabilities held for sale are no longer subject to depreciation or amortisation. They are shown separately in the balance sheet at the lower of the carrying amount or the fair value less costs to sell. An asset is considered as being held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. In order for this to be the case, the asset must be available for immediate sale and its sale must be highly probable. Items in the balance sheet related to discontinued operations and assets held for sale are presented under specific lines in the consolidated financial statements. Income statement items related to discontinued operations and assets held for sale are presented separately in the financial statements for all periods reported upon if they are significant from a Group perspective.

Note 1.2 Significant events during the financial year

1. Employee share ownership plan

The Group implemented the first employee share ownership plan in its history in FY19. The details of the plan and its impact on the consolidated financial statements are described in Note 6.2.2 – *Employee share ownership plan*.

2. Acquisitions and disposals

During the year, the Group continued its active portfolio management policy with the acquisition of high-potential brands and the sale of brands deemed non-strategic. None of these various transactions had a material impact on the consolidated financial statements for the financial year under review.

Note 2 Segment information

Accounting principles amended following the application of IFRS 15

Net sales

The Group's Net sales is comprised mainly of sales of finished products, and is recognised in the income statement when the control of the products in question is transferred. It is measured at the fair value of the consideration received or due, after deducting trade discounts, volume rebates, certain costs associated with business and promotional activity, and sales-related taxes and duties, notably excise duties.

Costs of commercial and promotional activity

Pursuant to IAS 15, certain costs of services rendered in connection with sales, such as advertising programmes in conjunction with distributors, listing costs for new products, promotional activities at point of sale, and advertising and promotional expenses, are deducted directly from Net sales if there is no distinct service whose fair value can be reliably measured.

Duties and taxes

In accordance with IFRS 15, certain import duties, in Asia for instance, are recognised in cost of sales, as these duties are not specifically re-billed to customers (as is the case for social security stamps in France, for example).

Discounts

In accordance with IFRS 15, early payment discounts are not considered to be financial transactions, but are deducted directly from net sales.

Gross margin after logistics expenses, Contribution after advertising and promotion expenses, Profit from Recurring Operations and Other operating income and expenses

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

The Group is focused on a single activity, the production and sale of wines and spirits, and has three operating segments covering three regions, namely America, Europe and Asia/Rest of the World (RoW).

Group Management assesses the performance of each operating segment on the basis of net sales and Profit from Recurring Operations, defined as the gross margin after logistics costs, less advertising and promotion investments and structure costs. The segments presented are identical to those used in reporting to General Management, in particular for the performance analysis.

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

At 30.06.2018 restated
€ million

	America	Asia/Rest of the World	Europe	Total
Income statement items				
Segment net sales	3,668	5,343	4,206	13,218
<i>O/w intersegment sales</i>	1,183	1,779	1,533	4,496
Net sales (excluding Group)	2,485	3,564	2,674	8,722
Gross margin after logistics expenses	1,629	2,030	1,630	5,289
Contribution after advertising and promotion expenses	1,134	1,502	1,224	3,860
Profit from Recurring Operations	735	996	626	2,358
Other information				
Current investments	59	48	283	390
Depreciation, amortisation and impairment	29	47	206	282

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At 30.06.2019 € million	America	Asia/Rest of the World	Europe	Total
Income statement items				
Segment net sales	3,902	5,891	4,224	14,017
<i>O/w intersegment sales</i>	1,357	1,926	1,552	4,835
Net sales (excluding Group)	2,545	3,965	2,672	9,182
Gross margin after logistics expenses	1,698	2,308	1,643	5,648
Contribution after advertising and promotion expenses	1,193	1,716	1,228	4,137
Profit from Recurring Operations	785	1,179	617	2,581
Other information				
Current investments	50	72	277	398
Depreciation, amortisation and impairment	29	47	219	295

Breakdown of sales

€ million	Net sales at 30.06.2018 restated	Net sales at 30.06.2019	Change (€ million)	Change (%)
Strategic International Brands	5,405	5,811	406	8%
Strategic Local Brands	1,661	1,754	93	6%
Priority Premium Wines	475	451	(24)	-5%
Other income	1,181	1,166	(15)	-1%
TOTAL	8,722	9,182	460	5%

Since FY19, the segmentation below has been used for financial communication. The same segmentation was applied to the year ended 30 June 2018 for comparison purposes.

€ million	Net sales at 30.06.2018 restated	Net sales at 30.06.2019	Change (€ million)	Change (%)
Strategic International Brands	5,405	5,811	406	8%
Strategic Local Brands	1,668	1,754	86	5%
Priority Premium Wines	475	451	(24)	-5%
Specialities	263	301	38	14%
Other income	911	865	(46)	-5%
TOTAL	8,722	9,182	460	5%

Note 3 Notes to the income statement

Note 3.1 Other operating income and expenses

Other operating income and expenses include impairment of property, plant and equipment and intangible assets, costs relating to restructuring and integration, capital gains or losses on disposals, as well as other non-recurring operating income and

expenses. These other operating income and expenses are excluded from the Profit from Recurring Operations given their unusual, abnormal and infrequent nature, which would distort the reading of the Group's performance.

Other operating income and expenses are broken down as follows:

€ million	30.06.2018	30.06.2019
Impairment of property, plant and equipment and intangible assets	(73)	(69)
Gains or losses on asset disposals and acquisition costs	29	(29)
Net restructuring and reorganisation expenses	(38)	(77)
Disputes and risks	(1)	3
Other non-current operating income and expenses	22	(33)
OTHER OPERATING INCOME AND EXPENSES	(62)	(206)

At 30 June 2019, other operating income and expenses consisted mainly of:

- impairment of property, plant and equipment and intangible assets in the amount of €69 million, resulting notably from brand impairment testing, mainly on the Brancott Estate brand;
- gains or losses on asset disposals, relating mainly to the sale of the Graffigna brand;
- restructuring costs linked to various reorganisation projects;
- other non-recurring operating income and expenses, particularly related to the increase in the Group's defined benefit plan commitment in the United Kingdom under the Guaranteed Minimum Pension system, resulting in a €34 million expense (see Note 4.7 – Provisions).

Note 3.2 Financial income/(expense)

€ million	30.06.2018	30.06.2019
Interest expense on net financial debt	(357)	(329)
Interest income on net financial debt	73	32
Net cost of debt	(284)	(297)
Structuring and placement fees	(2)	(2)
Net financial impact of pensions and other long-term employee benefits	(14)	(5)
Other net current financial income (expense)	0	(10)
Financial income/(expense) from recurring operations	(301)	(314)
Foreign currency gains/ (loss)	1	2
Other non-current financial income/(expense)	(1)	1
TOTAL FINANCIAL INCOME/(EXPENSE)	(301)	(310)

At 30 June 2019, the net cost of debt included financial expenses of €253 million on bonds, €12 million on interest rate and currency hedges, €14 million on factoring and securitisation agreements, and €18 million in other expenses.

Weighted average cost of debt

The Group's weighted average cost of debt was 3.9% over FY19 compared to 3.5% over FY18. Weighted average cost of debt is defined as net financing costs plus structuring and placement fees as a proportion of average net financial debt outstanding plus the average amount outstanding on factoring and securitisation programmes.

Note 3.3 Corporate income tax

Analysis of income tax expense

€ million	30.06.2018	30.06.2019
Current income tax	(382)	(483)
Deferred income tax	(10)	(99)
TOTAL	(392)	(582)

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

€ million	30.06.2018	30.06.2019
Operating profit	2,296	2,375
Financial results	(301)	(310)
Taxable profit	1,994	2,064
Theoretical tax charge at the effective income tax rate in France ⁽¹⁾	(687)	(711)
Impact of tax rate differences by jurisdiction	276	228
Tax impact of variations in exchange rates	1	(1)
Re-estimation of deferred tax assets linked to tax rate changes	86	(9)
Impact of tax losses used/not used	2	1
Impact of reduced/increased tax rates on taxable results	0	0
Taxes on distributions	24	(47)
Other impacts	(94)	(44)
EFFECTIVE TAX CHARGE	(392)	(582)
EFFECTIVE TAX RATE	20%	28%

(1) At the standard rate of 34.43%.

The US tax reform, known as the “Tax Cuts and Jobs Act” of 22 December 2017, resulted in a revaluation of deferred tax assets and liabilities following the reduction of the US federal tax rate, resulting in a tax gain of €55 million in the year ended 30 June 2018.

Following the invalidation by the French Constitutional Council of the dividend tax system (known as the “3% tax”) in October 2017, the Group recognised income related to the reimbursement of the tax, estimated at €71 million in the year ended 30 June 2018.

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

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

Deferred taxes are broken down by nature as follows:

€ million	30.06.2018	30.06.2019
Unrealised margins in inventories	87	99
Fair value adjustments on assets and liabilities	22	21
Provisions for pension benefits	90	94
Deferred tax assets related to losses eligible for carryforward	870	908
Provisions (other than provisions for pension benefits) and other items	487	468
TOTAL DEFERRED TAX ASSETS	1,556	1,590
Accelerated tax depreciation	116	124
Fair value adjustments on assets and liabilities	2,218	2,339
Pension and other hedging assets	259	294
TOTAL DEFERRED TAX LIABILITIES	2,593	2,756

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Tax loss carryforwards (recognised and unrecognised) represent potential tax savings of €1,202 million and €1,165 million at 30 June 2019 and 30 June 2018 respectively. The potential tax savings at 30 June 2019 and 30 June 2018 relate to tax loss carryforwards with the following expiry dates:

FY18

Year	Tax effect of loss carryforwards € million	
	Losses recognised	Losses not recognised
2018	1	1
2019	0	0
2020	1	0
2021	2	0
2022 and after	682	190
No expiry date	184	103
TOTAL	870	296

FY19

Year	Tax effect of loss carryforwards € million	
	Losses recognised	Losses not recognised
2019	0	1
2020	0	1
2021	1	1
2022	2	1
2023 and after	737	196
No expiry date	167	93
TOTAL	908	294

Note 3.4 Earnings per share

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

The calculation of diluted earnings per share takes into account the potential impact of the exercise of all dilutive instruments (such as stock options, convertible bonds, etc.) on the theoretical number of

shares. When funds are obtained at the date of exercise of the dilutive instruments, the “treasury stock” method is used to determine the theoretical number of shares to be taken into account. When funds are obtained at the issue date of the dilutive instruments, net profit is adjusted for the finance cost, net of tax, relating to these instruments.

Group net profit and net earnings per share from continuing operations

	30.06.2018	30.06.2019
Numerator (€ million)		
Group net profit	1,577	1,455
Denominator (in number of shares)		
Average number of outstanding shares	264,113,889	264,173,497
Dilutive effect of performance-based share allocations	1,062,410	1,043,157
Dilutive effect of stock options and subscription options	366,703	202,895
Average number of outstanding shares – diluted	265,543,003	265,419,549
Earnings per share (€)		
Group earnings per share – basic	5.97	5.51
Group earnings per share – diluted	5.94	5.48

Note 3.5 Expenses by type

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

€ million	30.06.2018	30.06.2019
Depreciation, amortisation and impairment on property, plant and equipment and intangible assets	(288)	(293)
Salaries and payroll costs	(1,260)	(1,286)
Pensions, medical expenses and other similar benefits under defined benefit plans	(47)	(43)
Expense related to share-based payments	(33)	(40)
TOTAL PERSONNEL EXPENSES	(1,340)	(1,369)

Note 4 Notes to the balance sheet

Note 4.1 Intangible assets and goodwill

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

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

€ million	Movements in the year						30.06.2018
	30.06.2017	Acquisitions	Allowances	Disposals	Foreign currency gains and losses	Other movements	
Goodwill	5,535	17	-	(1)	(94)	0	5,456
Brands	12,937	33	-	(3)	(209)	0	12,757
Other intangible assets	382	33	-	(1)	(10)	2	407
GROSS VALUE	18,854	82	-	(5)	(314)	3	18,620
Goodwill	(138)	-	-	-	1	0	(137)
Brands	(1,294)	-	(71)	1	31	0	(1,334)
Other intangible assets	(270)	-	(29)	1	7	0	(291)
AMORTISATION/IMPAIRMENT	(1,702)	-	(101)	2	39	0	(1,762)
INTANGIBLE ASSETS, NET	17,152	82	(101)	(3)	(274)	2	16,858

€ million	Movements in the year						30.06.2019
	30.06.2018	Acquisitions	Allowances	Disposals	Foreign currency gains and losses	Other movements	
Goodwill	5,456	8	-	(4)	71	(3)	5,528
Brands	12,757	62	-	(34)	169	3	12,957
Other intangible assets	407	42	-	(8)	3	8	452
GROSS VALUE	18,620	112	-	(45)	243	8	18,937
Goodwill	(137)	-	-	-	0	0	(137)
Brands	(1,334)	-	(65)	15	(24)	-	(1,408)
Other intangible assets	(291)	-	(30)	6	(2)	(1)	(318)
AMORTISATION/IMPAIRMENT	(1,762)	-	(95)	21	(26)	(1)	(1,863)
INTANGIBLE ASSETS, NET	16,858	112	(95)	(25)	217	7	17,074

Goodwill

Goodwill is subject to an impairment test at least once a year and whenever there is an indication that its value may have been impaired. To perform these tests, goodwill is allocated by geographical area on the basis of asset groupings at the date of each

business combination. These asset groupings correspond to groups of assets which jointly generate identifiable cash flows that are largely independent. If impairment is identified, an impairment loss is recognised in profit and loss for the financial year.

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

Brands

The fair value of identifiable acquired brands is determined using an actuarial calculation of estimated future profits or using the royalty method and corresponds to the fair value of the brands at the date of acquisition. As the Group's brands are intangible assets with indefinite useful lives, they are not amortised but are rather

subject to an impairment test at least once a year or whenever there is an indication that their value may have been impaired. Brands acquired as a part of acquisitions of foreign entities are denominated in the functional currency of the business acquired.

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

Impairment of tangible or intangible assets

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

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

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

Value in use is measured based on cash flows projected over a 19-year period. This period reflects the typically long lives of the Group's brands and their productive assets. Discounted projected cash flows are established based on annual budgets and multi-year strategies, extrapolated into subsequent years by gradually converging the figure for the last year of the plan for each brand and market towards a perpetual growth rate. The calculation includes a terminal value derived by capitalising the cash flows generated in

the last forecast year. Assumptions applied to sales and advertising and promotional expenditure are determined by Management based on previous results and long-term development trends in the markets concerned. During FY19, the cash flow projection methodology with respect to working capital requirements and investments was refined so as to reflect the specific features of white and maturing alcohols with greater precision. The change had an impact on measurement but not on the amount of impairment recognised in respect of brands or goodwill. The present values of discounted cash flows are sensitive to these assumptions as well as to consumer fashions and economic factors.

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

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

€ million	Method used to determine the recoverable amount	Carrying amount of goodwill at 30.06.2019	Carrying amount of brands at 30.06.2019	Value in use		
				Discount rate 2018	Discount rate 2019	Perpetual growth rate
Europe	Value in use based on the discounted cash flow method	1,814	3,812	5.87%	5.73%	From -1% to +2.5%
America		2,678	6,110	6.87%	6.74%	From -1% to +2.5%
Asia/Rest of the World		899	1,627	7.71%	7.83%	From -1% to +2.5%

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

The amount of any impairment of indefinite-life intangible assets at 30 June 2019 is described below, resulting in:

- a 50 basis point reduction in the growth rate of the contribution after advertising and promotional expenditure;

- a 50 basis point increase in the after-tax discount rate;
- a 100 basis point increase in the after-tax discount rate; or
- a 50 basis point reduction in the perpetual rate growth over the duration of the multi-year plans.

<i>c million</i>	50 bp decrease in the growth rate of the contribution after advertising and promotional expenditure	50 basis point increase in the after-tax discount rate	100 basis point increase in the after-tax discount rate	50 basis point decrease in the perpetual growth rate
Europe	(24)	(65)	(308)	(26)
America	(14)	(129)	(503)	(15)
Asia/Rest of the World	(43)	(67)	(145)	(48)
TOTAL	(81)	(260)	(956)	(89)

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

Note 4.2 Property, plant and equipment

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

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

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

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

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

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€ million	Movements in the year						30.06.2018
	30.06.2017	Acquisitions	Allowances	Disposals	Foreign currency gains and losses	Other movements	
Land	346	6	-	(1)	(8)	(1)	341
Buildings	1,206	25	-	(17)	(23)	56	1,247
Machinery and equipment	1,882	52	-	(57)	(52)	57	1,883
Other property, plant and equipment ⁽¹⁾	713	62	-	(18)	(13)	20	763
Assets in progress	146	191	-	0	(5)	(99)	233
Advance on property, plant and equipment	38	10	-	-	0	(44)	5
GROSS VALUE	4,331	346	-	(93)	(102)	(10)	4,473
Land	(34)	-	(3)	1	2	0	(34)
Buildings	(507)	-	(41)	14	10	2	(522)
Machinery and equipment	(1,116)	(1)	(101)	53	29	0	(1,136)
Other property, plant and equipment	(338)	0	(43)	17	7	1	(357)
Assets in progress	-	-	0	-	0	-	0
DEPRECIATION/IMPAIRMENT	(1,995)	(1)	(188)	84	47	3	(2,049)
PROPERTY, PLANT AND EQUIPMENT, NET	2,336	345	(188)	(8)	(55)	(7)	2,424

⁽¹⁾ Including biological assets.

€ million	Movements in the year						30.06.2019
	30.06.2018	Acquisitions	Allowances	Disposals	Foreign currency gains and losses	Other movements	
Land	341	4	-	(8)	1	5	343
Buildings	1,247	14	-	(33)	(1)	66	1,294
Machinery and equipment	1,883	68	-	(48)	2	103	2,006
Other property, plant and equipment	763	62	-	(38)	(3)	6	790
Assets in progress	233	202	-	(1)	0	(194)	241
Advance on property, plant and equipment	5	4	-	-	0	(1)	8
GROSS VALUE	4,473	353	-	(128)	(1)	(16)	4,681
Land	(34)	-	(2)	5	0	0	(32)
Buildings	(522)	-	(44)	29	0	0	(537)
Machinery and equipment	(1,136)	0	(106)	42	0	0	(1,198)
Other property, plant and equipment	(357)	0	(46)	35	1	1	(366)
Assets in progress	-	-	-	-	0	-	0
DEPRECIATION/IMPAIRMENT	(2,049)	0	(198)	111	2	1	(2,132)
PROPERTY, PLANT AND EQUIPMENT, NET	2,424	353	(198)	(17)	1	(15)	2,549

Note 4.3 Financial assets

Financial assets consist mainly of Group interests in non-consolidated companies, loans, sureties and deposits, guarantee deposits required by the tax regulations of certain countries and plan assets for pension obligations (not entering into the scope of IFRS 9).

Equity instruments

Non-consolidated securities are recorded on the balance sheet at fair value. Fair value results and the disposal gain or loss are recorded, in accordance with the management intention, either (i) in the income statement under the heading "Financial income/Financial expense – other non-recurring financial items"

or (ii) in consolidated shareholders' equity under the heading "Other comprehensive income", and are not recycled through profit or loss.

Fair value is determined on the basis of the financial criteria most appropriate to the specific situation of each company. The fair value of financial assets listed on a financial market is their stock market value. For other non-consolidated securities, the measurement criteria normally applied are the share of shareholders' equity and future profitability.

Loans, guarantees and deposits

Loans, guarantees and deposits are valued at amortised cost.

€ million	30.06.2018		30.06.2019	
	Current	Non-current	Current	Non-current
Net financial assets				
Available-for-sale financial assets*	-	13	N/A	N/A
Equity instruments*	N/A	N/A	-	194
Other financial assets	-	763	-	1,096
Net loans and receivables				
Loans, receivables and deposits	-	108	-	129
Total net non-current financial assets	-	886	-	1,419
Derivative instruments	17	2	6	20
FINANCIAL ASSETS	17	888	6	1,438

* The application of IFRS 9 resulted in the disappearance of the "Available-for-sale financial assets" category on 1 July 2018 and the creation of a new category, "Equity instruments". See Note 1.1.2.1.2 – IFRS 9 (Financial Instruments).

N/A: not applicable.

The table below shows the movements of financial assets, excluding derivative instruments:

€ million	Movements in the year						30.06.2018
	30.06.2017	Acquisitions	Allowances	Disposals	Foreign currency gains and losses	Other movements	
Other financial assets	528	34	-	(1)	(4)	208	765
Available-for-sale financial assets	23	0	-	(1)	0	(2)	19
Guarantees and deposits	112	10	-	(6)	(6)	47	157
Investment-related receivables	0	1	-	-	0	-	1
GROSS VALUE	663	46	-	(8)	(10)	253	943
Provisions for other financial assets	(6)	-	0	-	0	4	(2)
Impairment losses recognised on available-for-sale financial assets	(6)	-	-	-	0	-	(6)
Provisions for guarantees and deposits	(1)	-	3	-	(1)	(50)	(49)
Impairment losses recognised on investment-related receivables	0	-	-	-	0	-	0
IMPAIRMENT	(13)	-	3	-	(1)	(46)	(57)
NON-CURRENT FINANCIAL ASSETS, NET	650	46	3	(8)	(11)	207	886

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€ million	Movements in the year						30.06.2019
	30.06.2018	Acquisitions	Allowances	Disposals	Foreign currency gains and losses	Other movements	
Other financial assets	765	0	0	-	(18)	349	1,097
Available-for-sale financial assets*	19	-	0	-	0	(19)	0
Equity instruments*	N/A	110	-	(2)	0	94	202
Loans, guarantees and deposits	159	14	-	(9)	4	23	191
GROSS VALUE	943	124	0	(11)	(14)	447	1,489
Provisions for other financial assets	(2)	-	0	-	0	2	0
Impairment losses recognised on available-for-sale financial assets*	(6)	-	-	-	0	6	-
Provisions on equity instruments*	N/A	-	-	0	0	(7)	(7)
Provisions for loans, guarantees and deposits	(49)	-	-	-	(1)	(11)	(62)
IMPAIRMENT	(57)	-	0	0	(1)	(11)	(70)
NON-CURRENT FINANCIAL ASSETS, NET	886	124	0	(11)	(15)	436	1,419

* The application of IFRS 9 resulted in the disappearance of the "Available-for-sale financial assets" category on 1 July 2018 and the creation of a new category, "Equity instruments". See Note 1.1.2.1.2 – IFRS 9 (Financial Instruments).

N/A: not applicable.

Other financial assets at 30 June 2019 included €1,083 million of plan surplus related to employee benefits, compared to €754 million at the end of June 2018 (see Note 4.7 – Provisions).

At 30 June 2019, equity instruments consisted mainly of the unconsolidated securities of Jumia Technologies AG acquired during the year and measured at fair value through equity in the amount of €150 million based on the closing share price of €23.33 on 28 June 2019.

Note 4.4 Inventories and work-in-progress

Inventories are measured at the lower of either their cost (acquisition cost and cost of production, including indirect production overheads) or their net realisable value. Net realisable value is the selling price less the estimated costs of completion and sale of inventories. Most inventories are valued using the weighted average cost method. The cost of long-cycle inventories is

computed using a single method which includes distilling and ageing costs. These inventories are classified in current assets, although a substantial part remains in inventory for more than one year in order to undergo the ageing process used for certain wines and spirits before being sold.

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

	Movements in the year					
€ million	30.06.2017	Change in gross value	Change in impairment	Foreign currency gains and losses	Other movements	30.06.2018
Raw materials	125	16	-	(5)	0	136
Work-in-progress	4,500	162	-	(50)	1	4,614
Goods in inventory	451	30	-	(16)	2	467
Finished products	275	38	-	(13)	0	300
GROSS VALUE	5,351	245	-	(83)	3	5,517
Raw materials	(10)	-	1	0	0	(9)
Work-in-progress	(13)	-	2	0	(1)	(11)
Goods in inventory	(13)	-	0	0	0	(13)
Finished products	(10)	-	(3)	1	0	(13)
IMPAIRMENT	(46)	-	0	2	(1)	(45)
NET INVENTORIES	5,305	245	0	(82)	3	5,472

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€ million	Movements in the year					30.06.2019
	30.06.2018	Change in gross value	Change in impairment	Foreign currency gains and losses	Other movements	
Raw materials	136	2	-	0	2	140
Work-in-progress	4,614	269	-	(15)	9	4,877
Goods in inventory	467	38	-	2	(2)	505
Finished products	300	(23)	-	0	3	280
GROSS VALUE	5,517	286	-	(13)	11	5,802
Raw materials	(9)	-	(1)	0	-	(10)
Work-in-progress	(11)	-	1	0	-	(10)
Goods in inventory	(13)	-	0	0	0	(13)
Finished products	(13)	-	0	0	0	(13)
IMPAIRMENT	(45)	-	(1)	0	0	(46)
NET INVENTORIES	5,472	286	(1)	(13)	11	5,756

At 30 June 2019, ageing inventories intended mainly for use in whisky and cognac production accounted for 78% of work-in-progress. Pernod Ricard is not significantly dependent on its suppliers.

Note 4.5 Trade receivables and other operating receivables

Trade receivables and other operating receivables are recognised initially at their fair value, which usually corresponds to their

nominal value. Provisions for impairment are recognised in line with the losses expected over the life of the receivable.

The following tables break down trade receivables and other operating receivables as of 30 June 2018 and 30 June 2019 by due date:

			Due in respect of the following terms				
€ million	Net carrying amount	Not due	< 30 days	31 to 90 days	91 to 180 days	181 to 360 days	> 360 days
Net carrying amounts							
Trade receivables and other operating receivables as of 30.06.2018	1,122	884	137	53	27	5	16
O/w impairment	(60)	(12)	(1)	(4)	(1)	(2)	(40)
Trade receivables and other operating receivables as of 30.06.2019	1,226	985	122	47	23	14	36
O/w impairment	(67)	(13)	(1)	(4)	(2)	(2)	(43)

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

€ million	FY18	FY19
At 1 July	65	60
Allowances during the year	13	12
Reversals during the year	(8)	(3)
Used during the year	(7)	(2)
Foreign currency gains and losses	(3)	0
At 30 June	60	67

At 30 June 2019, there was no reason to question the creditworthiness of non-impaired past due receivables. More specifically, non-impaired receivables with due dates of over 12 months show no additional credit-related risk. There is no significant concentration of risks.

In FY18 and FY19 the Group continued to implement its programmes to sell the receivables of several affiliates. Receivables sold under these programmes totalled €610 million at 30 June 2018 and €674 million at 30 June 2019. As substantially all risks and rewards associated with the receivables were transferred, they were derecognised.

Derecognised assets where there is continuing involvement

Continuing improvement <i>€ million</i>	Carrying amount of continuing involvement				Fair value of continuing involvement	Maximum exposure
	Amortised costs	Held to maturity	Available for sale	Financial liabilities at fair value		
Guarantee deposit- factoring and securitisation	8	-	8	-	8	8

Note 4.6 Other current assets

Other current assets are broken down as follows:

<i>€ million</i>	30.06.2018	30.06.2019
Advances and down payments	27	29
Tax accounts receivable, excluding income taxes	153	164
Prepaid expenses	77	85
Other receivables	23	80
TOTAL	280	359

Note 4.7 Provisions

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

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

Litigation is kept under regular review, on a case-by-case basis, by the Legal Department of each affiliate or region or by the Group's Legal Department, drawing on the help of external legal consultants in the most significant or complex cases. A provision is recorded when it becomes probable that a present obligation

arising from a past event will require an outflow of resources whose amount can be reliably estimated. The amount of the provision is the best estimate of the outflow of resources required to settle this obligation.

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

1. Breakdown of provisions

The breakdown of provisions for risks and charges in the balance sheet is as follows:

<i>€ million</i>	30.06.2018	30.06.2019
Non-current provisions		
Provisions for pensions and other long-term employee benefits	526	559
Other non-current provisions for risks and charges	448	420
Current provisions		
Provisions for restructuring	43	44
Other current provisions for risks and charges	100	105
TOTAL	1,117	1,128

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

€ million	Movements in the year							30.06.2019
	30.06.2018	Allowances	Reversals (used)	Reversals (not used)	Foreign currency gains and losses	Scope changes	Other movements	
Provisions for restructuring	43	42	38	3	0	-	-	44
Other current provisions	100	14	6	6	3	-	1	105
Other non-current provisions	448	65	20	85	9	-	3	420
TOTAL PROVISIONS	591	121	65	94	11	-	4	569

Some Group companies are involved in disputes as part of their normal business activities. They are also subject to tax audits, some of which may lead to tax reassessment. The main disputes are described in Note 6.5 – *Disputes*.

At 30 June 2019, the amount of provisions booked by the Group in respect of all disputes or risks in which it is involved amounted to €524 million. The Group does not provide details (with exceptions), as it believes the disclosure of the amount of any provision booked in consideration of each pending dispute would be likely to cause serious harm to the Group.

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

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

3. Provisions for pensions and other long-term employee benefits

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

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

Defined contribution plans

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

Defined benefit plans

For defined benefit plans, the projected unit credit method is used to measure the present value of defined benefit obligations, current service cost and, if applicable, past service cost. The measurement is made at each closing date and the personal data concerning employees is revised at least every three years. The calculation requires the use of economic assumptions (inflation rate and discount rate) and assumptions concerning employees (mainly average salary increase, rate of employee turnover and life expectancy). The assumptions used in FY18 and FY19 and the methods used for their determination are described below.

A provision is recorded in the balance sheet for the difference between the actuarial debt of related obligations (actuarial liabilities) and any assets dedicated to funding the plans, measured

at their fair value, and includes past service costs and actuarial gains and losses.

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

- the cost of services is recognised in operating profit. It includes:
 - the cost of services rendered during the period,
 - the cost of past services resulting from the modification or reduction of a plan, fully recognised in profit and loss for the period in which the services were performed,
 - gains and losses resulting from liquidations;
- the financial component, recorded in financial income (expenses), comprises the impact of discounting the liabilities, net of the expected return on plan assets, measured using the same discount rate as that used to measure the liabilities;
- revaluations of liabilities (assets) are recognised as non-recyclable items of comprehensive income, and consist mainly of actuarial differences, namely the change in plan obligations and assets due to changes in assumptions and to experience gains or losses, the latter representing the difference between the expected impact of some actuarial assumptions applied to previous valuations and the actual impact. Depending on the nature of the texts governing the plans in certain zones, if the hedging assets exceed the commitments entered into the accounts, any assets generated may be limited to the present value of the future reimbursements and the expected decreases in future contributions.

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

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

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Defined benefit plans in the Group relate mainly to affiliates in the United Kingdom, in North America and in the rest of Europe. Defined benefit plans are subject to an annual actuarial valuation on the basis of assumptions depending on the country. Under these pension and other benefit plan agreements, employees receive at the date of retirement either a capital lump sum payment or an annuity. These amounts depend on the number of years of employment, final salary and the position held by the employee. At 30 June 2019, fully or partly funded benefit obligations totalled €4,844 million, equivalent to 95% of the total benefit obligations.

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

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

The table below presents a reconciliation of the provision between 30 June 2018 and 30 June 2019:

	30.06.2018			30.06.2019		
	Pension benefits	Medical expenses and other employee benefits	Total	Pension benefits	Medical expenses and other employee benefits	Total
<i>€ million</i>						
Net (asset)/ liability at beginning of period	(37)	165	128	(375)	148	(227)
Expenses for the period	41	9	50	72	8	80
Actuarial (gains)/losses ⁽¹⁾	(312)	(12)	(324)	(317)	(1)	(318)
Employer contributions	(57)	-	(57)	(51)	-	(51)
Benefits paid directly by the employer	(9)	(10)	(19)	(15)	(10)	(25)
Changes in the scope of consolidation	0	0	0	0	0	0
Foreign currency gains and losses	(1)	(5)	(6)	15	2	18
Net (asset)/ liability at end of period	(375)	148	(227)	(671)	147	(524)
Amount recognised in assets ⁽²⁾	(754)	-	(754)	(1,083)	-	(1,083)
AMOUNT RECOGNISED IN LIABILITIES (PROVISION AT END OF PERIOD)	379	148	526	412	147	559

(1) Recognised as items of other comprehensive income.

(2) See Note 4.3 – Financial assets.

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

	30.06.2018			30.06.2019		
	Pension benefits	Medical expenses and other employee benefits	Total	Pension benefits	Medical expenses and other employee benefits	Total
<i>Expense for the year (€ million)</i>						
Service cost	44	3	47	40	3	43
Interest on provision	(2)	5	3	(12)	5	(7)
• O/w interest on the commitment	137	5	143	139	5	144
• O/w interest on the assets	(140)	-	(140)	(151)	-	(151)
• O/w interest on the limitation of the assets	-	-	-	0	-	0
Fees/levies/premiums	9	-	9	10	-	10
Impact of plan amendments/reduction of future rights	(6)	(1)	(8)	34	0	33
Impact of liquidation of benefits	(3)	-	(3)	-	-	-
Actuarial (gains)/losses	-	1	1	-	1	1
Effect of asset ceiling (including the impact of IFRIC 14)	-	-	-	-	-	-
NET EXPENSE/(INCOME) RECOGNISED IN PROFIT AND LOSS	41	9	50	72	8	80

On 26 October 2018, the ruling of the High Court of Justice in the Lloyds case resulted in an obligation to equalise the value of commitments between men and women in the calculation of the Guaranteed Minimum Pension system in the United Kingdom. An initial valuation

resulted in the recognition of an increase of €34 million in the commitment in respect of the Group's defined benefit plans in the United Kingdom, in other operating income and expenses.

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

Net liabilities recognised in the balance sheet <i>c. million</i>	30.06.2018			30.06.2019		
	Pension benefits	Medical expenses and other employee benefits	Total	Pension benefits	Medical expenses and other employee benefits	Total
Change in the actuarial value of cumulative benefit obligations						
Actuarial value of cumulative benefit obligations at beginning of period	5,480	165	5,645	5,092	148	5,240
Service cost	44	3	47	40	3	43
Interest cost (effect of unwinding of discount)	137	5	143	139	5	144
Employee contributions	2	1	3	2	1	3
Benefits paid	(302)	(10)	(312)	(262)	(10)	(272)
Administrative fees/premiums/levies	(1)	-	(1)	(1)	-	(1)
Plan amendments/reduction of future rights	(6)	(1)	(8)	34	0	33
Liquidation of benefits	(3)	-	(3)	-	-	-
Actuarial (gains)/losses	(202)	(10)	(212)	(50)	(1)	(50)
Currency translation adjustments	(58)	(5)	(62)	(30)	2	(27)
Changes in scope of consolidation	0	0	0	0	0	0
ACTUARIAL VALUE OF CUMULATIVE BENEFIT OBLIGATIONS AT END OF PERIOD	5,092	148	5,240	4,965	147	5,113
Change in the fair value of plan assets						
Fair value of plan assets at beginning of period	5,517	-	5,517	5,478	-	5,478
Interest income on plan assets	140	-	140	151	-	151
Experience gains/(losses) on plan assets	122	-	122	265	-	265
Employee contributions	2	-	2	2	-	2
Employer contributions	57	-	57	51	-	51
Benefits paid	(293)	-	(293)	(248)	-	(248)
Administrative fees/premiums/levies	(9)	-	(9)	(10)	-	(10)
Plan amendments/reduction of future rights	-	-	-	-	-	-
Liquidation of benefits	-	-	-	-	-	-
Currency translation adjustments	(56)	-	(56)	(45)	-	(45)
Changes in scope of consolidation	-	-	-	-	-	-
FAIR VALUE OF PLAN ASSETS AT END OF PERIOD	5,478	-	5,478	5,645	-	5,645
Present value of funded benefits	4,981	-	4,981	4,844	-	4,844
Fair value of plan assets	5,478	-	5,478	5,645	-	5,645
Deficit/(surplus) on funded benefits	(497)	-	(497)	(801)	-	(801)
Present value of unfunded benefits	111	148	259	121	147	268
Effect of ceiling on plan assets (including the impact of IFRIC 14)	11	-	11	9	-	9
NET (ASSETS)/LIABILITIES RECOGNISED IN THE BALANCE SHEET	(375)	148	(227)	(671)	147	(524)

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	Actuarial value of cumulative benefit obligations		Fair value of plan assets		Limitation of plan assets		Recognised in liabilities and shareholders' equity		Amount recognised in assets	
At 30.06.2019	€ million	%	€ million	%	€ million	%	€ million	%	€ million	%
United Kingdom	3,936	77%	4,914	87%	0	0%	93	17%	(1,071)	99%
United States	372	7%	223	4%	0	0%	149	27%	0	0%
Canada	287	6%	263	5%	(9)	100%	44	8%	(11)	1%
Ireland	254	5%	176	3%	0	0%	78	14%	0	0%
France	144	3%	13	0%	0	0%	132	24%	0	0%
Other countries	119	2%	56	1%	0	0%	64	12%	(1)	0%
TOTAL	5,113	100%	5,645	100%	(9)	100%	559	100%	(1,083)	100%

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

	30.06.2018		30.06.2019	
Breakdown of pension assets	Pension benefits	Medical expenses and other employee benefits	Pension benefits	Medical expenses and other employee benefits
Shares	18%	Not applicable	11%	Not applicable
Bonds	35%	Not applicable	43%	Not applicable
Other money market funds	0%	Not applicable	1%	Not applicable
Property assets	6%	Not applicable	3%	Not applicable
Other items	40%	Not applicable	42%	Not applicable
TOTAL	100%	NOT APPLICABLE	100%	NOT APPLICABLE

Contributions payable by the Group in FY20 in respect of funded benefits are estimated at €52 million.

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

Benefits payable in the next 10 years € million	Pension commitments	Medical expenses and other employee benefits
2020	261	8
2021	266	8
2022	271	7
2023	279	8
2024	286	8
2025-2029	1,561	39

At 30 June 2018 and 30 June 2019, the main assumptions used for the measurement of pension obligations and other long-term employee benefits were as follows:

	30.06.2018		30.06.2019	
Actuarial assumptions in respect of commitments	Pension benefits	Medical expenses and other employee benefits	Pension benefits	Medical expenses and other employee benefits
Discount rate	2.78%	3.40%	2.35%	2.98%
Average rate of increase in annuities	3.29%	Not applicable	3.26%	Not applicable
Average salary increase	2.60%	3.16%	2.63%	3.05%
Expected increase in medical expenses				
• Initial rate	Not applicable	6.22%	Not applicable	6.06%
• Final rate	Not applicable	4.61%	Not applicable	4.69%

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Actuarial assumptions in respect of the expense for the period	30.06.2018		30.06.2019	
	Pension benefits	Medical expenses and other employee benefits	Pension benefits	Medical expenses and other employee benefits
Discount rate	2.62%	3.50%	2.78%	3.40%
Average rate of increase in annuities	3.34%	Not applicable	3.29%	Not applicable
Average salary increase	2.81%	3.39%	2.60%	3.16%
Expected increase in medical expenses				
• Initial rate	Not applicable	6.65%	Not applicable	6.22%
• Final rate	Not applicable	4.75%	Not applicable	4.61%

Actuarial assumptions at 30.06.2019

(pensions and other long-term employee benefits)

By region

	United Kingdom	United States	Canada	Eurozone countries	Other non-eurozone countries
Discount rate	2.30%	3.42%	3.10%	1.33%	3.31%
Average rate of increase in annuities	3.44%	Not applicable	Not applicable	1.33%	1.87%
Average salary increase	2.12%	3.50%	3.00%	2.38%	3.97%
Expected increase in medical expenses					
• Initial rate	5.50%	6.66%	5.28%	3.50%	Not applicable
• Final rate	5.50%	4.50%	4.50%	3.50%	Not applicable

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

- short-term rate (3-5 years): 0.25%;
- medium-term rate (5-10 years): 0.50%;
- long-term rate (more than 10 years): 1.00% to 1.60%.

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

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

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

€ million	Pension benefits	Medical expenses and other employee benefits	Total
Commitments at 30.06.2019	4,965	147	5,113
Commitments at 30.06.2019 with a 0.5% decrease in the discount rate	5,372	157	5,529
Commitments at 30.06.2019 with a 0.5% increase in the discount rate	4,603	138	4,742

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

In respect of post-employment medical coverage € millions	Effect of a change		
	With current rate	1% increase	1% decrease
On the present value of the benefit obligations at 30.06.2019	113	12	(10)
Expense for FY19	5	0	0

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

<i>c million</i>	30.06.2019	
	Pension benefits	Medical expenses and other employee benefits
Amount of experience losses or (gains) on benefit obligations	(117)	(7)
Percentage compared with amount of benefit obligations	-2.4%	-4.9%
Amount of financial assumption losses or (gains) on benefit obligations	326	7
Percentage compared with amount of benefit obligations	6.6%	4.8%
Amount of demographic assumption losses or (gains) on benefit obligations	(258)	0
Percentage compared with amount of benefit obligations	-5.2%	-0.3%
Amount of experience losses or (gains) on plan assets	(265)	-
Percentage compared with amount of plan assets	-4.7%	0.0%
Amount of experience losses or (gains) on the limitation on assets	(2)	-
Percentage compared with amount of plan assets	0.0%	0.0%
Average duration	15.22	13.19

Note 4.8 Financial liabilities

IFRS 9 (Financial Instruments) replaced IAS 39 as of 1 July 2018. IAS 32 has been applied since 1 July 2004. IFRS 7 has been applied since 1 July 2007. The amendment approved by the European Union on 22 November 2011 has been applied from 1 July 2011.

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

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

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

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1. Breakdown of net financial debt by type and maturity

<i>c million</i>	30.06.2018			30.06.2019		
	Current	Non-current	Total	Current	Non-current	Total
Bonds	93	6,777	6,869	944	6,071	7,015
Syndicated loan	-	-	-	-	-	-
Commercial paper	280	-	280	-	-	-
Other loans and financial debts	80	463	542	177	363	540
Other financial liabilities	360	463	822	177	363	540
GROSS FINANCIAL DEBT	452	7,239	7,691	1,121	6,434	7,555
Fair value hedging derivative instruments – assets	-	-	-	-	(13)	(13)
Fair value hedging derivative instruments – liabilities	-	25	25	-	2	2
Fair value hedging derivative instruments	-	25	25	-	(12)	(12)
Net investment hedging derivative instruments – assets	-	-	-	-	-	-
Net investment hedging derivative instruments – liabilities	-	-	-	-	-	-
Net investment hedge derivatives	-	-	-	-	-	-
Net assets hedging derivative instruments – assets	(1)	-	(1)	-	-	-
Net asset hedging derivative instruments – liabilities	-	-	-	0	-	0
Net assets hedging derivative instruments	(1)	-	(1)	0	-	0
FINANCIAL DEBT AFTER HEDGING	452	7,265	7,716	1,121	6,422	7,543
Cash and cash equivalents	(754)	-	(754)	(923)	-	(923)
NET FINANCIAL DEBT	(303)	7,265	6,962	198	6,422	6,620

The analysis of the change in net financial debt based on the changes in cash and non-cash is described below:

<i>€ million</i>	30.06.2018	Changes in cash flows	Changes in cash flows with no cash impact				30.06.2019
		Total cash flow	Scope	Foreign Exchange impact	Change in fair value	Other items	
Bonds	6,869	12	-	101	33	-	7,015
Syndicated loan	0	-	-	-	-	-	0
Commercial paper	280	(280)	-	-	-	-	0
Other loans and financial debts	542	(1)	-	(2)	-	1	540
GROSS FINANCIAL DEBT	7,691	(269)	-	100	33	1	7,555
Fair value hedging derivative instruments – assets	-	-	-	-	(13)	-	(13)
Fair value hedging derivative instruments – liabilities	25	-	-	-	(24)	-	2
Fair value hedging derivative instruments	25	-	-	-	(37)	-	(12)
Net assets hedging derivative instruments – assets	(1)	-	-	-	0	-	0
Net assets hedging derivative instruments	(1)	-	-	-	0	-	0
FINANCIAL DEBT AFTER HEDGING	7,716	(269)	-	100	(4)	1	7,543
Cash and cash equivalents	(754)	(151)	-	(1)	-	(16)	(923)
NET FINANCIAL DEBT	6,962	(421)	-	98	(4)	(15)	6,620

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2. Breakdown of debt by currency before and after foreign exchange hedging instruments

At 30.06.2018 € million	Gross financial debt	Amount hedged	Debt after hedging	Cash	Net debt after hedging	% Debt after hedging	% Net debt after hedging
EUR	3,521	281	3,802	(221)	3,580	49%	51%
USD	4,174	(98)	4,076	(8)	4,068	53%	58%
GBP	(25)	(92)	(117)	(1)	(118)	-2%	-2%
SEK	(9)	-	(9)	0	(9)		
Other currencies	31	(67)	(36)	(523)	(559)	0%	-8%
FINANCIAL DEBT BY CURRENCY	7,691	25	7,716	(754)	6,962	100%	100%

At 30.06.2019 € million	Gross financial debt	Amount hedged	Debt after hedging	Cash	Net debt after hedging	% Debt after hedging	% Net debt after hedging
EUR	3,033	540	3,573	(243)	3,330	47%	50%
USD	4,471	(326)	4,145	(60)	4,085	55%	62%
GBP	6	(3)	3	(48)	(45)		-1%
SEK	8	-	8	(18)	(10)		-0%
Other currencies	37	(223)	(186)	(555)	(740)	-2%	-11%
FINANCIAL DEBT BY CURRENCY	7,555	(12)	7,543	(923)	6,620	100%	100%

3. Breakdown of debt by currency and nature of interest rate hedge

At 30 June 2018 € million	Debt after hedging by currency	Fixed-rate debt ⁽¹⁾	Capped floating-rate debt	Floating-rate debt	% (Fixed-rate + capped floating-rate debt)/debt after hedging	Cash	% (Fixed-rate + capped floating-rate debt)/Net debt
EUR	3,802	2,655	-	1,147	70%	(221)	74%
USD	4,076	3,406	-	670	84%	(8)	84%
GBP	(117)	-	-	(117)	N.M.	(1)	N.M.
SEK	(9)	-	-	(9)	N.M.	0	N.M.
Other currencies	(36)	22	-	(58)	N.M.	(523)	N.M.
TOTAL	7,716	6,084	-	1,633	79%	(754)	87%

⁽¹⁾ Hedge accounting and other derivatives.

N.M.: Not material.

At 30.06.2019 € million	Debt after hedging by currency	Fixed-rate debt ⁽¹⁾	Capped floating-rate debt	Floating rate debt	% (Fixed-rate + capped floating-rate debt)/debt after hedging	Cash	% (Fixed-rate + capped floating-rate debt)/Net debt
EUR	3,573	2,659	-	913	74%	(243)	80%
USD	4,145	3,494	-	651	84%	(60)	86%
GBP	3	-	-	3	N.M.	(48)	N.M.
SEK	8	-	-	8	N.M.	(18)	N.M.
Other currencies	(186)	14	-	(199)	N.M.	(555)	N.M.
TOTAL	7,543	6,168	-	1,375	82%	(923)	93%

⁽¹⁾ Hedge accounting and other derivatives.

N.M.: not material.

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4. Breakdown of fixed-rate/floating-rate debt before and after interest rate hedging instruments

<i>c million</i>	30.06.2018				30.06.2019			
	Debt before hedging		Debt after hedging		Debt before hedging		Debt after hedging	
Fixed-rate debt	6,770	88%	6,084	79%	6,871	91%	6,168	82%
Capped floating-rate debt	-	-	-	-	-	-	-	-
Floating-rate debt	946	12%	1,633	21%	672	9%	1,375	18%
FINANCIAL DEBT AFTER HEDGING BY TYPE OF RATE	7,716	100%	7,716	100%	7,543	100%	7,543	100%

At 30 June 2019, before taking account of any hedges, the Group's gross debt was 91% fixed rate and 9% floating rate. After hedging, the floating-rate portion was 18%.

5. Schedule of financial liability maturity

The following table shows the maturity of future financial liability-related cash flows (nominal and interest). Floating-rate interest flows have been estimated on the basis of rates at 30 June 2018 and 30 June 2019.

At 30 June 2018 <i>€ million</i>	Balance sheet value	Contractual flows	< 6 months	6 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years
Nominal value	-	(7,679)	(323)	(38)	(891)	(1,071)	(1,587)	(727)	(3,042)
Interest	-	(1,886)	(123)	(126)	(249)	(232)	(176)	(104)	(876)
GROSS FINANCIAL DEBT	(7,691)	(9,565)	(447)	(164)	(1,140)	(1,303)	(1,763)	(830)	(3,918)
Cross-currency swaps	-	-	-	-	-	-	-	-	-
• Flows payable	-	-	-	-	-	-	-	-	-
• Flows receivable	-	-	-	-	-	-	-	-	-
Derivative instruments – liabilities	(43)	(33)	(15)	(2)	(7)	(5)	(1)	(1)	(2)
DERIVATIVE INSTRUMENTS LIABILITIES	(43)	(33)	(15)	(2)	(7)	(5)	(1)	(1)	(2)
TOTAL FINANCIAL LIABILITIES	(7,734)	(9,598)	(461)	(166)	(1,147)	(1,308)	(1,764)	(831)	(3,921)

At 30.06.2019 <i>€ million</i>	Balance sheet value	Contractual flows	< 6 months	6 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years
Nominal value	-	(7,499)	(33)	(995)	(1,070)	(1,593)	(718)	(515)	(2,574)
Interest	-	(1,671)	(125)	(128)	(237)	(179)	(105)	(90)	(806)
GROSS FINANCIAL DEBT	(7,555)	(9,170)	(159)	(1,124)	(1,307)	(1,772)	(823)	(605)	(3,380)
Cross-currency swaps	-	-	-	-	-	-	-	-	-
• Flows payable	-	-	-	-	-	-	-	-	-
• Flows receivable	-	-	-	-	-	-	-	-	-
Derivative instruments – liabilities	(21)	(23)	(7)	(6)	(4)	(1)	(1)	(1)	(3)
DERIVATIVE INSTRUMENTS LIABILITIES	(21)	(23)	(7)	(6)	(4)	(1)	(1)	(1)	(3)
TOTAL FINANCIAL LIABILITIES	(7,575)	(9,193)	(165)	(1,130)	(1,311)	(1,774)	(825)	(607)	(3,383)

6. Syndicated loan

At 30 June 2019, no drawdowns had been made from the multi-currency syndicated loan of €2,500 million.

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7. Bonds

Nominal amount	Interest rate	Issue date	Maturity	Carrying amount at 30.06.2019 € million
EUR 850 million	2.00%	20.03.2014	22.06.2020	849
USD 1,000 million	5.75%	07.04.2011	07.04.2021	888
USD 201 million	Spread +6-month LIBOR	26.01.2016	26.01.2021	180
USD 1,500 million	4.45%	25.10.2011	15.01.2022	1,350
USD 800 million	4.25%	12.01.2012	15.07.2022	721
EUR 500 million	1.88%	28.09.2015	28.09.2023	496
EUR 650 million	2.13%	29.09.2014	27.09.2024	658
EUR 600 million	1.50%	17.05.2016	18.05.2026	599
USD 600 million	3.25%	08.06.2016	08.06.2026	522
USD 850 million	5.50%	12.01.2012	15.01.2042	752
TOTAL BONDS				7,015

8. Offsetting of financial assets and financial liabilities

The table below shows the amounts of financial assets and financial liabilities before and after offsetting.

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

At 30 June 2018 € million	Gross financial assets	Amounts offset in the balance sheet	Net amounts in the balance sheet	Impact of master netting agreements and similar agreements	Financial instruments received as collateral	Net amounts under IFRS 7
Assets						
Cash and cash equivalents	1,026	(272)	754	-	-	-
Liabilities and shareholders' equity						
Bank debt	1,094	(272)	822	-	-	-

At 30.06.2019 € million	Gross financial assets	Amounts offset in the balance sheet	Net amounts in the balance sheet	Impact of master netting agreements and similar agreements	Financial instruments received as collateral	Net amounts under IFRS 7
Assets						
Cash and cash equivalents	1,044	(121)	923	-	-	-
Liabilities and shareholders' equity						
Bank debt	661	(121)	540	-	-	-

Note 4.9 Financial instruments

1. Fair value of financial instruments

	Breakdown by accounting classification					30.06.2018	
	Measurement level	Fair value – profit	Fair value – shareholders' equity	Loans and receivables	Liabilities at amortised cost	Balance sheet value	Fair value
<i>c million</i>							
Assets							
Available-for-sale financial assets	Level 3	-	13	-	-	13	13
Guarantees, deposits, investment-related receivables		-	-	108	-	108	108
Trade receivables and other operating receivables		-	-	1,122	-	1,122	1,122
Other current assets		-	-	280	-	280	280
Derivative instruments – assets	Level 2	19	-	-	-	19	19
Cash and cash equivalents	Level 1	754	-	-	-	754	754
Liabilities and shareholders' equity							
Bonds		-	-	-	6,869	6,869	7,175
Bank debt		-	-	-	791	791	791
Finance lease debt		-	-	-	31	31	31
Derivative instruments – liabilities	Level 2	43	-	-	-	43	43

	Breakdown by accounting classification					30.06.2019	
	Measurement level	Fair value – profit	Fair value – shareholders' equity	Loans and receivables	Liabilities at amortised cost	Balance sheet value	Fair value
€ million							
Assets							
Equity instruments	Levels 1 and 3	-	194	-	-	194	194
Guarantees, deposits, investment-related receivables		-	-	128	-	128	128
Trade receivables and other operating receivables		-	-	1,226	-	1,226	1,226
Other current assets		-	-	359	-	359	359
Derivative instruments – assets	Level 2	25	-	-	-	25	25
Cash and cash equivalents	Level 1	923	-	-	-	923	923
Liabilities and shareholders' equity							
Bonds		-	-	-	7,015	7,015	7,229
Bank debt		-	-	-	512	512	512
Finance lease debt		-	-	-	28	28	28
Derivative instruments – liabilities	Level 2	21	-	-	-	21	21

The methods used are as follows:

- debt: the fair value of the debt is determined for each loan by discounting future cash flows on the basis of market rates at the closing date, adjusted for the Group's credit risk. For floating-rate bank debt, fair value is approximately equal to the carrying amount;
- bonds: market liquidity enabled the bonds to be valued at their fair value using the quoted prices;
- other long-term financial liabilities: the fair value of other long-term financial liabilities was calculated for each loan by discounting future cash flows using an interest rate reflecting the Group's credit risk at the balance sheet date;

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

The hierarchical levels for fair value disclosures below are consistent with the definitions in the amended version of IFRS 7 (Financial instruments: disclosures):

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

In accordance with IFRS 13, derivatives were measured taking into account the credit valuation adjustment (CVA) and the debt valuation adjustment (DVA). The measurement is based on historical data (rating of counterparty banks and probability of default). At 30 June 2019, the impact was not significant.

2. Risk management

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

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

Management of liquidity risk

At 30 June 2019, the Group's cash and cash equivalents totalled €923 million (compared with €754 million at 30 June 2018). An additional €2,760 million of renewable medium-term credit facilities with banks was confirmed and drawn at €260 million. Group funding is provided in the form of long-term debt (bank loans, bonds, etc.) and short-term financing (commercial paper and bank overdrafts) as well as factoring and securitisation, which provide adequate financial resources to ensure the continuity of its business. The Group's short-term financial debt after hedging was €1,121 million at 30 June 2019 (compared to €452 million at 30 June 2018).

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

The credit ratings sought by Pernod Ricard from rating agencies on its long- and short-term debt are Baa2/P2 from Moody's and BBB/A2 from Standard & Poor's respectively.

The Group's bank and bond debt contracts include covenants and a financial ratio. Breaches of these covenants or financial ratio could force the Group to make accelerated payments. At 30 June 2019, the Group was in compliance with the covenants under the terms of its syndicated loan, with a solvency ratio (total net debt converted at the average rate/consolidated EBITDA) of 5.25 or less.

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

The currency controls in place in certain countries limit the Group's ability to use cash (prohibition on investment with the Group) and, in some cases, delay the possibility of paying dividends (authorisation is required from the relevant authorities, notably in Cuba). At 30 June 2019, the delayed availability cash amounted to €141 million, including €134 million relating to Cuba.

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

Management of currency risk

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

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

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

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

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

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

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

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

Management of interest rate risk

At 30 June 2019, the Group's debt comprised floating-rate debt (mainly commercial paper and other bank loans) and fixed-rate debt (mainly bonds), in addition to a hedging portfolio including USD swaps.

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

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

At 30.06.2019 € million	< 1 year	> 1 year and < 5 years	> 5 years	Total
Total assets (cash)	243	-	-	243
Total floating-rate liabilities	(128)	(245)	0	(373)
NET FLOATING-RATE DEBT BEFORE HEDGING	115	(245)	0	(130)
Derivative instruments	(540)	-	-	(540)
NET FLOATING-RATE DEBT AFTER HEDGING	(425)	(245)	0	(670)

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

At 30.06.2019 € million	< 1 year	> 1 year and < 5 years	> 5 years	Total
Total assets (cash)	60	-	-	60
Total floating-rate liabilities	(84)	(189)	-	(273)
NET FLOATING-RATE DEBT BEFORE HEDGING	(24)	(189)	-	(214)
Derivative instruments	314	(514)	(177)	(377)
NET FLOATING-RATE DEBT AFTER HEDGING	289	(703)	(177)	(591)

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

A 50 basis point increase or decrease in interest rates (USD and EUR) would increase or reduce the cost of net financial debt by €8 million.

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

A relative fluctuation of +/-50 basis point in interest rates (USD and EUR) would generate an equity gain or loss of approximately €1 million as a result of changes in the fair value of the derivatives documented as cash flow hedges (swaps).

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

At 30 June 2019, the sensitivity of the portfolio was not significant.

Counterparty risk in financial transactions

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

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

Note 4.10 Interest rate, foreign exchange and commodity derivatives

Pursuant to the amended version of IAS 9 "Financial Instruments", all derivative instruments must be recognised in the balance sheet at fair value, determined on the basis of standard market valuation models or external prices issued by financial institutions.

Where the derivative has been designated as a fair value hedge, changes in the value of the derivative and of the hedged item are recognised in profit and loss for the same period. If the derivative has been designated as a cash flow hedge, the change in value of the "effective" portion of the hedge is recognised in shareholders' equity.

It is recognised in profit and loss when the hedged item is itself recognised in profit and loss. The change in value of the ineffective component of the derivative is however recognised directly in profit and loss. If the derivative is designated as a hedge of a net foreign currency investment, the change in value of the effective portion of the hedge is recognised in shareholders' equity and the change in value of the "ineffective" portion is recognised in profit and loss.

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Hedging instruments (by risk category and nature of hedge)

Type of hedging at 30.06.2018 € million	Description of the financial instrument	Notional amount of contracts				Fair value	
		< 1 year	> 1 year and < 5 years	> 5 years	Total	Assets	Liabilities and shareholders' equity
Fair value hedge						-	26
Interest rate risk hedges	Swaps	-	858	172	1,029	-	26
Interest rate and currency risk hedges	Cross-currency swaps	-	-	-	-	-	-
Net investment hedge		-	-	-	-	1	-
Currency risk hedges	NDF & FX options	65	-	-	65	1	-
Interest rate and currency risk hedges	Cross-currency swaps	-	-	-	-	-	-
Net asset hedging		-	-	-	-	-	-
Interest rate and currency risk hedges	Cross-currency swaps	-	-	-	-	-	-
DERIVATIVE INSTRUMENTS INCLUDED IN NET DEBT						1	26
Cash flow hedge						3	4
Interest rate risk hedges	Swaps	-	172	-	172	-	1
Hedging of currency risk on intragroup financing and operational hedging	Currency swaps	65	-	-	65	0	3
Commodity risk hedges	Forwards	16	7	-	23	3	0
Non hedge accounting		-	-	-	-	15	13
Hedging of currency risk on intragroup financing and operational hedging	Currency swaps and forwards	1,748	-	-	1,748	15	8
Interest rate risk hedges	Swaps	-	1,201	-	1,201	-	5
TOTAL DERIVATIVE INSTRUMENTS						19	43
TOTAL NON-CURRENT						2	31
TOTAL CURRENT						17	11

Type of hedging at 30.06.2019 € million	Description of the financial instrument	Notional amount of contracts				Fair value	
		< 1 year	> 1 year and < 5 years	> 5 years	Total	Assets	Liabilities and shareholders' equity
Fair value hedge						13	2
Interest rate risk hedges	Swaps	-	879	176	1,054	13	2
Interest rate and currency risk hedges	Cross-currency swaps	-	-	-	-	-	-
Net investment hedge		-	-	-	-	-	-
Currency risk hedges	FX forwards	130	-	-	130	-	-
Interest rate and currency risk hedges	Cross-currency swaps	-	-	-	-	-	-
Net asset hedging		-	-	-	-	-	-
Interest rate and currency risk hedges	Cross-currency swaps	-	-	-	-	-	-
DERIVATIVE INSTRUMENTS INCLUDED IN NET DEBT						13	2
Cash flow hedge						3	4
Interest rate risk hedges	Swaps	-	176	-	176	-	3
Hedging of currency risk on intragroup financing and operational hedging	Currency swaps and FX forwards and FX options	139	38	-	177	1	1
Commodity risk hedges	Swaps	12	3	-	15	2	0
Non hedge accounting		-	-	-	-	9	15
Hedging of currency risk on intragroup financing and operational hedging	Currency swaps and forwards	1,424	-	-	1,424	4	5
Interest rate risk hedges	Swaps	-	1,230	-	1,230	4	11
TOTAL DERIVATIVE INSTRUMENTS						25	21
TOTAL NON-CURRENT						20	16
TOTAL CURRENT						6	5

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The notional amount of these contracts is the nominal value of the contracts. Foreign currency denominated notional amounts in cross-currency swaps are shown in euros at the exchange rate agreed. For other instruments, notional amounts denominated in foreign currencies are translated into euros at year-end rates. Estimated market values are based on information available on the financial markets and

valuation methods appropriate to the type of financial instrument concerned. These valuation methods yield results consistent with the valuations provided by bank counterparties.

The Group's hedging instruments at 30 June 2019 are not ineffective.

Hedged items (by category and nature of hedge)

Nature of hedge at 30.06.2019 <i>€ million</i>	Carrying amount of the hedged item		Cumulative FVH adjustments included in the carrying amount of the hedged item		Balance sheet item in which the hedged item is included	CFH reserves	Change in fair value of OCI derivatives
	Liabilities and shareholders' equity		Liabilities and shareholders' equity				
	Assets		Assets				
FAIR VALUE HEDGE (FVH)							
Interest rate risk							
Fixed-rate bonds hedged	-	1,069	13	2	Bonds	N/A	N/A
End of hedging	-	-	4	11	Bonds	N/A	N/A
Currency risk							
Firm commitment	-	-	-	-	-	N/A	N/A
CASH FLOW HEDGE (CFH)							
Interest rate risk							
Floating rates of bonds	N/A	N/A	N/A	N/A	N/A	(3)	(2)
End of hedging	N/A	N/A	N/A	N/A	N/A	(16)	10
Currency risk							
Future foreign currency sales hedges	N/A	N/A	N/A	N/A	N/A	(1)	2
End of hedging	N/A	N/A	N/A	N/A	N/A	-	-
Commodity risk							
Commodity risk hedges	N/A	N/A	N/A	N/A	N/A	0	0
NET INVESTMENT HEDGE (NIH)							
Net assets hedged	-	-	N/A	N/A	N/A	N/A	N/A
End of hedging	-	-	N/A	N/A	N/A	N/A	N/A

N/A: Not applicable.

Note 4.11 Other current liabilities

Other current liabilities are broken down as follows:

€ million	30.06.2018	30.06.2019
Taxes and social charges	613	636
Other current liabilities	347	421
TOTAL	960	1,058

Other current liabilities at 30 June 2019 mainly comprise the €311 million interim dividend payment on 10 July 2019. Most of these other current liabilities are due within one year.

Note 5 Notes to the cash flow statement

Note 5.1 Working Capital Requirements

Working Capital Requirements increased by €181 million. The change breaks down as follows:

- increase in inventory: +€285 million;
- increase in trade receivables: +€126 million;
- increase in operating and other payables: €(166) million;
- other movements: €(65) million.

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

Note 5.2 Capital expenditure

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

Note 5.3 Issuance/redemption of bonds

The Group neither issued, nor redeemed any bonds in the course of FY19.

In addition, the Group drew €150 million on a syndicated loan during the year, which was repaid over the same period. It also reduced the outstanding amount of short-term marketable securities by €280 million.

Note 6 Additional information

Note 6.1 Shareholders' equity

1. Share capital

The Group's share capital did not change between 1 July 2018 and 30 June 2019:

	Number of shares	Amount (€ million)
Share capital at 30.06.2018	265,421,592	411
Share capital at 30.06.2019	265,421,592	411

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

2. Treasury shares

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

On 30 June 2019, Pernod Ricard and its controlled affiliates held 1,596,503 Pernod Ricard shares worth €199 million. These treasury shares are shown at acquisition cost as a deduction from shareholders' equity.

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

3. Interim dividend

The Board of Directors' meeting on 17 April 2019 decided to pay an interim dividend of €1.18 per share in respect of FY19, i.e. a total of €311 million. The interim dividend was paid on 10 July 2019 and recognised under "Other current liabilities" in the balance sheet at 30 June 2019.

4. Capital management

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

5. Liquidity agreement

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

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

Note 6.2 Share-based payments

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

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

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

1. Description of share-based payment plans

The Group implements stock option and performance-based share plans for Managers with high levels of responsibility, key management personnel for the Group and high-potential Managers. All of the plans are equity-settled.

In the course of FY19, three share allocation plans were set up on 21 November 2018:

- a stock option plan including a performance condition based on the positioning of the overall performance of the Pernod Ricard share (TSR ⁽¹⁾) compared with the overall performance of a panel of 12 peers over the period from 21 November 2018 to 21 November 2021 inclusive (three years) and a condition of four years' continuous service;
- a performance-based share plan, including a performance criterion based on the average level of Profit from Recurring Operations achieved compared to the budget, measured over three consecutive financial years including the year in which the shares were granted and a condition of continuous service on the vesting date (four years);
- a performance-based share plan, including several levels of performance conditions, with the first based on the average level of Profit from Recurring Operations achieved compared with the budget, measured over three financial years including the year in which the shares were granted, and the second based on the positioning of the overall performance of the Pernod Ricard share (TSR ⁽¹⁾) compared with the overall performance of a panel of 12 peers over the period from 21 November 2018 to 21 November 2021 inclusive (three years) and a condition of continued service on the vesting date (four years).

	Type of options	Presence of performance condition	Number of beneficiaries	Commencement date for exercise of options	Expiry date	Subscription or purchase price (€)	Outstanding options at 30.06.2019	Stock option expense for FY19 (€ thousand)
Plan dated 15.09.2010	Purchase	Conditional	1	16.09.2014	15.09.2018	€64.00	0	0
Plan dated 15.06.2011	Purchase	Unconditional	713	16.06.2015	15.06.2019	€68.54	0	0
Plan dated 15.06.2011	Purchase	Conditional	144	16.06.2015	15.06.2019	€68.54	0	0
Plan dated 06.11.2013	Purchase	Conditional	168	07.11.2017	06.11.2021	€88.11	0	0
Plan dated 06.11.2015	Purchase	Conditional	161	07.11.2019	06.11.2023	€102.80	182,507	1,109
Plan dated 17.11.2016	Purchase	Conditional	16	18.11.2020	17.11.2024	€105.81	150,008	569
Plan dated 09.11.2017	Purchase	Conditional	15	10.11.2021	09.11.2025	€126.53	124,050	586
Plan dated 21.11.2018	Purchase	Conditional	15	22.11.2022	21.11.2026	€137.78	109,492	349

	Type of shares	Presence of performance condition	Number of beneficiaries	Shares acquired from	Shares vested from	Outstanding shares at 30.06.2019	Share expense for FY19 (€ thousand)
Plan dated 06.11.2014	Free	Conditional	1,007	07.11.2018	07.11.2018	0	2,174
Plan dated 06.11.2015	Free	Conditional	1,006	07.11.2019	07.11.2019	337,828	7,353
Plan dated 17.11.2016	Free	Conditional	997	18.11.2020	18.11.2020	406,026	8,432
				33% 18.11.2017	33% 18.11.2019		
				33% 18.11.2018	33% 18.11.2020		
Plan dated 17.11.2016	Free	Unconditional	6	33% 18.11.2019	33% 18.11.2021	24,853	(*)
Plan dated 09.11.2017	Free	Conditional	1,000	10.11.2021	10.11.2021	348,742	9,228
Plan dated 21.11.2018	Free	Conditional	958	22.11.2022	22.11.2022	336,069	5,680

(*) For this plan, the Group decided to recognise all expenses in FY17.

(1) Total shareholder return.

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The history of stock option plans that have not yet expired is presented in the “Corporate governance and internal control” section of this universal registration document.

At 30 June 2019, there were no stock option plans that had vested but not been exercised.

The Group recognised an expense of €2.6 million as an operating loss for four stock option plans in the process of vesting at 30 June 2019, as well as an expense of €32.9 million in respect of the five performance-based share plans.

Annual expenses € million	30.06.2018	30.06.2019
Stock options – through a double entry to equity	3	3
Performance-based and bonus shares – through a double entry to equity	30	33
TOTAL ANNUAL EXPENSES	33	36

Changes made to outstanding stock options/shares during the year (period from 1 July 2018 to 30 June 2019) are described below:

	Type of options	Presence of performance condition	Outstanding options at 30.06.2018	Allocated during the period	Cancelled during the period	Exercised during the period	Expired during the period	Outstanding options at 30.06.2019
Plan dated 15.09.2010	Purchase	Conditional	0	0	0	0	0	0
Plan dated 15.06.2011	Purchase	Unconditional	154,546	0	1,205	153,341	0	0
Plan dated 15.06.2011	Purchase	Conditional	81,375	0	0	81,375	0	0
Plan dated 06.11.2013	Purchase	Conditional	0	0	0	0	0	0
Plan dated 06.11.2015	Purchase	Conditional	276,525	0	94,018	0	0	182,507
Plan dated 17.11.2016	Purchase	Conditional	150,008	0	0	0	0	150,008
Plan dated 09.11.2017	Purchase	Conditional	124,050	0	0	0	0	124,050
Plan dated 21.11.2018	Purchase	Conditional	0	109,492	0	0	0	109,492

	Type of shares	Presence of performance condition	Outstanding shares at 30.06.2018	Allocated during the period	Cancelled during the period	Transferred during the period	Expired during the period	Outstanding shares at 30.06.2019
Plan dated 06.11.2014	Free	Conditional	360,148	0	3,178	356,970	0	0
Plan dated 06.11.2015	Free	Conditional	359,493	0	21,210	455	0	337,828
Plan dated 17.11.2016	Free	Conditional	429,576	0	23,550	0	0	406,026
Plan dated 17.11.2016	Free	Unconditional	49,704	0	0	24,851	0	24,853
Plan dated 09.11.2017	Free	Conditional	366,449	0	17,707	0	0	348,742
Plan dated 21.11.2018	Free	Conditional	N/A	341,313	5,244	0	0	336,069

The average strike price of options exercised during FY19 was €68.54.

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

	Type of options/shares	Presence of performance condition	Initial share price (€) ⁽¹⁾	Strike price (€)	Expected volatility	Expected dividend yield	Risk-free interest rate	IFRS 2 fair value
Plan dated 21.11.2018	Purchase	Conditional	140.50	137.78	18.60%	2.17%	1.10%	21.04
Plan dated 21.11.2018	Free	Conditional	140.50	N/A	18.30%	2.17%	0.50%	80.38
Plan dated 21.11.2018	Free	Conditional	140.50	N/A	N/A	2.17%	N/A	128.82

N/A: Not applicable.

(1) Closing share price at grant date.

The fair values are fixed upon implementation of each plan, and they do not vary year on year. In addition, only the values relating to the plans allocated during FY19 are presented above (information on previous plans is available in the previous Registration Documents).

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

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

The possibility of exercising options prior to maturity has been taken into account in the valuation model of the stock option plans by reflecting, *via* an assumption, the behaviour of beneficiaries as regards the anticipated periods (before maturity). In 2017, a new option exercise profile was defined and replaced that established in 2010. It was assumed that 30%, 40% and 30% of the options would be exercised once the share price reached 120%, 150% and 180% of the exercise price respectively. This assumption is based on a recent analysis of behaviour observed on plans awarded before 2017.

Options allocated on 21 November 2018 are all conditional on the positioning of the overall performance of the Pernod Ricard share (TSR⁽¹⁾) compared to the overall performance of a panel of 12 peers: the stock options will be pre-vested on 21 November 2021, provided that the overall performance of the Pernod Ricard share (TSR⁽¹⁾) is positioned 7th out of 13 or better (the number will be determined in increments depending on the level of performance achieved). Vesting will be final if the continuous service condition is met on 21 November 2022.

Two performance-based share plans were granted on 21 November 2018. In both cases, their fair value corresponds, amongst other things, to the market price of the shares at the grant date, less the loss of expected dividends during the vesting period (*i.e.* four years for all beneficiaries). Lastly, the number of performance-based shares granted will depend on the average level of Group Profit from Recurring Operations for the years ended 30 June 2019, 30 June 2020 and 30 June 2021 compared with budgeted Profit from Recurring Operations for each of those years, at constant exchange rates and scope of consolidation. The accounting expense for the plan under IFRS 2 will be adjusted for this condition no later than the end of the vesting period.

The fair value of one of the two plans also takes account of the same market performance condition as applied to the stock options allocated on 21 November 2018, in addition to the internal condition described above: positioning of the overall performance of the Pernod Ricard share (TSR⁽¹⁾) compared to the overall performance of a panel of 12 peers over

the period from 21 November 2018 to 21 November 2021 inclusive (three years). The performance-based shares, the number of which will be determined by applying the internal condition, will be vested, provided that the overall performance of the Pernod Ricard share (TSR⁽¹⁾) is positioned 7th out of 13 or better (the number will be determined by increments based on the level of performance achieved). Vesting will be final as of 22 November 2022 if the continuous service condition is met on 21 November 2022.

2. Employee share ownership plan

In May 2019, employees in 18 countries (approximately 75% of Group employees) were able to participate in Pernod Ricard's first Share Ownership Plan, as part of a structured offer, including a discount of 20% to the share's reference price.

The purchase price was accordingly set at €127.84, corresponding to 80% of the share's average opening price over the 20 trading days preceding the decision of the CEO, *i.e.* from 16 May to 12 June 2019.

At 21 June 2019, the end date of the purchase/revocation period, all the securities available under this offer (479,997) were subscribed by employees of 45 subsidiaries in 18 countries.

The IFRS 2 expense reflecting the benefit offered to employees is measured by reference to the fair value of a discount offered on non-transferable shares.

The IFRS 2 expense recognised in respect of this plan in the FY19 consolidated financial statements amounts to €2.6 million.

The plan did not result in a capital increase, the shares in question having been bought back by the Group on the secondary market. As a result, the plan resulted in a cash gap, as the shares were bought back by the Group on the secondary market during FY19 and the employees' contribution was only paid in July in the FY20 financial year.

Note 6.3 Off-balance sheet commitments

€ million	Total	< 1 year	> 1 year and < 5 years	> 5 years
Commitments given at 30.06.2018	2,463	888	1,260	314
Commitments given in relation to companies within the Group	-	-	-	-
Commitments given in relation to the financing of the Company	18	6	5	6
Financial guarantees given	18	6	5	6
Other items	-	-	-	-
Commitments relating to the operating activities of the issuer	2,445	882	1,255	308
Firm and irrevocable commitments to purchase raw materials	1,631	586	998	46
Tax commitments (customs guarantees and others)	253	172	12	69
Operating lease agreements	522	94	236	192
Other items	39	29	9	1

(1) Total shareholder return.

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€ million	Total	< 1 year	> 1 year and < 5 years	> 5 years
Commitments received at 30.06.2018	2,574	40	2,506	28
Commitments received in relation to companies within the Group	4	1	3	-
Commitments received in relation to the financing of the Company	2,536	35	2,500	1
Lines of credit received and not used	2,500	-	2,500	-
Financial guarantees received	36	35	0	1
Other items	-	-	-	-
Commitments relating to the operating activities of the issuer	33	3	3	27
Contractual commitments related to business activity and business development	31	3	2	26
Other items	3	1	1	1

€ million	Total	< 1 year	> 1 year and < 5 years	> 5 years
Commitments given at 30.06.2019	2,587	863	1,356	368
Commitments given in relation to companies within the Group	7	2	5	-
Commitments given in relation to the financing of the Company	23	6	12	6
Financial guarantees given	23	6	12	6
Other items	-	-	-	-
Commitments relating to the operating activities of the issuer	2,556	855	1,339	362
Firm and irrevocable commitments to purchase raw materials	1,744	582	1,087	74
Tax commitments (customs guarantees and others)	243	163	11	68
Operating lease agreements	555	97	239	219
Other items	15	13	2	1

€ million	Total	< 1 year	> 1 year and < 5 years	> 5 years
Commitments received at 30.06.2019	2,593	53	2,509	31
Commitments received in relation to companies within the Group	3	1	2	-
Commitments received in relation to the financing of the Company	2,544	43	2,500	1
Lines of credit received and not used	2,500	0	2,500	-
Financial guarantees received	44	43	0	1
Other items	0	0	-	-
Commitments relating to the operating activities of the issuer	46	9	6	30
Contractual commitments related to business activity and business development	43	8	6	29
Other items	2	0	1	1

1. Lines of credit received and not used

The lines of credit received and not used correspond primarily to the nominal amount of the syndicated loan not drawn at 30 June 2019 (see Note 4.8 – *Financial liabilities*).

2. Firm and irrevocable commitments to purchase raw materials

In the context of their cognac, wine, champagne and whiskies production operations, the Group's main affiliates have committed €1,662 million under *eaux-de-vie*, grape, base wine and grain supply agreements.

Note 6.4 Contingent liabilities

Pernod Ricard has received several notices of tax adjustment for FY07 to FY15, specifically concerning, for an amount of 7,244 million Indian rupees (equivalent to €92 million, including interest), the tax deductibility of promotion and advertising expenses. It should be noted that the level and amount of this risk has been gradually and significantly reduced in recent years and that the Company obtained a court ruling in its favour in 2019 for the period from FY07 to FY11. Supported by its tax advisers, Pernod Ricard India disputes the merits of the reassessment proposal and believes it has a probable chance of success in litigation. Accordingly, no provision has been booked for this matter.

Note 6.5 Disputes

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

A provision for such procedures is constituted under “Other provisions for risks and charges” (see Note 4.7 – *Provisions*) only when it is likely that a current liability stemming from a past event will require the payment of an amount that can be reliably estimated. In the latter case, the provisioned amount corresponds to the best estimation of the risk. The provisioned amount recorded is based on the assessment of the level of risk on a case-by-case basis, it being understood that any events arising during the proceedings may at any time require that risk to be reassessed.

The provisions recorded by Pernod Ricard at 30 June 2019 for all litigation and risks in which it is involved amounted to €524 million, compared to €548 million at 30 June 2018 (see Note 4.7 – *Provisions*). Pernod Ricard provides no further details (other than in exceptional circumstances), as disclosing the amount of any provision for ongoing litigation could cause the Group serious harm.

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

1. 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 160 countries in which the Havana Club rum is distributed. In the United States, this brand is owned by a Cuban company (Cubaexport). Ownership of this brand is currently being challenged in the United States by a competitor of Pernod Ricard.

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

1. The United States Office of Foreign Assets Control (OFAC) decided that this law had the effect of preventing any renewal of the US trademark registration for the Havana Club brand, which, in the United States, has been owned by Cubaexport since 1976, without obtaining a specific licence from OFAC. In August 2006, the United States Patent and Trademark Office (USPTO) denied the renewal of the said Havana Club trademark registration, following OFAC's refusal to grant a specific licence. Cubaexport petitioned the Director of the USPTO to reverse this decision and also filed a claim against the OFAC, challenging both OFAC's decision and the law and regulations applied by OFAC. In March 2009, the US District Court for the District of Columbia ruled against Cubaexport. In March 2011, in a two-to-one decision, the Court of Appeals blocked Cubaexport from renewing its trademark. A certiorari petition was filed before the US Supreme Court on 27 January 2012, with the support of the French government, the National Foreign Trade Council and the Washington Legal Foundation. On 14 May 2012, the Supreme Court denied the petition. In November 2015, Cubaexport again applied for a specific licence from OFAC to renew the trademark in the United States. On 11 January 2016, OFAC granted Cubaexport's licence application and on 13 January 2016, the application to the Director of USPTO was declared admissible and the trademark was renewed for the 10-year period ending on 27 January 2016. A request for a further renewal for a period of 10 years from 27 January 2016 was also granted.

2. A competitor of the Group has petitioned the USPTO to cancel the Havana Club trademarks in the United States. In January 2004, the USPTO denied the petition and refused to cancel the trademark registration. As this decision was appealed, proceedings are now ongoing before the Federal District Court for the District of Columbia. These proceedings were stayed pending the outcome of Cubaexport's petition to the USPTO. Following acceptance of the petition by the Director of the USPTO, these judicial proceedings resumed and the plaintiff amended the complaint. In response, Cubaexport and HCH filed two motions: one to dismiss all actions commenced against them and one to expedite proceedings on certain issues.

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

2. Tax disputes

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

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

India

Pernod Ricard India (P) Ltd has an ongoing dispute with the Indian customs authorities over the declared transaction value of concentrates of alcoholic beverages (CAB) imported into India. Customs are challenging the transaction values, arguing that some competitors used different values for the import of similar goods. This matter was ruled on by the Supreme Court which issued an order in July 2010, setting out the principles applicable for the determination of values which should be taken into account for the calculation of duty. Pernod Ricard India (P) Ltd has already paid the corresponding amounts up to 2001. For the period between 2001 and December 2010, Pernod Ricard India (P) Ltd has paid almost the entire differential duty as determined by customs in Delhi following the initial adjustment notice received in 2011. A second notice received in 2013 and confirmed on 14 August 2017 was stayed by the Supreme Court. The Company is actively pursuing its discussions with the authorities and jurisdictions.

Pernod Ricard India is also involved in a debate with the Indian customs authorities over the transaction value of international products imported into India. Discussions are ongoing with the relevant authorities and jurisdictions.

Moreover, Pernod Ricard India (P) received several notices of tax adjustment for FY07 to FY15 relating to the tax deductibility of advertising and promotional expenses (see Note 6.4 – *Contingent liabilities*). In 2019, Pernod Ricard India (P) obtained a court ruling in its favour for the period from FY07 to FY11.

It should be noted that the above-mentioned disputes are only the subject of provisions, which, where appropriate, are recorded in Other provisions for risks and charges (see Note 4.7 – *Provisions*), when it is likely that a current liability stemming from a past event will require the payment of an amount which can be reliably estimated. The amount of the provision is the best estimate of the outflow of resources required to extinguish this liability.

3. Commercial disputes

Colombia

A complaint was filed before the Colombian Competition Agency (the Superintendencia De Industria Y Comercio) on 14 November 2017 by the Department of Cundinamarca and its wholly owned distilling company Empresa de Licores de Cundinamarca against Pernod Ricard SA, Pernod Ricard Colombia SA and a competitor company. The complaint alleges that the defendants have committed violations of the Colombian Unfair Competition Act and, in particular, articles 7 and thereof, through the illegal import of spirits into Colombia. The complaint alleges that the companies have gained an unfair market advantage over local producers

through such activity. The plaintiffs seek to reclaim lost profits and taxes for a four year period between 2013 and 2017. Pernod Ricard intends to vigorously defend itself against such allegations. This recent complaint contains allegations that are similar to those made in prior legal proceedings before the New York courts brought by Cundinamarca, the Republic of Colombia and several other Colombian departments in 2004. The New York proceedings were dismissed voluntarily by the parties in 2012.

Note 6.6 Related parties

Transactions with associates and joint ventures were immaterial in the year ended 30 June 2019.

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

€ million	30.06.2018	30.06.2019
Board of Directors ⁽¹⁾	1	1
Group Executive Committee		
• Short-term benefits	14	14
• Post-employment benefits	4	5
• Share-based payments ⁽²⁾	5	6
TOTAL EXPENSES RECOGNISED FOR THE YEAR	24	26

(1) Compensation of Directors.

(2) The cost of share-based payments corresponds to the expenses recognised in profit/loss over the period under stock options and performance-based shares allocated to the members of the Group Executive Committee.

Moreover, the Executive Director are eligible for the following termination compensation (subject to a regulated agreement approved by the Shareholders' Meeting of 17 November 2016):

- one-year non-compete clause, together with a payment corresponding to 12 months' compensation;
- imposed departure clause subject to performance conditions, together with a maximum payment corresponding to 12 months' compensation.

These clauses were not implemented in the course of the past financial year.

Note 6.7 Subsequent events

Since 30 June 2019, as part of its active portfolio management strategy, the Group has finalised the acquisitions of 100% of Firestone & Robertson Distilling Co. (USA), owner of the TX Bourbon brand, a majority interest in Rabbit Hole Spirits, LLC (USA), owner of the Rabbit Hole Whiskey Bourbon brand, a majority interest in Laurenskirk (PTY) Ltd. (South Africa), owner of the Inverroche Gin brand, 100% of Bodeboca, SL (Spain), owner of the Bodeboca digital platform, and 34% of the Seagram MM Holdings joint venture (Myanmar), owner of the High Class Whisky brand. These acquisitions represent a total amount of approximately €250 million.

Furthermore, on 28 August 2019, the Group announced that it had reached a final agreement with the Board of Directors of the listed US company Castle Brands Inc. (NYSE American: ROX) for the purchase of all the company's shares at a price of \$1.27 per share, payable in cash, i.e. an estimated total amount of \$223 million, as well as the assumption of the company's debt.

Note 6.8 Fees of Statutory Auditors and members of their networks for the 12-month financial year¹

€ million	KPMG			Deloitte & Associés			Other items			Total		
	Amount (excluding tax)			Amount (excluding tax)			Amount (excluding tax)			Amount (excluding tax)		
	FY18	FY19	%	FY18	FY19	%	FY18	FY19	%	FY18	FY19	%
Audit												
Statutory Auditors, certification, review of separate and consolidated financial statements⁽³⁾												
Issuer ⁽²⁾	0.6	0.6	15%	0.6	0.6	14%	0	0	0%	1.2	1.2	14%
Fully consolidated affiliates	2.4	2.7	67%	3.1	3.2	71%	0.2	0.1	98%	5.7	6.0	69%
SUBTOTAL	2.9	3.3		3.7	3.8		0.2	0.1		6.9	7.2	
Services other than the certification of financial statements⁽⁴⁾												
Issuer ⁽²⁾	0.1	0.0	0%	0.5	0.4	8%	0	0	0%	0.5	0.4	5%
Fully consolidated affiliates	0.6	0.8	18%	0.7	0.3	7%	0	0	2%	1.3	1.1	12%
<i>including legal, tax, corporate</i>	0.4	0.7	16%	0.1	0.2	3%	0	0	0%	0.5	0.8	9%
SUBTOTAL	0.7	0.8		1.1	0.7		0	0		1.8	1.5	
TOTAL	3.6	4.1	100%	4.8	4.5	100%	0.2	0.1	100%	8.7	8.7	100%

¹ For the period under review, this refers to services provided and recognised in the income statement during a financial year.

⁽²⁾ The issuer is understood to be the Parent Company.

⁽³⁾ Including the services of independent experts or members of the Statutory Auditors' network employed to certify the financial statements.

⁽⁴⁾ This section sets out the procedures and services provided to the issuer or its affiliates by the Statutory Auditors or the members of their networks. They may be required by law or by the provisions stipulated at the request of the Group or its affiliates, and undertake to comply with the requirements of independence.

Deloitte & Associés and KPMG SA have been the Principal Statutory Auditors of the Group Pernod Ricard since the Shareholders' Meetings of 13 May 2003 and 17 November 2016, respectively.

Note 7 Scope of consolidation

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

shareholders at the date of the original business combination and minority interests in any subsequent changes to shareholders' equity.

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

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

Note 7.1 Scope of consolidation

The main changes to the Group's scope of consolidation at 30 June 2019 are presented in Note 1.2 – *Significant events during the financial year*.

Note 7.2 List of main consolidated companies

Companies	Country	% interest on 30.06.2018	% interest on 30.06.2019	Consolidation method ⁽³⁾
Pernod Ricard SAS	France	Parent Company	Parent Company	
Parent Company Pernod Ricard South Africa PTY Ltd	South Africa	100	100	FC
Black Forest Distillers GmbH	Germany	60	60	FC
Pernod Ricard Deutschland GmbH	Germany	100	100	FC
Pernod Ricard Andorra, SLU	Andorra	100	100	FC
Pernod Ricard Angola, LDA.	Angola	100	100	FC
Pernod Ricard Argentina SRL	Argentina	100	100	FC
Yerevan Brandy Company	Armenia	100	100	FC
Pernod Ricard Pacific Holding Pty Ltd	Australia	100	100	FC
Pernod Ricard Winemakers Pty Ltd	Australia	100	100	FC
Pernod Ricard Austria GmbH	Austria	100	100	FC
Pernod Ricard Belgium SA	Belgium	100	100	FC
Pernod Ricard Brasil Indústria e Comércio Ltda.	Brazil	100	100	FC
Pernod Ricard Bulgaria EOOD	Bulgaria	100	100	FC
Corby Spirit and Wine Limited ⁽⁴⁾	Canada	45,76	45,76	FC
Hiram Walker & Sons Limited	Canada	100	100	FC
Pernod Ricard Canada Ltée	Canada	100	100	FC
Pernod Ricard Chile SA	Chile	100	100	FC
Pernod Ricard (China) Trading Co., Ltd	China	100	100	FC
Pernod Ricard Colombia SA	Colombia	100	100	FC
Pernod Ricard Korea Imperial Company Ltd.	South Korea	100	100	FC
Pernod Ricard Korea Ltd	South Korea	100	100	FC
Havana Club International SA	Cuba	50	50	FC
Pernod Ricard Denmark A/S	Denmark	100	100	FC
Drinksandco Marketplace, SLU	Spain	0	100	FC
Pernod Ricard España	Spain	100	100	FC
Pernod Ricard Winemakers Spain, SA	Spain	100	100	FC
Pernod Ricard Estonia OÜ	Estonia	100	100	FC
Austin, Nichols & Co., Inc.	United States	100	100	FC
Avión Spirits, LLC	United States	100	100	FC
Del Maguey Inc.	United States	62,36	62,36	FC
Pernod Ricard Americas IP Management LLC	United States	100	100	FC
Pernod Ricard Americas Travel Retail LLC (dba Pernod Ricard Travel Retail Americas)	United States	100	100	FC
Pernod Ricard Assets USA LLC	United States	100	100	FC
Pernod Ricard Kenwood Holding LLC	United States	100	100	FC
Pernod Ricard Marketing USA LLC	United States	100	100	FC
Pernod Ricard USA Finance Inc.	United States	100	100	FC
Pernod Ricard USA Bottling, LLC	United States	100	100	FC
Pernod Ricard USA, LLC	United States	100	100	FC
PRUSA Acquisitions LLC	United States	100	100	FC
Smooth Ambler Spirits Co.	United States	80	80	FC
Pernod Ricard Finland OY	Finland	100	100	FC
Augier Robin Briand & Cie	France	100	100	FC

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Notes to the consolidated financial statements

Companies	Country	% interest on 30.06.2018	% interest on 30.06.2019	Consolidation method ⁽³⁾
Champagne Perrier-Jouët	France	100	100	FC
Domaines Jean Martell	France	100	100	FC
Financière Moulins de Champagne	France	100	100	FC
GH Mumm & Cie SVCS	France	100	100	FC
Le Maine au Bois	France	100	100	FC
Lina 16	France	100	100	FC
Lina 3	France	100	100	FC
Lina 5	France	100	100	FC
Martell & Co SA	France	100	100	FC
Martell Mumm Perrier-Jouët	France	100	100	FC
Vignobles Mumm Perrier-Jouët	France	100	100	FC
Pernod Ricard Finance SA	France	100	100	FC
Pernod Ricard Middle East and North Africa	France	100	100	FC
Pernod Ricard North America SAS	France	100	100	FC
Pernod SAS	France	100	100	FC
Ricard SAS	France	100	100	FC
Société des Produits d'Armagnac SAS	France	100	100	FC
Société Lillet Frères	France	100	100	FC
Spirits Partners SAS	France	100	100	FC
Théodore Legras	France	100	100	FC
Pernod Ricard Ghana Limited	Ghana	100	100	FC
Pernod Ricard Hellas ABEE	Greece	100	100	FC
Allied Domecq Spirits & Wine (China) Ltd.	Hong Kong	100	100	FC
Pernod Ricard Asia Duty Free Ltd	Hong Kong	100	100	FC
Pernod Ricard Hong Kong Ltd	Hong Kong	100	100	FC
Peri Mauritius	Mauritius	100	100	FC
Pernod Ricard India Private Limited	India	100	100	FC
Comrie Limited	Ireland	100	100	FC
Irish Distillers Group Unlimited Company	Ireland	100	100	FC
Irish Distillers Ltd	Ireland	100	100	FC
Samuelson International DAC	Ireland	100	100	FC
Watercourse Distillery Ltd	Ireland	100	100	FC
Pernod Ricard Italia SPA	Italy	100	100	FC
Pernod Ricard Japan KK	Japan	100	100	FC
Pernod Ricard Kazakhstan	Kazakhstan	100	100	FC
Pernod Ricard Kenya Limited	Kenya	100	100	FC
Pernod Ricard Lietuva	Lithuania	100	100	FC
Pernod Ricard Malaysia SDN BHD	Malaysia	100	100	FC
Pernod Ricard Maroc	Morocco	100	100	FC
Pernod Ricard Mexico SA de CV	Mexico	100	100	FC
Pernod Ricard Norway AS	Norway	100	100	FC
Pernod Ricard Winemakers New Zealand Limited	New Zealand	100	100	FC
Allied International Holdings BV	Netherlands	100	100	FC
Pernod Ricard Nederland BV	Netherlands	100	100	FC
PR Goal Nederland BV	Netherlands	100	100	FC

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Companies	Country	% interest on 30.06.2018	% interest on 30.06.2019	Consolidation method ⁽³⁾
Pernod Ricard Peru SA	Peru	100	100	FC
Pernod Ricard Philippines, Inc.	Philippines	100	70	FC
Agros Holding SA	Poland	100	100	FC
Wyborowa SA	Poland	100	100	FC
Pernod Ricard Portugal – Distribuição, SA	Portugal	100	100	FC
Pernod Ricard Dominicana, SA	Dominican Republic	100	100	FC
Jan Becher – Karlovarská Becherovka, a.s.	Czech Republic	100	100	FC
Pernod Ricard Romania SRL	Romania	100	100	FC
Allied Domecq (Holdings) Limited	United Kingdom	100	100	FC
Allied Domecq Limited	United Kingdom	100	100	FC
Allied Domecq Overseas (Europe) Limited	United Kingdom	100	100	FC
Allied Domecq Spirits & Wine Holdings Limited	United Kingdom	100	100	FC
Allied Domecq Spirits & Wine Limited	United Kingdom	100	100	FC
Allied Domecq Westport Limited	United Kingdom	100	100	FC
Chivas Brothers (Holdings) Ltd	United Kingdom	100	100	FC
Chivas Brothers Ltd ⁽²⁾	United Kingdom	100	100	FC
Chivas Brothers Pernod Ricard	United Kingdom	100	100	FC
Chivas Holdings (IP) Limited	United Kingdom	100	100	FC
Chivas Investments Limited ⁽²⁾	United Kingdom	100	100	FC
Coates & Co (Plymouth) Limited	United Kingdom	100	100	FC
Dillon Bass Ltd	United Kingdom	74	74	FC
Edward Dillon (Bonders) Ltd	United Kingdom	100	100	FC
Goal Acquisitions (Holdings) Ltd	United Kingdom	100	100	FC
Goal Acquisitions Ltd	United Kingdom	100	100	FC
Pernod Ricard UK Group Ltd	United Kingdom	100	100	FC
Pernod Ricard UK Ltd	United Kingdom	100	100	FC
PR Goal 3 Ltd	United Kingdom	100	100	FC
World Brands Duty Free Ltd	United Kingdom	100	100	FC
Pernod Ricard Rouss CJSC	Russia	100	100	FC
Pernod Ricard Singapore PTE Ltd	Singapore	100	100	FC
Pernod Ricard Slovakia s.r.o	Slovakia	100	100	FC
Distilled Innovation AB	Sweden	100	100	FC
Pernod Ricard Sweden AB	Sweden	100	100	FC
The Absolut Company AB	Sweden	100	100	FC
Pernod Ricard Swiss SA	Switzerland	100	100	FC
Pernod Ricard Taiwan Ltd	Taiwan	100	100	FC
Pernod Ricard Thailand Ltd	Thailand	100	100	FC
Pernod Ricard Istanbul İç ve Dis Ticaret Limited Şirketi	Turkey	100	100	FC
Pernod Ricard Ukraine	Ukraine	100	100	FC
Pernod Ricard Uruguay SA	Uruguay	100	100	FC
Pernod Ricard Vietnam Company Limited	Vietnam	100	100	FC

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

(2) UK limited companies that are members or with affiliates that are members of UK partnerships.

In accordance with Regulation 7 of The Partnerships (Accounts) Regulations 2008, annual partnership accounts have not been prepared as the UK partnerships are consolidated within the Group Pernod Ricard annual consolidated financial statements.

(3) "FC" for fully consolidated companies.