31 December 2019

HALF-YEAR FINANCIAL REPORT

Pernod Ricard

Créateurs de convivialité

CONTENTS

1/ CERTIFICATION BY THE PERSON ASSUMING RESPONSIBILITY FOR THE HALF-YEAR FINANCIAL REPORT

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

Alexandre Ricard

Chairman & CEO

2/ HALF-YEAR ACTIVITY REPORT

1. Significant events in half year FY20

Acquisitions over the period

The Group completed its full acquisition of Firestone & Robertson Distilling Co. (USA), which owns the TX Bourbon brand, its acquisition of a majority stake in Rabbit Hole Spirits, LLC (USA), which owns the Bourbon Rabbit Hole Whiskey brand, its acquisition of a majority stake in Laurenskirk (PTY) Ltd. (South Africa), owner of the Inverroche Gin brand, its full acquisition of Bodeboca, SL (Spain), which owns the Bodeboca digital platform, and its 34% acquisition of Joint Venture Seagram MM Holdings (Myanmar), which owns High Class Whisky.

On 9 October 2019, the Group also acquired American listed company Castle Brands Inc. following a takeover bid and a simplified merger. The acquisition incorporated all of the Company's securities, with each share priced at $1.27.

These acquisitions amounted to a total value of around €500 million.

Pension fund insurance

The Trustee of Pernod Ricard's largest pension plan in the UK has signed a contract with insurer Rothesay Life to insure the majority of the pension plan's pension liabilities through the purchase of a bulk purchase annuity contract, commonly called "buy-in" policy.

The buy-in reduces the Group's exposure to any shortfall in scheme funding due to fluctuations in market parameters (primarily inflation and interest rates), and changes to longevity.

The buy-in operation implied the transfer of €4,252 million in plan assets from the pension scheme to Rothesay Life, with no impact on the Group's cash flow. Following this transfer, the carrying amount of the insurance policy covers the full carrying amount of the insured pension commitments, estimated at €3,350 million at the transaction date. The €903 million difference has been recognised by a reduction in the value of "Non-current financial assets", and a corresponding reduction in shareholders' equity under "Other comprehensive income", without any impact on the Group net profit.

€1,500 million bond issue

On 24 October 2019, Pernod Ricard launched a euro-denominated bond issue for €1.5 billion in three tranches (4, 8 and 12 years with respective fixed-rate interest of 0.00%, 0.50% and 0.875%).

2. Key figures and business analysis

Sales for H1 FY20 totalled €5,474m, with **organic growth of +2.7%** and **reported growth of +5.6%**, with a favourable FX impact linked to USD and Emerging market currency appreciation vs. Euro.

Pernod Ricard delivered solid results in a challenging environment, with broad-based growth:

- **Diversified growth** across Regions, with robust performance of Must-win markets USA, India and China, further enhanced by earlier Chinese New Year[1]
- **Dynamic performance of Strategic International Brands,** in particular Jameson, Martell, The Glenlivet, Malibu, Ballantine's, Royal Salute and Beefeater
- Continued **strong pricing: +2% on Strategic brands**
- Focus on **operational excellence and resource allocation,** driving strong organic **improvement in PRO[2] margin +51bps.**

[1] Chinese New Year: 25 January 2020 vs. 5 February 2019

[2] Profit from recurring operations

We continued to roll-out the Transform & Accelerate 3-year strategic plan:

- Implementation of **2030 Sustainability & Responsibility roadmap**
- Launch of Reconquer project to **resume growth in France and reorganisation of Wine business** to reignite its performance
- **Active portfolio management:** completion of TX, Rabbit Hole and Castle Brands acquisitions.

Sales growth was robust, with a very strong basis of comparison: **+2.7% vs +7.8% in H1 FY19.** The **Must-win markets** posted the following performance:

- **USA: +4%,** good growth driven by Whiskies and Specialty brands
- **China: +11%,** strong H1 on a high comparison basis (H1 FY19 +28%), enhanced by earlier Chinese New Year
- **India: +5%** good H1 in a volatile context, with a high basis of comparison (H1 FY19 +24%)
- **Travel Retail: robust Sell-out**, but H1 FY20 impacted by shipment phasing.

There was **diversified growth throughout the Regions:**

- **Americas +2%:** good growth in USA partially offset by weaker Mexican market and phasing in Travel Retail
- **Asia-RoW +3%:** growth driven mainly by China and India, dampened by the transfer of Imperial Korea to a third-party distributor
- **Europe +3%:** strong growth with improving trends, driven by Germany, UK and Eastern Europe acceleration, but difficulties remaining in France.

Q2 Sales were €2,991m, with +3.8% organic growth (+6.9% reported), following a soft Q1 FY20 (at +1%), and enhanced by earlier Chinese New Year.

H1 FY20 PRO was €1,788m, with organic growth of +4.3% and **+8.1% reported**. For full-year FY20, the **FX impact on PRO is estimated at c. +€70m[3].**

The H1 organic PRO margin was up by +51bps, thanks to:

- Strong **pricing** on Strategic brands: **+2%**
- **Gross margin in slight decline -15bps,** following particularly strong H1 FY19 (+71bps):
  - Positive impact of earlier Chinese New Year but negative mix of India
  - Cost of Goods headwinds (in particular agave and grain neutral spirit (GNS) in India)
- **A&P: increase broadly in line with Sales,** with strong arbitration and focus behind strategic priorities
- **Structure: -2%** thanks to strong discipline and favourable phasing **(growth expected for full-year FY20)**
- **Positive FX impact of +€59m thanks mainly to USD** (EUR/USD 1.11 in H1 FY20 vs. 1.15 in H1 FY19) and Emerging market currency appreciation vs. Euro

The H1 FY20 corporate income **tax rate** on recurring items was **c.24%;** the rate is expected at **c. 25% for full-year FY20**.

Group share of Net PRO was €1,216m, +10% reported vs. H1 FY19, thanks mainly to strong improvement in PRO.

Group share of Net profit was €1,032m, +1% reported vs. H1 FY19, despite strong improvement in PRO due mainly to non-recurring items.

Free Cash Flow was €570m, while **increasing Capex and the ageing stock inventory build**, as expected.

Net debt increased by €1,608m[4] vs. 30 June 2019 to €8,228m at 31 December 2019 due mainly to increased M&A cash-out, an increased dividend payment and the start of the share buy-back programme[5] with €223m purchased in H1 FY20. In H2 FY20, the programme will continue, with a new clip of €300m maximum, to be executed by 30 June 2020.

The Net Debt/EBITDA ratio at average rates[6] was **2.7x** at 31 December 2019.

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[3] Based on average FX rates projected on 10 February 2020, particularly a EUR/USD rate of 1.11

[4] Including €531m of lease liability, pursuant to implementation of IFRS16 norm

[5] of up to €1bn over FY20 and FY21, announced on August 29th, 2019

[6] Based on average EUR/USD rates: 1.12 in 2019

A. Profit from Recuring Operations

(€ million)	31.12.2018 6 months	31.12.2019 6 months	Reported growth In M€	Reported growth In %	Organic growth[7] In M€	Organic growth[7] In %
Net sales	5,185	5,474	289	6%	137	3%
Gross margin after logistics expenses	3,239	3,419	180	6%	78	2%
Advertising and promotion expenses	(799)	(842)	(43)	5%	(21)	3%
Contribution after advertising and promotion	2,440	2,577	136	6%	57	2%
Profit from Recurring Operations	**1,654**	**1,788**	**134**	**8%**	**71**	**4%**

Pernod Ricard's H1 FY20 **consolidated net sales** (excluding tax and duties) **increased +2.7% to €5,474m**, compared to €5,185m in H1 FY19, with the main drivers of growth being:

A good overall growth of Strategic International Brands +4%, driven by Jameson, Martell, The Glenlivet, Malibu, Ballantine's, Royal Salute and Beefeater, partially offset by high base of comparison on Martell

A good underlying growth of Strategic Local Brands +3%, with acceleration of Ararat and return to growth of Ramazzotti, dampened by high basis of comparison on Seagram's Indian Whiskies

An acceleration of growth +17% for Specialty Brands driven by Lillet, Monkey 47, Altos, Redbreast and Avion

Stable Sales for Strategic Wines, with good growth of Brancott Estate and Campo Viejo, offset by softening decline on Jacob's Creek

A strong pricing on Strategic brands: +2%

H1 FY20 PRO was €1,788m, with organic growth of +4.3% and **+8.1% reported**.

Gross margin is in slight decline -15bps, following particularly strong H1 FY19 (+71bps)**:**

- Positive impact of earlier Chinese New Year3 but negative mix of India
- Cost of Goods headwinds (in particular agave and GNS in India)

A&P increase is broadly in line with Sales, with strong arbitration and focus behind strategic priorities.

Structure costs are: -2% thanks to strong discipline and favourable phasing (growth expected for full-year FY20).

PRO margin is improving +51bps, driven by pricing and tight resource allocation.

The FX impact on PRO is +€59m thanks mainly to USD (EUR/USD 1.11 in H1 FY20 vs. 1.15 in H1 FY19).

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

Business activity by geographic area

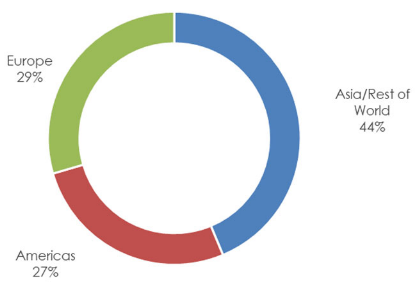
Americas (€ million)	31.12.2018 6 months	31.12.2019 6 months	Reported growth In M€	Reported growth In %	Organic* growth In M€	Organic* growth In %
Net sales	1,389	1,461	72	5%	22	2%
Gross margin after logistics expenses	942	986	44	5%	5	1%
Advertising and promotion expenses	(276)	(285)	(9)	3%	(1)	0%
Contribution after advertising and promotion	666	701	35	5%	4	1%
Profit from Recurring Operations	**470**	**486**	**16**	**3%**	**(8)**	**-2%**

Asia/Rest of World (€ million)	31.12.2018 6 months	31.12.2019 6 months	Reported growth In M€	Reported growth In %	Organic* growth In M€	Organic* growth In %
Net sales	2,266	2,415	149	7%	68	3%
Gross margin after logistics expenses	1,353	1,442	89	7%	38	3%
Advertising and promotion expenses	(309)	(341)	(32)	10%	(20)	7%
Contribution after advertising and promotion	1 044	1,101	57	5%	18	2%
Profit from Recurring Operations	**766**	**833**	**67**	**9%**	**36**	**5%**

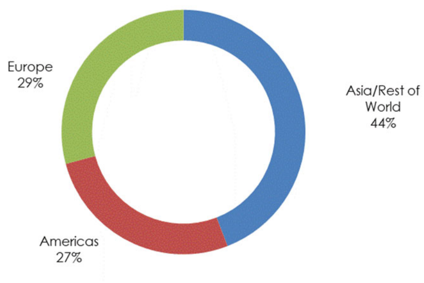
Europe (€ million)	31.12.2018 6 months	31.12.2019 6 months	Reported growth In M€	Reported growth In %	Organic* growth In M€	Organic* growth In %
Net sales	1,530	1,598	69	4%	47	3%
Gross margin after logistics expenses	944	991	46	5%	35	4%
Advertising and promotion expenses	(214)	(,216)	(2)	1%	0	0%
Contribution after advertising and promotion	730	775	45	6%	35	5%
Profit from Recurring Operations	**418**	**468**	**50**	**12%**	**43**	**10%**

* At constant forex and Group structure (organic growth)

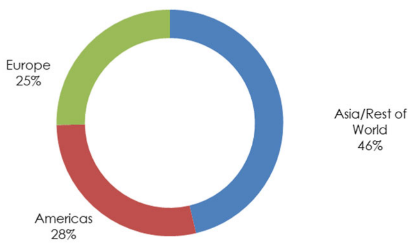
Net Sales by region, H1 FY19



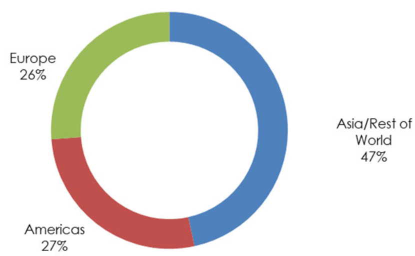
Net Sales by region, H1 FY20



Profit from Recurring Operations by region, H1 FY19



Profit from Recurring Operations by region, H1 FY20



Profit from Recurring Operations (PRO) in the **Americas** declined -2% (+3% reported) due to:

- **Gross margin: -72bps linked mainly to adverse mix** (decline of Absolut USA and Travel Retail) and Cost of Goods pressure (agave)
- **A&P: overall stability** resulting from **increased investment in USA (+6%,** linked in particular to Jameson, Martell and The Glenlivet), offset by phasing in Canada and Latin America
- **Structure: +6% increase linked to phasing** and technical one-offs despite strong discipline
- **Strong favourable FX** impact linked to USD appreciation

Profit from Recurring Operations (PRO) in the **Asia / Rest of the World** grew +5% (+9% reported) thanks to:

- **Gross margin -13bps** driven by pressure on Indian margin linked to adverse product mix (Imperial Blue driving growth) and GNS cost pressure, partially offset by significant margin improvement in China thanks to Martell pricing and earlier Chinese New Year
- **A&P: increase ahead of Sales, linked to strategic priorities and phasing** (China and India in particular)
- **Structure: -6%** driven mainly by impact of Korean restructuring in FY19 and tight resource management, albeit strong investment continuing in priority markets (notably China, India and Turkey)
- **Positive impact of FX** linked to Indian Rupee, Chinese Yuan, Japanese Yen and US Dollar strengthening vs. Euro

Profit from Recurring Operations (PRO) in the **Europe** grew +10% (+12% reported) thanks to:

- **Gross margin expansion at +39bps** thanks mainly to pricing and country mix (notably acceleration of Germany)
- **A&P: broadly stable**, with strong arbitration and favourable phasing (investment expected to accelerate in H2 FY20)
- **Structure: -3%,** thanks to implementation of several efficiency projects and very strong discipline, in particular in France and Nordics, further enhanced by favourable phasing
- **Very strong increase in PRO margin: +194bps**, driven by positive pricing and mix, Gross margin improvement and Structure cost discipline

B. Group share of Net Profit from Recurring Operations

(€ million)	31.12.2018 6 months	31.12.2019 6 months
Profit from Recurring Operations	1,654	1,788
Financial income/(expenses) from recurring operations	(157)	(164)
Corporate income tax on recurring operations	(379)	(392)
Net Profit from discontinued operations, non-controlling interests and share of net profit from equity associates	(13)	(15)
Group share of Net Profit from Recurring Operations	**1 105**	**1,216**
Group Net Profit per share from recurring operations – diluted (in euro)	**4,16**	**4,58**

Net financial expenses from recurring operations

Net financial expenses from recurring operations totalled €(164) million, a 4% increase on the comparable period, from recurring operations resulting from issuance of new bonds and implementation of IFRS16 norm (-€6m impact).

Net debt

Net debt was €8,228 million at 31 December 2019 compared to €6,620 million at 30 June 2019, an increase of €1,608 million. This was due to Cash Generation offset by increase in dividend payout, Sharebuy back program, M&A (mainly with Castle Brands, TX, Rabbit Hole), additional lease liability resulting from implementation of IFRS16 norm and a negative translation adjustment.

Income tax on recurring operations

Income tax from recurring operations amounted to €(392) million, equating to a tax rate close to 24%, vs. 25% in FY19, reflecting positive impact of tax rate change in India (from 35% to 25%). For Full Year FY20, a tax rate close to 25% is expected.

Group share of net profit from recurring operations

Group share of Net Profit from Recurring Operations amounted to €1,216 million at 31 December 2019, an increase of +10% compared to H1 FY19.

C. Group share of Net Profit

(€ million)	31.12.2018 6 months	31.12.2019 6 months
Profit from Recurring Operations	1 654	1 788
Other operating income and expenses	(66)	(152)
Operating profit	**1 588**	**1 636**
Financial income/(expenses) from recurring operations	(157)	(164)
Other financial income/(expenses)	1	(1)
Corporate income tax	(397)	(423)
Net Profit from discontinued operations, non-controlling interests and share of net profit from equity associates	(13)	(15)
Group share of Net Profit	**1 023**	**1 032**

Other operating income and expenses

Other operating income and expenses amounted to €(152) million at 31 December 2019 and are mainly composed of restructuring expenses for € 115 million, notably related to the Reconquer project announced on October 1, 2019.

Group share of net profit

Group share of net profit was €1,032 million, a decrease of +1%.

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

The major risks and uncertainties Pernod Ricard Group faces are listed under chapter “Risk management” of the 2018/19 Universal Registration Document, available from the website of the Autorité des Marchés Financiers and from the Pernod Ricard website.

4. Outlook

For full-year FY20, in particularly uncertain environment, Pernod Ricard expects:

- ***Continued execution of Transform & Accelerate strategic plan, with*** *focus on operational excellence and sustained investment behind strategic priorities*
- *Good diversified growth to continue, albeit* ***Q3 to be severely impacted by Coronavirus in China and Travel Retail Asia***
- ***Continuation of share buy-back*** *programme*[8]
- ***Very positive FX*** *impact of c.+€70m on PRO*[9]

The new FY20 guidance reflecting early Coronavirus assumptions is an organic growth in PRO between +2% and +4%

[8] of up to €1bn over FY20 and FY21, announced on August 29th, 2019

[9] Based on average EUR/USD rates: 1.11 in H1 FY20 vs. 1.15 in H1 FY19

The current COVID-19 assumptions explaining the impact on FY20 PRO are:

China:

- On-trade

All outlets closed in February, and till end of June in Hubei province
Gradual recovery starting from March, back to normal by June

- Off-trade

Significant impact on Traditional and Modern outlets in late January and February
Recovery in March

Travel Retail Asia

- Reduction in Chinese passenger numbers of c. 2/3 in February and March
- Gradual recovery starting from April, back to normal by June

FY20 Impact from China + Travel Retail Asia lost Sales:

- Impact on Group FY20 Sales: c. -2%
- Priority investments maintained throughout Group, while activating targeted mitigation measures
- Impact on Group FY20 PRO: c. -3%

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

Definitions and link-up of alternative performance indicators with IFRS indicators are described in the Management report of the Universal Registration Document 2018/19.

6. Main related party transactions

Information related to related parties transactions are detailed in note 23 of the notes to the condensed consolidated interim financial statements included in this document.

3/ CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The quote "Restated" refers solely to restatement of the Balance sheet at 30 June 2019, in the light of the reclassification of uncertain tax positions required by the IFRIC 23 interpretation (see breakdown in Note 1.4.1 of the notes to the condensed consolidated interim financial statements below). Where information is presented with no mention of restatement, the aggregates presented have not been affected by this interpretation.

Group financial statements at 31 December 2018 and 30 June 2019 were not restated for the application of the standard IFRS 16 – "Leases" (see details in Note 1.4.1 of the notes to the condensed consolidated interim financial statements below).

1. Half-year consolidated income statement

(€ million)	31.12.2018	31.12.2019	Notes
Net sales	5,185	5,474	3
Cost of sales	(1,946)	(2,055)	3
Gross margin after logistics expenses	**3,239**	**3,419**	3
Advertising and promotion expenses	(799)	(842)	
Contribution after advertising and promotion expenses	**2,440**	**2,577**	
Structure costs	(786)	(789)	
Profit from recurring operations	**1,654**	**1,788**	
Other operating income/(expenses)	(66)	(152)	4
Operating profit	**1,588**	**1,636**	
Financial expenses	(174)	(181)	5
Financial income	18	15	5
Financial income/(expenses)	**(156)**	**(166)**	5
Corporate income tax	(397)	(423)	6
Share of net profit/(loss) of associates	-	-	
Net profit of discontinued and held for sale activities	-	(1)	16
Net profit	**1,036**	**1,046**	
o/w:			
- Non-controlling interests	14	14	
- Group share	**1,023**	**1,032**	
Earnings per share - basic *(in euros)*	3,87	3,91	7
Earnings per share - diluted *(in euros)*	3,85	3,89	7

2. Half-year consolidated statement of comprehensive income

(€ million)	31.12.2018	31.12.2019	Notes
Net profit for the period	**1,036**	**1,046**	
Non-recyclable items			
Actuarial gains/(losses) related to defined benefit plans	**(15)**	**(713)**	
Amounts recognised in shareholders' equity	(18)	(859)	12
Tax impact	3	146	
Equity instruments	**-**	**(110)**	
Unrealized gains and losses recognised in shareholders' equity	-	(111)	
Tax impact	-	1	
Recyclable items			
Net investment hedges	**(2)**	**(4)**	
Amounts recognised in shareholders' equity	(2)	(4)	
Tax impact	-	-	
Cash flow hedges	**5**	**6**	
Amounts recognised in shareholders' equity(1)	8	8	
Tax impact	(3)	(2)	
Translation differences	**59**	**272**	
Other comprehensive income for the period, net of tax	**47**	**(549)**	
Comprehensive income for the period	**1 083**	**497**	
o/w:			
- Group share	1 069	480	
- Non-controlling interests	14	17	

(1) Including € (2) million recycled to result for the period.

3. Consolidated balance sheet

Assets

(€ million)	30.06.2019	31.12.2019	Notes
Net amounts			
Intangible assets	11,683	12,042	8
Goodwill	5,391	5,598	8
Property, plant and equipment	2,549	3,100	
Non-current financial assets	1 419	499	12
Investments in associates	14	15	
Non-current derivative instruments	20	12	
Deferred tax assets	1,590	1,615	6
Non-current assets	**22,665**	**22,882**	
Inventories and work in progress	5,756	6,046	9
Trade receivables and other operating receivables	1,226	2,159	
Income taxes receivable	105	89	
Other current assets	359	302	11
Current derivative instruments	6	28	
Cash and cash equivalents	923	1 152	13
Current assets	**8,375**	**9,776**	
Assets held for sale	5	97	16
Total assets	**31,045**	**32,755**	

Liabilities

(€ million)	30.06.2019 restated	31.12.2019	Notes
Capital	411	411	18
Share premium	3,052	3,052	
Retained earnings and currency translation adjustments	11,069	11,192	
Group net profit	1,455	1,032	
Group shareholders' equity	**15,987**	**15,687**	
Non-controlling interests	195	220	
Total shareholders' equity	**16,182**	**15,907**	
Non-current provisions	269	300	12
Provisions for pensions and other long-term employee benefits	559	554	12
Deferred tax liabilities	2,756	2,765	6
Bonds-non-current	6,071	7,618	13
Lease liability non-current	-	424	13
Other non-current financial liabilities	363	81	13
Non-current derivative instruments	16	11	
Total non-current liabilities	**10,034**	**11,753**	
Current provisions	149	213	12
Trade payables	2,187	2,429	
Income taxes payables	307	389	6
Other current liabilities	1 058	770	15
Bonds-current	944	948	13
Lease liability current	-	93	13
Other current financial liabilities	177	227	13
Current derivative instruments	5	13	
Total current liabilities	**4,826**	**5,082**	
Liabilities related to assets held for sale	2	14	16
Total liabilities and shareholders' equity	**31,045**	**32,755**	

4. Statement of changes in shareholders' equity

(€ million)	Capital	Additional paid-in capital	Consolidated reserves	Actuarial gains and losses	Changes in fair value	Currency translation adjustments	Treasury shares	Equity attributable to equity holders of the Parent	Non - controlling interests	Total shareholders' equity
Opening position on 01.07.2018	**411**	**3,052**	**11,823**	**59**	**(38)**	**(380)**	**(130)**	**14,797**	**181**	**14,978**
IFRS 9 impacts	-	-	(1)	-	-	-	-	**(1)**	-	**(1)**
Opening position on 01.07.2018 restated	**411**	**3,052**	**11,823**	**59**	**(38)**	**(380)**	**(130)**	**14,797**	**181**	**14,977**
Comprehensive income for the period	-	-	1,023	(15)	5	56	-	**1,069**	14	**1,083**
Capital increase	-	-	-	-	-	-	-	**-**	-	**-**
Share-based payments	-	-	18	-	-	-	-	**18**	-	**18**
(Acquisition)/disposal of treasury shares	-	-	(34)	-	-	-	(13)	**(47)**	-	**(47)**
Sale and repurchase agreements	-	-	-	-	-	-	1	**(1)**	-	**(1)**
Dividends distributed	-	-	(357)	-	-	-	-	**(357)**	(14)	**(371)**
Changes in scope of consolidation	-	-	-	-	-	-	-	**-**	-	**-**
Other transactions with minority interests	-	-	-	-	-	-	-	**-**	-	**-**
Other movements	-	-	-	-	-	-	-	**-**	-	**-**
Closing position on 31.12.2018	**411**	**3,052**	**12,473**	**44**	**(33)**	**(324)**	**(142)**	**15,479**	**180**	**15,659**

(€ million)	Capital	Additional paid-in capital	Consolidated reserves	Actuarial gains and losses	Changes in fair value	Currency translation adjustments	Treasury shares	Equity attributable to equity holders of the Parent	Non - controlling interests	Total shareholders' equity
Opening position on 01.07.2019	**411**	**3,052**	**12,592**	**327**	**34**	**(276)**	**(153)**	**15,987**	**195**	**16,182**
Comprehensive income for the period	-	-	1 032	(713)	(104)	266	-	**480**	17	**497**
Capital increase	-	-	-	-	-	-	-	**-**	-	**-**
Share-based payments	-	-	20	-	-	-	-	**20**	-	**20**
(Acquisition)/disposal of treasury shares	-	-	(57)	-	-	-	(233)	**(289)**	-	**(289)**
Sale and repurchase agreements	-	-	-	-	-	-	-	**-**	-	**-**
Dividends distributed	-	-	(513)	-	-	-	-	**(513)**	(18)	**(530)**
Changes in scope of consolidation	-	-	-	-	-	-	-	**-**	26	**26**
Other transactions with minority interests	-	-	-	-	-	-	-	**-**	-	**-**
Other movements	-	-	2	-	-	-	-	**2**	-	**2**
Closing position on 31.12.2019	**411**	**3,052**	**13,076**	**(386)**	**(70)**	**(11)**	**(386)**	**15,687**	**220**	**15,907**

5. Consolidated cash flow statement

(€ million)	31.12.2018	31.12.2019	Notes
Cash flow from operating activities			
Group net profit	1,023	1,032	
Non-controlling interests	14	14	
Share of net profit/(loss) of associates, net of dividends received	-	-	
Financial (income)/expenses	156	166	5
Tax (income)/expenses	397	423	6
Net profit from discontinued operations	-	1	
Depreciation of fixed assets	111	174	
Net change in provisions	4	75	
Net change in impairment of goodwill, property, plant and equipment and intangible assets	26	8	
Changes in fair value of commercial derivatives	(5)	(3)	
Changes in fair value of biological assets	-	-	
Net (gain)/loss on disposal of assets	(1)	(7)	
Share-based payment	18	21	19
Self-financing capacity before financing interest and taxes	**1,740**	**1,903**	
Decrease/(increase) in working capital requirements	(654)	(768)	17
Interest paid	(170)	(177)	
Interest received	17	15	
Tax paid/received	(220)	(239)	
Net change in cash flow from operating activities	**712**	**734**	
Cash flow from investing activities			
Capital expenditure	(136)	(175)	
Proceeds from disposals of property, plant and equipment and intangible assets	6	11	
Change in scope of consolidation	-	-	
Purchases of financial assets and activities	(100)	(537)	17
Disposals of financial assets and activities	-	(1)	
Net change in cash flow from investing activities	**(230)**	**(702)**	
Cash flow from financing activities			
Dividends and interim dividends paid	(636)	(843)	18
Other changes in shareholders' equity	-	-	
Issuance of debt	485	1,541	17
Repayment of debt	(141)	(261)	17
Repayment of lease debt		(44)	
(Acquisition)/disposal of treasury shares	(54)	(228)	18
Other transactions with non-controlling interests	-	-	
Net change in cash flow from financing activities	**(347)**	**165**	
Cash flow from non-current assets held for sale	-	(2)	
Increase/(decrease) in cash and cash equivalents before foreign exchange impact	**135**	**195**	
Restatment for IFRS 15 on opening position	16	-	
Effect of exchange rate changes	4	34	
Increase/(decrease) in cash and cash equivalents after foreign exchange impact	**156**	**229**	
Cash and cash equivalents at beginning of period	**754**	**923**	
Cash and cash equivalents at end of period	**910**	**1,152**	

6. Notes to the consolidated financial statements

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

On 12 February 2019, the Board of Directors approved the condensed consolidated interim financial statements ended 31 December 2019.

Note 1 – Accounting policies

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

Because of its listing in a country of the European Union (EU), and in accordance with EC regulation 1606/2002, the condensed consolidated interim financial statements of the Group for the first half-year ended 31 December 2019 have been prepared in accordance with IAS 34 (interim financial reporting) of the IFRS (International Financial Reporting Standards) as adopted by the European Union.

The Group has not anticipated any standards, amendments or interpretations published by the IASB but not yet approved or not yet mandatory in the European Union, as of 31 December 2019.

Note that:

- the Group's financial year runs from 1 July to 30 June;
- condensed consolidated interim financial statements were prepared in accordance with the same accounting principles and methods as those used in the preparation of the annual consolidated financial statements at 30 June 2019, subject to the changes in accounting standards listed under section 1.3;
- the condensed consolidated interim financial statements do not include all the information required in the preparation of the consolidated financial statements and must be read in conjunction with the consolidated financial statements at 30 June 2019.

Estimates — The preparation of consolidated financial statements in accordance with IFRS requires that Management makes a certain number of estimates and assumptions, which have an impact on the Group's assets, liabilities and shareholders' equity and items of profit and loss during the financial year. These estimates are made on the assumption that the company will continue as a going concern, 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 outcomes can differ from these estimates. At 31 December 2019, the Management was not aware of any factors likely to call into question estimates and assumptions used in the preparation of full-year consolidated financial statements at 30 June 2019.

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

1.2 Seasonality

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

1.3 Changes in accounting standards

Standards, amendments and interpretations whose implementation is mandatory from 1July 2019

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

- IFRS 16, "Leases": See Note 1.3.1 below;
- IFRIC 23, "Uncertainty over Income Tax Treatments";
- Amendments to IFRS 9: "Prepayment features with negative compensation";
- Amendments to IAS 19: "Employee benefits: Plan Amendment, Curtailment or Settlement";
- Amendments to IAS 28: "Long-term Interests in Associates and Joint Ventures";
- The IFRS 2015-2017 improvements cycle.

There is no impact on the Group's financial statements from these amendments and interpretations, other than those relating to IFRS 16 and the IFRIC 23 interpretation, as detailed in Note 1.4.

1.4 Impacts of to the first-time application of the IFRS 16 standard and the IFRIC 23 interpretation

IFRS 16 – "Leases"

The Group applied the simplified retrospective transition method at 1 July 2019. This choice of this transition method means that comparative information from previous periods has not been restated.

The standard includes a number of simplification measures. In particular, the Group has opted to apply those that allow for the exclusion of leases of less than 12 months and leases for low-value assets. The value of finance lease contracts under IAS 17 has otherwise been retained without change.

Lease contracts with variable rents and services are not taken into account when calculating the amount of the right-of-use and lease liabilities, and are recognised under expenses as they occur.

Moreover, the value of the right-of-use of the asset is deemed equal to the liability, adjusted for lease payments made in advance, initial direct costs, incentives granted by lessors, and, where appropriate, dismantling or restoring costs.

Lease liabilities have been valued at the present value of lease payments outstanding. The discount rates applied at the transition date are based on the Group's incremental borrowing rate, with an additional spread to consider the economic environment specific to each country. These discount rates are calculated in accordance with the duration of each contract. The weighted average incremental borrowing rate applied to lease liabilities at 1 July 2019 stood at 3.94%.

The reconciliation between operating lease commitments, as presented in Note 6.3 of the notes to the annual consolidated financial statements at 30 June 2019, and the lease liability recognised at 1 July 2019 under the first application of IFRS 16, is presented as follows:

(€ million)	
Operating lease commitments at 30 June 2019	**555**
Leases out of scope pursuant to IFRS 16 exemptions	(4)
Leases beginning after 1 July 2019	(201)
Finance leases previously recognised under IAS 17	28
Other	13
Undiscounted lease liabilities at 1 July 2019	**391**
Discounting effect	52
Lease liabilities recognised at 1 July 2019	**339**

At 31 December 2019, following the first application of IFRS 16, Group consolidated balance sheet now includes lease liabilities for an amount of €517 million, and assets for an amount of €463 million in respect of right-of-use assets. These impacts primarily relate to premises occupied by the Group.

The impact on the Group's income statement is not material. It amounts +€1 million on operating profit and €(6) million euros on financial expenses.

Impacts on the cash flow statement are an improvement of operating flows for €39 million and a deterioration of financing flows for (44) million euros. Those impacts mainly correspond to the inclusion in financing flows of the part of rent payments corresponding to repayment of lease debt, while related financial interests for €(6) million are presented within operating flows.

Accounting policies amended following the application of IFRS 16

- **Leases**

At the effective date of each contract signed, the Group assesses whether the contract is a lease or contains a lease.

Leases are recorded in the Balance sheet from their commencement date. They are presented under liabilities as "lease liabilities", and under assets as "Property, plant and equipment", according to the underlying asset type.

Lease liabilities are initially calculated based on the present value of future lease payments. The discount rate is estimated in each currency based on available market information and taking into account the duration of contracts. Lease payments may include fixed or variable payments based on a rate or index that is known at the start of the lease. The term used to calculate lease liabilities is the non-cancellable lease term, unless the intention to renew or cancel the lease is reasonably certain. They are then calculated at their amortised cost using the effective interest rate method.

The value of the right-of-use asset is initially equal to the lease liability, adjusted for lease payments made in advance, initial direct costs, incentives granted by lessors, and, where appropriate, dismantling or restoring costs. Right-of-use assets are amortised over the term used for the calculation of the corresponding lease liability.

In the income statement, amortisation expenses are recognised based on the nature of the underlying asset, and interest expenses are presented under financial expenses.

In the cash flow statement, lease liability repayments are presented under "Repayment of lease debt" (under financing flows), while interest payments are listed under "Interest paid" (under operating flows).

Short-term leases and leases of low value are recognised directly under expenses.

IFRIC 23, "Uncertainty over Income Tax Treatments"

The IFRIC 23 interpretation specifies how to record uncertain income tax positions. The application of this interpretation has no impact on the value of the Group's tax liabilities and resulted in €150 million being reclassified from "Non-current provisions" to "Income taxes payables" at 30 June 2019. A restatement was therefore applied to the Group's Balance sheet at 30 June 2019:

(€ million)	*30/06/2019 Published*	*Impacts IFRIC 23*	*30/06/2019 Restated*
Non-current provisions	420	(150)	269
Non-current liabilities	**10,185**	**(150)**	**10,034**
Income taxes payable	157	150	307
Current liabilities	**4,676**	**150**	**4,826**

Note 2 – Consolidation scope

There is no significant change in the consolidation scope in the first half of the 2019/20 financial year.

Note 3 – Operating segments

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

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

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

Europe

(€ million)	31.12.2018 6 months	31.12.2019 6 months
Net sales	1,530	1,598
Gross margin after logistics costs	944	991
Advertising and promotion expenses	(214)	(216)
Contribution after A&P	730	775
Profit from Recurring Operations	**418**	**468**

Americas

(€ million)	31.12.2018 6 months	31.12.2019 6 months
Net sales	1,389	1,461
Gross margin after logistics costs	942	986
Advertising and promotion expenses	(276)	(285)
Contribution after A&P	666	701
Profit from Recurring Operations	**470**	**486**

Asia/Rest of World

(€ million)	31.12.2018 6 months	31.12.2019 6 months
Net sales	2,266	2,415
Gross margin after logistics costs	1,353	1,442
Advertising and promotion expenses	(309)	(341)
Contribution after A&P	1 044	1 101
Profit from Recurring Operations	**766**	**833**

Total

(€ million)	31.12.2018 6 months	31.12.2019 6 months
Net sales	5,185	5,474
Gross margin after logistics costs	3,239	3,419
Advertising and promotion expenses	(799)	(842)
Contribution after A&P	2,440	2,577
Profit from Recurring Operations	**1,654**	**1,788**

Breakdown of sales - Presentation by category

(€ million)	31.12.2018 6 months	31.12.2019 6 months
Strategic International Brands	3,369	3,592
Priority Premium Wines	236	240
Strategic Local Brands	963	999
Speciality	155	197
Other products	462	447
Total	**5,185**	**5,474**

Note 4 – Other operating income and expenses

Other operating income and expenses are broken down as follows:

(€ million)	31.12.2018 6 months	31.12.2019 6 months
Impairment of property, plant and equipment and intangible assets	(26)	-
Gains or losses on asset disposals and acquisition costs	(8)	(10)
Net restructuring and reorganisation expenses	(14)	(115)
Disputes and risks	(2)	(25)
Other non-current operating income and expenses	(16)	(2)
Other operating income/(expenses)	**(66)**	**(152)**

As of December 31, 2019, the other operating income and expenses are mainly composed of restructuring expenses for € 115 million, notably related to the Reconquer project announced on October 1, 2019.

Note 5 – Financial income/(expense)

(€ million)	31.12.2018 6 months	31.12.2019 6 months
Interest expense on net financial debt	(166)	(169)
Interest expense on lease liability	-	(7)
Interest income on net financial debt	17	15
Net financing cost	**(149)**	**(161)**
Structuring and placement fees	(1)	(1)
Net financial impact of pensions and other long-term employee benefits	(3)	0
Other net current financial income (expense)	(4)	(3)
Financial income/(expense) from recurring operations	**(157)**	**(164)**
Foreign currency gains/(losses)	0	(1)
Other non-current financial income/(expenses)	1	0
Total financial income/(expenses)	**(156)**	**(166)**

At 31 December 2019, net financing costs were mainly composed of bond interests for €131 million.

Note 6 – Income tax

Analysis of the income tax expense:

(€ million)	31.12.2018 6 months	31.12.2019 6 months
Current income tax	(298)	(329)
Deferred income tax	(98)	(94)
Total	**(397)**	**(423)**

Analysis of effective tax rate:

(€ million)	31.12.2018 6 months	31.12.2019 6 months
Operating profit	1,588	1,636
Financial income/(expense)	(156)	(166)
Taxable profit	**1,433**	**1,470**
Theoretical tax charge at the effective income tax rate in France	**(493)**	**(506)**
Impact of tax rate differences by jurisdiction	169	209
Tax impact of variation in exchange rates	(1)	1
Re-estimation of deferred tax assets linked to tax rate changes	(8)	(10)
Impact of tax losses used/not used	1	5
Impact of reduced/increased tax rates on taxable results	0	2
Taxes on distributions	(29)	(57)
Other impacts	(35)	(68)
Effective tax expense	**(397)**	**(423)**
Effective tax rate	**-28%**	**-29%**

Deferred taxes are broken down by nature as follows:

(€ million)	30.06.2019	31.12.2019
Margins in inventories	99	111
Fair value adjustments on assets and liabilities	21	20
Provision for pension benefits	94	94
Loss carried forward	908	899
Provisions (other than provisions for pensions benefits) and other items	468	491
Total deferred tax assets	**1,590**	**1,615**
Accelerated tax depreciation	124	130
Fair value adjustments on assets and liabilities	2,339	2,446
Other items	294	190
Total deferred tax liabilities	**2,756**	**2,765**

Following the implementation of IFRIC 23 interpretation, as detailed in Note 1.4, "Income taxes payables" are broken down as follows:

(€ million)	30.06.2019 Restated	31.12.2019
Other income taxes payable	157	249
Uncertain tax positions	150	140
Total income taxes payables	**307**	**389**

Note 7 - Earnings per share

	31.12.2018 6 months	31.12.2019 6 months
Numerator (€ million)		
Group share of net profit	1,023	1,032
Denominator (in number of shares)		
Average number of outstanding shares	264,206,944	263,959,445
Dilutive effect of bonus share allocations	1,073,014	1,164,697
Dilutive effect of stock options and subscription options	200,929	138,446
Average number of outstanding shares—diluted	**265,480,887**	**265,262,589**
Earnings per share (€)		
Earnings per share – basic	3,87	3,91
Earnings per share – diluted	3,85	3,89

Note 8 –Intangible assets and goodwill

(€ million)	30.06.2019	31.12.2019
Goodwill	5,528	5,736
Brands	12,957	13,348
Other intangible assets	452	463
Gross value	**18,937**	**19,547**
Goodwill	(137)	(137)
Brands	(1,408)	(1,428)
Other intangible assets	(318)	(342)
Depreciation/Impairement	**(1,863)**	**(1,907)**
Intangible assets, net	**17,074**	**17,640**

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

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

Note 9 – Inventories

The inventories and work-in-progress are brocken down at closing as follow:

(€ million)	30.06.2019	31.12.2019
Raw materials	140	157
Work in progress	4,877	5,134
Goods in inventory	505	527
Finished products	280	275
Gross value	**5,802**	**6,093**
Raw materials	(10)	(10)
Work in progress	(10)	(11)
Goods in inventory	(13)	(14)
Finished products	(13)	(12)
Impairment	**(46)**	**(47)**
Net inventories	**5,756**	**6,046**

As at 31 December 2019, 79% of work-in-progress relate to maturing inventories intended to be used for whisky and cognac production. The Group is not significantly dependent on its suppliers.

Note 10 – Transfers of financial assets

In the first half of the period 2019/20, the Group continued to implement its programs to sell the receivables of several subsidiaries. Receivables sold under these programs totaled €827 million at 31 December 2019 and €674 million at 30 June 2019. As substantially all risks and rewards associated with the receivables were transferred, they were derecognised.

<u>Derecognised assets where there is continuing involvement</u>

(€ million)	Carrying amount of countinuing involvement				Fair value of continuing involvement	Maximum Exposure
Continuing involvement	Amortised costs	Held to maturity	Available for sale	Financial lliabilities at faire values		
Guarantee deposit – factoring and securisation	**10**	**-**	**-**	**-**	**10**	**10**

Note 11 - Other current assets

Other current assets are broken down as follows:

(€ million)	30.06.2019	31.12.2019
Advances and down payments	29	33
Tax accounts receivable, excluding income tax	164	164
Prepaid expenses	85	68
Other receivables	80	37
Total	**359**	**302**

Note 12 – Provisions

12.1 Breakdown of provisions

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

(€ million)	30.06.2019 Restated	31.12.2019	Notes
Non-current provisions			
Provisions for pensions and other long-term employee benefits	559	554	12.3
Other non-current provisions for risks and charges	269	300	12.2
Current provisions			
Provisions for restructuring	44	115	12.2
Other current provisions for risks and charges	105	98	12.2
Total	**978**	**1,067**	

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

At 31 December 2019, the amount of provisions booked by the Group in respect of disputes or risks in which it is involved amounted to €398 million, excluding uncertain tax positions presented within "Income taxes payables". The Group does not provide details (with exceptions), as it believes the disclosure of the amount of any provision booked in consideration of each pending dispute would be likely to cause serious harm to the Group.

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

		Movements of the period					
(€ million)	30.06.2019 Restated	Allowances	Used	Unused reversals	Translation adjustments	Other movements	31.12.2019
Provisions for restructuring	44	89	18	1	-	-	115
Other current provisions	105	5	7	2	1	(2)	98
Other non-current provisions	269	92	5	56	(4)	3	300
Total Provisions	**418**	**186**	**30**	**60**	**(3)**	**1**	**512**

12.3 Provisions for pensions and other long-term employee benefits

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

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

(€ million)	31.12.2018	31.12.2019
Net liability / (asset) at beginning of period	**(227)**	**(524)**
Net expense/(income) for the period	58	21
Actuarial (gains)/losses(1)	18	859
Employer contributions and benefits paid directly by the employer	(44)	(42)
Changes in scope of consolidation	0	0
Foreign currency gains and losses	9	(19)
Net liability / (asset) at end of period	**(188)**	**295**
Amount recognised in assets	710	259
Amount recognised in liabilities	**522**	**554**

(1) Recognised as items of other comprehensive income.

Actuarial gains and losses correspond, for €(903) million, to the effect of the buy-in insurance policy taken out by the Trustee of the Pernod Ricard Group's largest UK pension fund, and for €43 million to the effect of other gains and losses as a result of changes in assumptions and value of plans' assets.

The buy-in policy covers the majority of the fund's pension commitments and reduces the Group's exposure to any shortfall in scheme funding due to fluctuations in market parameters (primarily inflation and interest rates), and changes to longevity.

The buy-in operation implied the transfer of €4,252 million in plan assets from the pension scheme to Rothesay Life, with no impact on the Group's cash flow. Following this transfer, the carrying amount of the insurance policy covers the full carrying amount of the insured pension commitments, estimated at €3,350 million at the transaction date. The €903 million difference has been recognised by a reduction in the value of "Non-current financial assets", and a corresponding reduction in shareholders' equity under "Other comprehensive income", without any impact on the Group net profit.

On 31 December 2019, non-current financial assets (€499 million) include €259 million of plan surplus related to employee benefits.

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

(€ million)	31.12.2018	31.12.2019
Service cost	22	23
Interest on provision	(4)	(7)
Fees/levies/premiums	5	6
Impact of plan amendments / Reduction of future rights	34	-
Impact of liquidation of benefits	-	(1)
Net expense/(income) recognised in Profit and Loss	**58**	**21**

Note 13 – Financial liabilities

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

13.1 Breakdown of net financial debt by nature and maturity

(€ million)	30.06.2019 Current	30.06.2019 Non-current	30.06.2019 Total	31.12.2019 Current	31.12.2019 Non-current	31.12.2019 Total
Bonds	**944**	**6,071**	**7,015**	**948**	**7,618**	**8,566**
Syndicated loan	-	-	-	-	-	-
Commercial paper	-	-	-	-	-	-
Other loans and financial debts	177	363	540	226	81	307
Other financial liabilities	**177**	**363**	**540**	**226**	**81**	**307**
Gross financial debt	**1,121**	**6,434**	**7,555**	**1,174**	**7,698**	**8,873**
Fair value hedge derivatives instruments – assets	-	(13)	(13)	-	(15)	(15)
Fair value hedge derivatives instruments – liabilities	-	2	2	-	0	0
Fair value hedge derivatives	**-**	**(12)**	**(12)**	**-**	**(15)**	**(15)**
Net assets hedging derivative instruments - assets	-	-	-	-	-	-
Net assets hedging derivative instruments - liabilities	0	-	0	4	-	4
Net asset hedging derivative instruments	**0**	**-**	**0**	**4**	**-**	**4**
Financial debt after hedging	**1,121**	**6,422**	**7,543**	**1,178**	**7,684**	**8,862**
Cash and cash equivalents	**(923)**	**-**	**(923)**	**(1,152)**	**-**	**(1,152)**
Net financial debt excluding lease liabilities	**198**	**6,422**	**6,620**	**26**	**7,684**	**7,710**
Lease Liabilities*	**-**	**-**	**-**	**93**	**424**	**517**
Net financial debt	**198**	**6,422**	**6,620**	**120**	**8,108**	**8,228**

**Lease liabilities at 31 December 2019 include the contract previously qualified as "Financial leases" and disclosed under "Other loans and financial debts" at 30 June 2019 for an amount of €28 million.*

13.2 Breakdown of debt by currency before and after foreign exchange hedging instruments at 30 June 2019 and 31 December 2019

On 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)	0%	-1%
SEK	8	-	8	(18)	(10)	0%	0%
Other currencies	37	(223)	(186)	(555)	(740)	-2%	-11%
Financial debt by currency	**7,555**	**(12)**	**7,543**	**(923)**	**6,620**	**100%**	**100%**

On 31.12.2019 (€ million)	Gross financial debt	Amount hedged	Debt after hedging	Cash	Net debt after hedging	% debt after hedging	% net debt after hedging
EUR	4,262	(179)	4,084	(343)	3,741	46%	49%
USD	4,516	246	4,762	(53)	4,710	54%	61%
GBP	-	(39)	(39)	(73)	(112)	0%	-1%
SEK	1	(17)	(16)	(27)	(43)	0%	-1%
Other currencies	93	(22)	71	(656)	(585)	1%	-8%
Financial debt by currency	**8,873**	**(11)**	**8,862**	**(1,152)**	**7,710**	**100%**	**100%**

13.3 Breakdown of debt by currency and type of rate hedging at 30 June 2019 and 31 December 2019

On 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.S.	(48)	N.S.
SEK	8	-	-	8	N.S.	(18)	N.S.
Other currencies	(186)	14	-	(199)	N.S.	(555)	N.S.
Total	**7,543**	**6,168**	**-**	**1,375**	**82%**	**(923)**	**93%**

On 31.12.2019 (€ 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	4,084	4,146	-	(62)	102%	(343)	111%
USD	4,762	3,536	-	1,226	74%	(53)	75%
GBP	(39)	-	-	(39)	N.S.	(73)	N.S.
SEK	(16)	-	-	(16)	N.S.	(27)	N.S.
Other currencies	71	63	-	8	N.S.	(656)	N.S.
Total	**8,862**	**7,745**	**-**	**1,117**	**87%**	**(1,152)**	**100%**

N.M.: not meaningful.

(1) Hedge accounting and other derivatives.

13.4 Breakdown of fixed-rate/floating rate debt before and after interest rate hedging instruments at 30 June 2019 and 31 December 2019

	30.06.2019				31.12.2019			
(€ million)	Debt before hedging		Debt after hedging		Debt before hedging		Debt after hedging	
Fixed-rate debt	6,871	91%	6,168	82%	8,457	95%	7,745	87%
Capped floating-rate debt	-	-	-	-	-	-	-	-
Floating-rate debt	672	9%	1,375	18%	405	5%	1,117	13%
Financial debt after hedging by type of rate	**7,543**	**100%**	**7,543**	**100%**	**8,862**	**100%**	**8,862**	**100%**

At 31 December 2019, before taking into account of any hedges, 95% of the Group's gross debt was fixed-rate and 5% floating-rate. After hedging, the floating-rate part was 13%.

13.5 Schedule of financial liabilities at 30 June 2019 and 31 December 2019

The following table shows the maturity of future financial liability-related cash flows (nominal and interest). Variable interest flows have been estimated on the basis of rates at 30 June 2019 and 31 December 2019.

On 30.06.2019 (€ million)	Balance sheet value	Contractual flows	< 6 months	6 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years
Nominal value	-	(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)**

On 31.12.2019 (€ million)	Balance sheet value	Contractual flows	< 6 months	6 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years
Nominal value	-	(8,851)	(935)	(150)	(1,085)	(2,063)	(1,016)	(666)	(2,936)
Interest	-	(1,634)	(129)	(133)	(216)	(158)	(98)	(89)	(810)
Gross financial debt	**(8,873)**	**(10,485)**	**(1064)**	**(283)**	**(1,302)**	**(2,221)**	**(1,114)**	**(755)**	**(3,746)**
Lease liability	**(517)**	**(594)**	**(40)**	**(46)**	**(99)**	**(77)**	**(57)**	**(45)**	**(230)**
Cross currency swaps:	-	-	-	-	-	-	-	-	-
Flows payable	-	-	-	-	-	-	-	-	-
Flows receivable	-	-	-	-	-	-	-	-	-
Derivative instruments - liabilities	(24)	(36)	(20)	(6)	(3)	(2)	(2)	(2)	(3)
Derivative instruments - liabilities	**(24)**	**(36)**	**(20)**	**(6)**	**(3)**	**(2)**	**(2)**	**(2)**	**(3)**
Total financial liabilities	**(9,415)**	**(11,115)**	**(1,124)**	**(335)**	**(1,403)**	**(2,300)**	**(1,173)**	**(802)**	**(3,979)**

13.6 Syndicated loan

On 31 December 2019, the multi-currency syndicated loan of €2,500 million has not been drawn down.

13.7 Bonds

Nominal amount	Interest rate	Issue date	Maturity	Carrying amount at 31.12.2019 (€ million)
EUR 500 million	0,00%	10/24/19	10/24/23	498
EUR 500 million	0,50%	10/24/19	10/24/27	497
EUR 500 million	0,88%	10/24/19	10/24/31	492
EUR 850 million	2,00%	03/20/14	06/22/20	858
USD 1,000 million	5,75%	04/07/11	04/07/21	900
USD 201 million	Marge + Libor 6 mois	01/26/16	01/26/21	182
USD 1,500 million	4,45%	10/25/11	01/15/22	1,365
USD 800 million	4,25%	01/12/12	07/15/22	731
EUR 500 million	1,88%	09/28/15	09/28/23	494
EUR 650 million	2,13%	09/29/14	09/27/24	651
EUR 600 million	1,50%	05/17/16	05/18/26	603
USD 600 million	3,25%	06/08/16	06/08/26	531
USD 850 million	5,50%	01/12/12	01/15/42	762
TOTAL BONDS				**8,566**

Note 14 – Financial instruments

(€ million)	Measurement level	Breakdown by accounting classification				30.06.2019	
		Fair value – profit	Fair value through Equity	Loans and receivables	Liabilities at amortised cost	Balance sheet value	Fair value
Assets							
Equity instruments	Niveau 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	Niveau 2	25	-	-	-	25	25
Cash and cash equivalents	Niveau 1	923	-	-	-	923	923
Liabilities							
Bonds		-	-	-	7,015	7,015	7,229
Bank debt		-	-	-	512	512	512
Finance lease debt		-	-	-	28	28	28
Derivative instruments – liabilities	Niveau 2	21	-	-	-	21	21

(€ million)	Measurement level	Breakdown by accounting classification				31.12.2019	
		Fair value – profit	Fair value through Equity	Assets at amortised cost	Liabilities at amortised cost	Balance sheet value	Fair value
Assets							
Equity instruments	Niveau 3	-	90	-	-	90	90
Guarantees, deposits, investment-related receivables		-	-	143	-	143	143
Trade receivables and other operating receivables		-	-	2,159	-	2,159	2,159
Other current assets		-	-	302	-	302	302
Derivative instruments – assets	Niveau 2	41	-	-	-	41	41
Cash and cash equivalents	Niveau 1	1,152	-	-	-	1,152	1,152
Liabilities		-					
Bonds		-	-	-	8,566	8,566	8,828
Bank debt		-	-	-	307	307	307
Lease liability		-	-	-	517	517	517
Derivative instruments – liabilities	Niveau 2	24	-	-	-	24	24

The methods used are as follows:

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

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

- Level 1: fair value based on prices quoted in an active market;

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

In accordance with IFRS 13, derivatives were measured taking into account the Credit Valuation Adjustment (CVA) and the Debt Valuation Adjustment (DVA). The measurement is based on historical data (rating of counterparty banks and probability of default). At 31 December 2019, the impact was not significant.

Note 15 - Other current liabilities

Other current liabilities are broken down as follows:

(€ million)	30.06.2019	31.12.2019
Taxes and social payables	636	714
Other current liabilities	421	55
Total	**1 058**	**770**

Note 16 – Assets held for sale

Assets held for sale primarily refers to certain assets received as part of the acquisition of listed American company Castle Brands Inc., which the Group plans to sell within 12 months.

Note 17 – Notes to the consolidated cash flow statement

17.1 Working capital requirement

The working capital requirement has increased by €768 million due to a usually stronger activity at the end of December compared to the end of June. It is mainly explained as follows:

- trade receivables: +€931 million;
- trade payables: €(290) million;
- Net inventories : +€136 million ;
- others: €(9) million.

17.2 Acquisitions of financial assets and activities

The acquisitions of financial assets and activities generated a cash outflow of 537 million euros, mainly related to the acquisitions of the period and corresponding in particular to the American listed company Castle Brands Inc., Firestone & Robertson Distilling Co ., a majority stake in Rabbit Hole Spirits, LLC, a majority stake in Laurenskirk (PTY) Ltd. and the company Bodeboca, SL.

17.3 Bond issues/repayment of debt

On 24 October 2019, Pernod Ricard launched a euro-denominated bond issue for €1.5 billion in three tranches (4, 8 and 12 years with respective fixed-rate interest of 0.00%, 0.50% and 0.875%).

Note 18 - Shareholders' equity

18.1 Share capital

Pernod Ricard's share capital changed as follows between 1 July 2019 and 31 December 2019:

	Number of shares	Amount (€ million)
Share capital on 30 June 2019	265,421,592	411
Share capital on 31 December 2019	**265,421,592**	**411**

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

18.2 Treasury shares

On 31 December 2019, Pernod Ricard SA and its controlled subsidiaries held 2,610,189 Pernod Ricard shares for a value of €371 million, out of which €224 millions acquired during the semester under the share buyback program announced on August 28, 2019.

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

18.3 Dividends paid and proposed

Following the resolution agreed upon during the Shareholders' Meeting of 8 November 2019, the total dividend in respect of the financial year ended 30 June 2019 was €3.12 per share. An interim dividend payment of €1.18 per share having been paid on 10 July 2019, the balance amounting to €1.94 per share has been paid on 25 November 2019.

Note 19 - Share-based payments

The Group recognised an expense of €20 million within operating profit relating to stock option and performance-based share applicable on 31 December 2019.

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

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

	Units
Number of outstanding options / shares at 30 June 2019	**2 019 575**
Number of options exercised / shares acquired during the period	(390 464)
Number of options / shares cancelled over the period	(80 140)
Number of options / shares newly granted over the period	401 338
Number of outstanding options / shares at 31 December 2019	**1 950 309**

Note 20 – Off-balance sheet commitments

The Group's off-balance sheet commitments amounted to € 2,227 million as of December 31, 2019, compared to € 2,587 million as of June 30, 2019. This decrease is mainly related to the implementation of IFRS 16, off-balance sheet commitments on lease contracts being replaced by a lease liability within the Balance Sheet (see Note 1.4 - Impacts related to the first application of IFRS 16 and the IFRIC 23 interpretation).
Off-balance sheet commitments received from the Group amounted to € 2,853 million as of December 31, 2019, compared to € 2,593 million as of June 30, 2019.

Note 21 – Contingent liabilities

Pernod Ricard has received several notices of tax adjustment for FY07 to FY16, specifically concerning, for an amount of 7,597 million Indian rupees (equivalent to €95 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 22 – Disputes

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

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

The provisions recorded by Pernod Ricard as at 31 December 2019, for all litigation and risks in which it is involved, amounted to €398 million, compared to €374 million at 30 June 2019 (see Note 12 - *Provisions*), excluding uncertain tax positions presented within “Income taxes payables”. Pernod Ricard provides no further details (other than in exceptional circumstances), as disclosing the amount of any provision for ongoing litigation could cause the Group serious harm.

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

Disputes relating to brands

Havana Club

The Havana Club brand is owned in most countries by a joint venture company called Havana Club Holding SA (HCH), of which Pernod Ricard is a shareholder, and is registered in over 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.

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 FY16 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.

The above-mentioned disputes are only the subject of provisions, which, where appropriate, are recorded in Other provisions for risks and charges (see Note 12 – Provisions) or Income taxes payables (see Note 6 – Income tax), when it is likely that a current liability stemming from a past event will require the payment of an amount which can be reliably estimated. The amount of the provision is the best estimate of the outflow of resources required to extinguish this liability.

Commercial disputes

Colombia

A complaint was filed before the Colombian Competition Agency (the Superintendencia De Industria Y Comercio) on 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 18 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. As of December of 2019 the complaint is still pending admission, following the Colombian Competition Authority decision of earlier 2019 declining jurisdiction in favor of Colombian administrative courts. 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 23 – Related parties

During the first half-year ended 31 December 2019, relations between the Group and its associates remained the same as in the financial year ended 30 June 2019, as mentioned in the 2018/19 Universal Registration Document.

In particular, no transactions considered unusual with regards to their nature or amount occurred over the period.

Note 24 – Subsequent Events

There are no post-closing events having significant impact on the Group's financial statements.

4/ STATUTORY AUDITORS' REVIEW REPORT ON THE HALF-YEAR FINANCIAL INFORMATION

For the period from July 1 to December 31, 2019

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

To the Shareholders of Pernod Ricard,

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

- the review of the accompanying condensed half-yearly consolidated financial statements of Pernod Ricard, for the period from July 1 to December 31, 2019,
- the verification of the information presented in the half-yearly management report.

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

I. Conclusion on the financial statements

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

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

Without qualifying our conclusion, we draw your attention to the matter set out in note 1.4 to the condensed half-yearly consolidated financial statements regarding the impacts of the first-time application as of July 1, 2019 of IFRS 16 "Leases" and IFRIC 23 "Uncertainty over Income Tax Treatments".

II. Specific verification

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

Paris La Défense, February 13, 2020

The Statutory Auditors

French original signed by

KPMG Audit		Deloitte & Associés
A Division of KPMG S.A.		
Eric Ropert	Caroline Bruno-Diaz	David Dupont-Noel
Partner	*Partner*	*Partner*

Pernod Ricard

Créateurs de convivialité