SECTION 06

CONSOLIDATED FINANCIAL STATEMENTS

6.1 Consolidated income statement

€ million	30.06.2020	30.06.2021	Notes
Net sales	8,448	8,824	2
Cost of sales	(3,361)	(3,531)	2
Gross margin after logistics expenses	**5,086**	**5,293**	**2**
Advertising and promotion expenses	(1,327)	(1,393)	2
Contribution after advertising and promotion	**3,759**	**3,900**	**2**
Structure costs	(1,499)	(1,477)	
Profit from recurring operations	**2,260**	**2,423**	
Other operating income/(expenses)	(1,283)	(62)	3.1
Operating profit	**978**	**2,361**	
Financial expenses	(403)	(410)	3.2
Financial income	36	39	3.2
Financial income/(expense)	**(366)**	**(371)**	
Corporate income tax	(258)	(667)	3.3
Share of net profit/(loss) of associates	0	(4)	
Net profit of discontinued and held for sale activities	(3)	0	4.12
NET PROFIT	**350**	**1,318**	
o/w: • non-controlling interests • attributable to owners of the parent	 21 329	 13 1,305	
Earnings per share – basic *(in euros)*	1.25	5.00	3.4
Earnings per share – diluted *(in euros)*	1.24	4.99	3.4

6.2 Consolidated statement of comprehensive income

€ million	30.06.2020	30.06.2021
Net profit for the period	**350**	**1,318**
Non-recyclable items		
Actuarial gains/(losses) related to defined benefit plans	**(758)**	**114**
Amounts recognised in shareholders' equity	*(919)*	*125*
Tax impact	*161*	*(11)*
Equity instruments	**(119)**	**143**
Unrealised gains and losses recognised in shareholders' equity	*(120)*	*144*
Tax impact	*1*	*(1)*
Recyclable items		
Net investment hedges	**10**	**18**
Amounts recognised in shareholders' equity	*13*	*27*
Tax impact	*(4)*	*(9)*
Cash flow hedges	**5**	**7**
Amounts recognised in shareholders' equity (1)	*8*	*10*
Tax impact	*(3)*	*(3)*
Translation differences	**(65)**	**(7)**
Other comprehensive income for the period, net of tax	**(927)**	**275**
COMPREHENSIVE INCOME FOR THE PERIOD	**(577)**	**1,593**
o/w: • attributable to owners of the parent • non-controlling interests	 (600) 23	 1,585 8

(1) Including €(3) million recycled through profit or loss for the period.

6.3 Consolidated balance sheet

Assets

€ million	30.06.2020	30.06.2021	Notes
Net amounts			
Non-current assets			
Intangible assets	10,965	10,725	4.1
Goodwill	5,611	5,505	4.1
Property, plant and equipment	3,095	3,177	4.2
Non-current financial assets	522	685	4.3
Investments in associates	28	36	
Non-current derivative instruments	54	65	4.3/4.10
Deferred tax assets	1,678	1,623	3.3
TOTAL NON-CURRENT ASSETS	**21,953**	**21,816**	
Current assets			
Inventories and work in progress	6,167	6,555	4.4
Trade receivables and other operating receivables	906	1,126	4.5
Income taxes receivable	142	141	
Other current assets	323	413	4.6
Current derivative instruments	12	8	4.3/4.10
Cash and cash equivalents	1,935	2,078	4.8
TOTAL CURRENT ASSETS	**9,485**	**10,321**	
Assets held for sale	87	11	4.12
TOTAL ASSETS	**31,525**	**32,147**	

Liabilities

€ million	30.06.2020	30.06.2021	Notes
Shareholders' equity			
Capital	411	406	6.1
Share premium	3,052	3,052	
Retained earnings and currency translation adjustments	10,177	10,066	
Group net profit	329	1,305	
Shareholders' equity attributable to owners of the parent	**13,968**	**14,829**	
Non-controlling interests	243	246	
TOTAL SHAREHOLDERS' EQUITY	**14,211**	**15,075**	
Non-current liabilities			
Non-current provisions	310	253	4.7
Provisions for pensions and other long-term employee benefits	605	477	4.7
Deferred tax liabilities	2,596	2,825	3.3
Bonds – non-current	8,599	8,787	4.8
Non-current lease liability	433	405	4.8
Other non-current financial liabilities	192	108	4.8
Non-current derivative instruments	0	0	4.10
TOTAL NON-CURRENT LIABILITIES	**12,735**	**12,854**	
Current liabilities			
Current provisions	222	163	4.7
Trade payables	1,877	2,337	
Income taxes payable	232	282	3.3
Other operating payables	1,016	1,134	4.11
Bonds - current	723	70	4.8
Current lease liability	88	103	4.8
Other current financial liabilities	380	122	4.8
Current derivative instruments	24	6	4.10
TOTAL CURRENT LIABILITIES	**4,563**	**4,218**	
Liabilities related to assets held for sale	16	0	4.12
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**31,525**	**32,147**	

6.4 Changes in consolidated 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 01.07.2019	**411**	**3,052**	**12,592**	**327**	**34**	**(276)**	**(153)**	**15,987**	**195**	**16,182**
Comprehensive income for the period	-	-	329	(758)	(114)	(57)	-	(600)	23	(577)
Capital increase	-	-	-	-	-	-	-	-	-	-
Expense related to share-based payments	-	-	22	-	-	-	-	22	-	22
(Acquisition)/disposal of treasury shares	-	-	(56)	-	-	-	(530)	(587)	-	(587)
Sale and repurchase agreements	-	-	-	-	-	-	-	-	-	-
Dividends and interim dividends distributed	-	-	(820)	-	-	-	-	(820)	(22)	(842)
Changes in scope of consolidation	-	-	-	-	-	-	-	-	47	47
Other transactions with minority interests	-	-	(35)	-	-	-	-	(35)	-	(35)
Other movements	-	-	1	-	-	-	-	1	-	1
CLOSING POSITION ON 30.06.2020	**411**	**3,052**	**12,033**	**(431)**	**(79)**	**(333)**	**(684)**	**13,968**	**243**	**14,211**

€ 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 01.07.2020	**411**	**3,052**	**12,033**	**(431)**	**(79)**	**(333)**	**(684)**	**13,968**	**243**	**14,211**
Comprehensive income for the period	-	-	1,305	111	150	19	-	1,585	8	1,593
Capital variation	(5)	-	(519)	-	-	-	525	0	-	0
Expense related to share-based payments	-	-	28	-	-	-	-	28	-	28
(Acquisition)/disposal of treasury shares	-	-	(39)	-	-	-	19	(20)	-	(20)
Sale and repurchase agreements	-	-	-	-	-	-	-	-	-	-
Dividends and interim dividends distributed	-	-	(733)	-	-	-	-	(733)	(8)	(742)
Changes in scope of consolidation	-	-	1	-	-	-	-	1	3	5
Other transactions with minority interests	-	-	-	-	-	-	-	-	-	-
Other movements	-	-	-	-	-	-	-	-	-	-
CLOSING POSITION ON 30.06.2021	**406**	**3,052**	**12,075**	**(320)**	**70**	**(314)**	**(140)**	**14,829**	**246**	**15,075**

6.5 Consolidated cash flow statement

€ million	30.06.2020	30.06.2021	Notes
Cash flow from operating activities			
Group net profit	329	1,305	
Non-controlling interests	21	13	
Share of net profit/(loss) of associates, net of dividends received	0	4	
Financial (income)/expenses	366	371	
Tax (income)/expenses	258	667	
Net profit from discontinued operations	3	0	
Depreciation of fixed assets	350	367	
Net change in provisions	97	(80)	
Net change in impairment of goodwill, property, plant and equipment and intangible assets	1,007	78	
Changes in fair value of commercial derivatives	0	4	
Changes in fair value of biological assets and investments	(3)	(4)	
Net (gain)/loss on disposal of assets	(27)	(16)	
Expenses related to share-based payments	23	28	
Self-financing capacity before financing interest and taxes	**2,423**	**2,738**	
Decrease/(increase) in Working Capital Requirements	(433)	(54)	5.1
Interests paid	(371)	(350)	
Interests received	36	35	
Tax paid/received	(474)	(371)	
NET CHANGE IN CASH FLOW FROM OPERATING ACTIVITIES	**1,181**	**1,999**	
Cash flow from investing activities			
Capital expenditure	(365)	(433)	
Proceeds from disposals of property, plant and equipment and intangible assets	14	63	
Change in scope of consolidation	-	-	
Purchases of financial assets and activities	(618)	(131)	5.2
Disposals of financial assets and activities	34	15	5.2
NET CHANGE IN CASH FLOW FROM INVESTING ACTIVITIES	**(936)**	**(486)**	
Cash flow from financing activities			
Dividends and interim dividends paid	(849)	(704)	
Other changes in shareholders' equity	-	-	
Issuance of long-term debt	3,822	1,788	5.3
Repayment of debt	(1,553)	(2,379)	5.3
Repayment of lease debt	(100)	(97)	
(Acquisition)/disposal of treasury shares	(526)	(20)	
Other transactions with non-controlling interests	-	-	
NET CHANGE IN CASH FLOW FROM FINANCING ACTIVITIES	**795**	**(1,412)**	
Cash flow from non-current assets held for sale	(3)	-	
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (BEFORE FOREIGN EXCHANGE IMPACT)	**1,037**	**100**	
Effect of exchange rate changes	(26)	43	
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (AFTER FOREIGN EXCHANGE IMPACT)	**1,012**	**143**	
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**923**	**1,935**	
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**1,935**	**2,078**	

6.6 Notes to the consolidated financial statements

DETAILED CONTENTS FOR THE NOTES

Pernod Ricard SA is a French public limited 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 5 cours Paul Ricard, 75008 Paris, France and is listed on the Euronext exchange. The consolidated financial statements reflect the accounting position of Pernod Ricard and its affiliates (the "Group"). They are reported in millions of euros (€), rounded to the nearest million.

The Group manufactures and sells wines and spirits.

The Board of Directors approved the consolidated financial statements for the financial year ended 30 June 2021 on 31 August 2021.

Note 1 Accounting policies and significant events

Note 1.1 Accounting 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 2021 have been prepared in accordance with IFRS (International Financial Reporting Standards) as adopted by the European Union.

The accounting policies used to prepare the consolidated financial statements to 30 June 2021 are consistent with those used for the consolidated financial statements to 30 June 2020, with the exception of standards and interpretations adopted by the European Union applicable to the Group from 1 July 2020 (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 whose implementation has been mandatory since 1 July 2020

As of 1 July 2020, the Group has applied the amendment to IFRS 9 and IFRS 7 published by the IASB in September 2019 and adopted by the European Union as part of the reform of benchmark interest rates. This amendment allows the Group not to take into account uncertainties about the future of benchmark interest rates in assessing the effectiveness of hedging relationships and/or in evaluating the highly probable nature of the hedged risk, thereby enabling it to secure existing or future hedging relationships until such uncertainties are resolved.

Documented interest rate derivatives hedging debts indexed to a benchmark rate are presented in Note 4.8 – *Financial liabilities*. At 30 June 2021, the Group's exposure to financial instruments indexed to floating rates with a maturity date beyond the implementation date of the reform is limited. The potential impact on financial information of the replacement of an existing benchmark rate by another will take effect as soon as Phase 2 of the benchmark interest rate reform is adopted.

The effects of the following IFRS IC agenda decisions are currently being analysed by the Group:

- decision published in April 2021 relating to IAS 38 (Intangible Assets) on the recognition of configuration or customisation costs in a cloud computing arrangement as part of a "Software as a service" agreement;
- decision published in April 2021 relating to IAS 19 (Employee Benefits) on the attribution of employee benefits to periods of service. This decision clarifies the periods over which employee benefits should be attributed in allocating the IAS 19 expense.

Where applicable, the impact of the application of these decisions will be presented subsequently.

Furthermore, the following decisions did not have a significant impact on the Group's financial statements at 30 June 2021:

- decision published in June 2021 on IAS 2 (Inventories – Costs) necessary to sell inventories;
- decision published in June 2021 on IAS 10 (Events after the reporting period – Preparation of financial statements) when an entity is no longer a going concern.

No other new standards, amendments or interpretations are applicable to Pernod Ricard as of 1 July 2020.

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 outcomes can 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 2021 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, given the contribution of Argentina's business performance to the Group's financial statements, the impact of the application of IAS 29 has been deemed non-material, and the corresponding restatements have not 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. Impacts of the Covid-19 epidemic

The continuation of the Covid-19 pandemic over most of FY21 has impacted the Group's business. Many countries have taken strict measures to try to slow the spread of the epidemic and have imposed the closure of establishments open to the public (including bars, hotels and restaurants) as well as lockdown measures and restrictions on international travel (affecting Travel Retail activities in particular).

Nevertheless, the Group rebounded and net sales amounted to €8,824 million (an increase of 9.7% in organic growth and 4.5% in reported growth).

As part of the management of this crisis, the Group has taken a number of strong measures:

- priority given to the health and safety of its employees and partners;
- active inventory management to maintain a healthy level in main markets;
- active management of resources and cost control to adapt to the crisis;
- dynamic cash management and a strengthened liquidity position thanks to a new bond issue in US dollars over the period and the early redemption of Bonds maturing in April 2021 and January 2022 (see Note – 1.2.2.2 *Bond issues and redemptions*).

Despite the crisis, the Group has continued to implement its Transform & Accelerate agenda.

Furthermore, the Group has paid particular attention to the recoverability of its trade receivables in view of the increased credit risk related to the crisis, with the measures implemented enabling optimised management of trade receivables.

2. Other significant events during the financial year

2.1 Acquisitions and disposals

During the year, the Group continued the same strategy by strengthening its positions through partnerships/acquisitions of super and ultra-Premium brands in fast-growing categories such as the agreements signed with the companies Ojo de Tigre, owner of the Mezcal brand of the same name, Vermuteria de Galicia, owner of the Spanish Vermouth Petroni and La Hechicera Company, owner of the Columbian rum of the same name.

As part of its strategy of dynamic management of its brand portfolio, the Group also sold the Doble V brand in Spain.

2.2 Bond issues and redemptions

On 1 October 2020, the Group Pernod Ricard, through one of its wholly-owned subsidiaries, issued a US$2 billion bond in three tranches of 7.5, 10.5 and 30 years, bearing interest at a fixed annual rate of 1.25%, 1.625% and 2.75%, respectively.

On 6 November 2020, Pernod Ricard SA redeemed (i) the remaining amount of the 5.75% Bonds maturing in April 2021 for a principal amount of US$500 million, and (ii) all of the 4.45% Bonds maturing in January 2022 for a principal amount of US$1,500 million in accordance with the optional redemption clause provided for in the terms and conditions of these Bonds.

These early redemptions gave rise to the payment of a non-recurring fee (called "make-whole call") of €72 million.

On 26 January 2021, Pernod Ricard SA redeemed the total of its Pandios USD bond for an amount of US$ 201 million.

2.3. Favourable court ruling on Drawback in the United States

A lawsuit was filed on April 15, 2019 by the National Association of Manufacturers (NAM) against the US Treasury Department and the United States Customs and Border Protection (CBP) on behalf of its members, including Pernod Ricard, to invalidate the regulations published in February 2019 and to affirm that Drawback is authorised pursuant to Article 19 USC§ 1313(j)(2) as amended by the Trade Facilitation and Trade Enforcement Act of 2015, which was enacted on February 24, 2016 (TFTEA).

The Drawback provided for under US law allows a company to benefit from the refund of excise duties or taxes paid on certain imported goods when similar goods are exported. On August 23, 2021, the US Court of Appeals for the Federal Circuit handed down its ruling in favour of the National Association of Manufacturers, upholding the first instance judgement handed down in February 2020. As a result, Pernod Ricard may benefit from the Drawback on the basis of exports of certain spirits outside the United States. The impact of this decision on Pernod Ricard's FY21 financial statements represents an additional pre-tax income of US$163 million (€137 million), of which US$33 million (€28 million euros) in Profit from Recurring Operations. As of June 30, 2021, the Group had already collected US$187 million (€156 million) in respect of claims already filed.

Note 2 Segment information

Net sales

The Group's net sales primarily comprise sales of finished products, and are recorded in the income statement upon transfer of control of the products. It is measured at the fair value of the consideration received or to be received, 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 IFRS 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 classified as 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 rather 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 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.

At 30.06.2020 *€ million*	**Americas**	**Asia/Rest of World**	**Europe**	**Total**
Income statement items				
Segment net sales	3,747	5,181	4,032	12,960
o/w intersegment sales	*1,298*	*1,715*	*1,500*	*4,512*
Net sales (excluding Group)	**2,449**	**3,467**	**2,532**	**8,448**
Gross margin after logistics expenses	1,599	1,969	1,519	5,086
Contribution after advertising and promotion	1,138	1,452	1,169	3,759
Profit from recurring operations	718	938	605	2,260
Other information				
Current investments	113	233	611	957
Depreciation, amortisation and impairment	972	133	251	1,356

At 30.06.2021 *€ million*	**Americas**	**Asia/Rest of World**	**Europe**	**Total**
Income statement items				
Segment net sales	3,794	5,494	4,185	13,473
o/w intersegment sales	*1,167*	*1,854*	*1,628*	*4,649*
Net sales (excluding Group)	**2,627**	**3,640**	**2,557**	**8,824**
Gross margin after logistics expenses	1,699	2,060	1,534	5,293
Contribution after advertising and promotion	1,229	1,518	1,153	3,900
Profit from recurring operations	803	996	624	2,423
Other information				
Current investments	106	109	316	531
Depreciation, amortisation and impairment	42	165	236	444

The impact of right-of-use assets on current investments and depreciation, amortisation and impairment expense is as follows:

At 30.06.2021 *€ million*	**Americas**	**Asia/Rest of World**	**Europe**	**Total**
Current investments	12	39	48	100
Depreciation, amortisation and impairment	15	40	44	99

Breakdown of net sales

€ million	**30.06.2020**	**30.06.2021**	**Variation** *(€ million)*	**Variation** *(%)*
Strategic International Brands	5,268	5,544	275	5%
Strategic Local Brands	1,599	1,576	(23)	-1%
Strategic Wines	431	425	(6)	-1%
Speciality	373	472	99	27%
Other products	776	807	31	4%
TOTAL	**8,448**	**8,824**	**376**	**4%**

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	30.06.2020	30.06.2021
Impairment of property, plant and equipment and intangible assets	(1,007)	(78)
Gains or losses on asset disposals and acquisition costs	11	(34)
Net restructuring and reorganisation expenses	(178)	(64)
Disputes and risks	(47)	141
Other non-current operating income and expenses	(63)	(26)
OTHER OPERATING INCOME AND EXPENSES	**(1,283)**	**(62)**

At 30 June 2021, other operating income and expenses primarily consisted of:

- impairment losses on property, plant and equipment and intangible assets for €78 million, mainly comprising immpairment on the Imperial brand for €70 million as a result of impairment testing of the Group's brands and related assets;
- restructuring costs of 64 million euros related to various reorganisation projects;
- net income related to the settlement of disputes and risks for €141 million, including €109 million in respect of the Drawback (see Note 2.3 - *Significant events during the financial year*).

In addition, the costs generated by the health crisis were recognised in profit from recurring operations.

Note 3.2 Financial income/(expense)

€ million	30.06.2020	30.06.2021
Interest expenses on net financial debt	(340)	(261)
Financial expenses on lease liabilities	(14)	(13)
Interest income on net financial debt	36	36
Net financing cost	**(319)**	**(238)**
Structuring and placement fees	(2)	(3)
Net financial impact of pensions and other long-term employee benefits	0	(17)
Other net current financial income (expense)	(7)	(3)
Financial income/(expense) from recurring operations	**(328)**	**(262)**
Foreign currency gains/(losses)	(19)	(37)
Other non-current financial income/(expenses)	(19)	(73)
TOTAL FINANCIAL INCOME/(EXPENSES)	**(366)**	**(371)**

At 30 June 2021, the net cost of financial debt included financial expenses of €211 million on Bonds, €3 million on interest rate hedges, €5 million on factoring and securitisation agreements, €13 million on interest on lease liabilities, and €5 million in other expenses.

The financial income/(expense) was also impacted by the early redemption of the Bonds denominated in USD detailed in Note 2.1 – *Significant events during the period* for €72 million, negative foreign exchange impacts for €37 million, and the net impact of pensions and other long-term employee benefits for €17 million euros.

Weighted average cost of debt

The Group's weighted average cost of debt was 2.8% over FY21 compared to 3.6% over FY20.

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 the income tax expense

€ million	30.06.2020	30.06.2021
Current income tax	(364)	(425)
Deferred income tax	106	(242)
TOTAL	**(258)**	**(667)**

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

€ million	30.06.2020	30.06.2021
Operating profit	978	2,361
Financial income/(expense)	(366)	(371)
Taxable profit	**611**	**1,990**
Theoretical tax charge at the effective income tax rate in France	(210)	(637)
Impact of tax rate differences by jurisdiction	111	218
Tax impact of variation in exchange rates	-	7
Re-estimation of deferred tax assets linked to tax rate changes	(77)	(193)
Impact of tax losses used/not used	(6)	40
Impact of reduced/increased tax rates on taxable results	-	-
Taxes on distributions	(25)	(31)
Other impacts	(52)	(72)
EFFECTIVE TAX EXPENSE	**(258)**	**(667)**
EFFECTIVE TAX RATE	**42%**	**34%**

The tax reform in the United Kingdom generated a revaluation of tax assets and liabilities following the increase in the corporate tax rate from 19% to 25%. The net impact is a tax charge of €200 million at 30 June 2021.

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. Deferred taxes relating to right-of-use assets and lease liabilities are recognised on a net basis. 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	30.06.2020	30.06.2021
Margins in inventories	119	111
Fair value adjustments on assets and liabilities	28	13
Provision for pension benefits	100	78
Deferred tax assets related to losses eligible for carryforward	933	913
Provisions (other than provisions for pensions benefits) and other items	498	509
TOTAL DEFERRED TAX ASSETS	**1,678**	**1,623**
Accelerated tax depreciation	136	175
Fair value adjustments on assets and liabilities	2,313	2,469
Pension and other hedging assets	147	181
TOTAL DEFERRED TAX LIABILITIES	**2,596**	**2,825**

Tax loss carryforwards (recognised and unrecognised) represent potential tax savings of €1,154 million and €1,232 million at 30 June 2021 and 30 June 2020 respectively. The potential tax savings at 30 June 2021 and 30 June 2020 relate to tax loss carryforwards with the following expiry dates:

FY20

	Tax effect of loss carryforwards *€ million*	
Year	**Losses recognised**	**Losses not recognised**
2020	0	1
2021	0	1
2022	1	4
2023	1	3
2024 and after	790	192
No expiry date	140	97
TOTAL	**933**	**299**

FY21

	Tax effect of loss carryforwards *€ million*	
Year	**Losses recognised**	**Losses not recognised**
2021	0	1
2022	0	2
2023	2	4
2024	2	2
2025 and after	727	189
No expiry date	182	43
TOTAL	**913**	**241**

Group income taxes payables are broken down as follows:

€ million	30.06.2020	30.06.2021
Other current tax liabilities	108	166
Uncertain tax positions	125	117
TOTAL CURRENT TAX LIABILITIES	**232**	**282**

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.

Numerator *(€ million)*	30.06.2020	30.06.2021
Group net profit	329	1,305
Denominator *(in number of shares)*		
Average number of outstanding shares	262,858,086	260,796,076
Dilutive effect of bonus share allocations	1,063,687	624,364
Dilutive effect of stock options and subscription options	115,058	93,465
Average number of outstanding shares - diluted	**264,036,831**	**261,513,904**
Earnings per share *(€)*		
Earnings per share – basic	1.25	5.00
Earnings per share – diluted	1.24	4.99

Note 3.5 Expenses by type

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

€ million	30.06.2020	30.06.2021
Depreciation, amortisation and impairment expense on property, plant and equipment and intangible assets*	**(1,314)**	**(441)**
Salaries and payroll costs	(1,317)	(1,216)
Pensions, medical expenses and other similar benefits under defined-benefit plans	(46)	(46)
Expense related to share-based payments	(22)	(28)
TOTAL PERSONNEL EXPENSES	**(1,385)**	**(1,290)**

* *Including impairment of intangible assets of €999 million at 30.06.2020.*

Operating profit also includes €4.3 million in lease expenses relating to short-term leases, €1.7 million in expenses relating to leases of low-value assets and €2.1 million in expenses relating to variable rents.

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.

		Movements in the year					
€ million	**30.06.2019**	**Acquisitions**	**Allowances**	**Disposals**	**Foreign currency gains and losses**	**Other movements**	**30.06.2020**
Goodwill	5,528	199	-	(1)	21	0	5,747
Brands	12,957	227	-	0	47	0	13,230
Other intangible assets	452	41	-	(20)	(7)	5	471
GROSS VALUE	**18,937**	**467**	**-**	**(21)**	**60**	**5**	**19,448**
Goodwill	(137)	-	-	-	1	0	(136)
Brands	(1,408)	-	(999)	0	9	0	(2,398)
Other intangible assets	(318)	-	(34)	10	6	(1)	(338)
AMORTISATION/IMPAIRMENT	**(1,863)**	**-**	**(1,033)**	**10**	**16**	**(1)**	**(2,872)**
INTANGIBLE ASSETS, NET	**17,074**	**467**	**(1,033)**	**(11)**	**76**	**4**	**16,576**

		Movements in the year					
€ million	**30.06.2020**	**Acquisitions**	**Allowances**	**Disposals**	**Foreign currency gains and losses**	**Other movements**	**30.06.2021**
Goodwill	5,747	15	-	-	(139)	19	5,642
Brands	13,230	13	-	(8)	(346)	6	12,894
Other intangible assets	471	73	-	(42)	(2)	42	541
GROSS VALUE	**19,448**	**100**	**-**	**(50)**	**(488)**	**67**	**19,077**
Goodwill	(136)	-	-	-	(1)	(0)	(137)
Brands	(2,398)	-	(72)	7	95	(0)	(2,369)
Other intangible assets	(338)	-	(43)	40	2	(1)	(341)
AMORTISATION/IMPAIRMENT	**(2,872)**	**-**	**(116)**	**46**	**95**	**(1)**	**(2,847)**
INTANGIBLE ASSETS, NET	**16,576**	**100**	**(116)**	**(4)**	**(393)**	**66**	**16,230**

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. The change in the value of goodwill in the period was mainly due to the acquisitions mentioned in Note 1.2.1 – *Significant events during the financial year – Acquisitions and disposals*, as well as currency fluctuations.

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. The change in the gross value of brands for the period was mainly due to the acquisitions mentioned in Note 1.2.1 – *Significant events during the financial year – Acquisitions and disposals*, as well as currency fluctuations.

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. Concerning the inclusion of leases treated in accordance with IFRS 16, the simplified method was used, consisting of including the net value of the rights-of-use and lease liabilities in the various CGUs.

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. The cash flow projection methodology takes into account, with respect to Working Capital Requirements and investments, the specific features of white spirits and maturing alcohols. The present values of discounted cash flows are sensitive to these assumptions, as well as to consumer trends 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	Net carrying amount of goodwill at 30.06.2021	Net carrying amount of brands at 30.06.2021	Value in use		
				Discount rate 2020	Discount rate 2021	Perpetual growth rate
Europe	Value in use based on the discounted cash flow method	1,833	3,921	5.80%	5.70%	From -1% to +2.5%
Americas		2,760	5,070	6.83%	6.48%	From -1% to +2.5%
Asia/Rest of World		911	1,533	7.42%	7.24%	From -1% to +2.5%

The amount of any additional impairment of goodwill, brands and related assets at 30 June 2021 is described below, resulting from:

- 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.

€ million	50 basis point 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	(0)	(4)	(86)	(1)
Americas	0	(4)	(211)	0
Asia/Rest of World	(2)	(5)	(17)	(3)
TOTAL	**(2)**	**(13)**	**(314)**	**(4)**

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. 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 fixed assets	3 to 5 years
Vines	25 to 33 years

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.

In accordance with IFRS 16, applicable from 1 July 2019, right-of-use assets for leases are recognised as property, plant and equipment in the class of underlying asset to which the right of use relates, with the corresponding recognition of a lease liability. These are mainly offices occupied by the Group and recorded under Buildings. The value of right-of-use assets is determined on the basis of the amount of the lease liability, adjusted for the amount of prepaid rent, initial direct costs, benefits received from lessors and, where applicable, remediation costs. Right-of-use assets relating to leases are depreciated over the term of the lease. The accounting principles for determining the lease liability are detailed in Note 4.8 – *Financial liabilities*.

Items of property, plant and equipment, including right-of-use assets, are written down when their recoverable amount falls below their net carrying amount.

€ million	30.06.2019	IFRS 16 impacts*	01.07.2019	Movements in the financial year: Acquisitions	Allowances	Disposals	Foreign currency gains and losses	Other movements	30.06.2020	*of which right-of-use assets*
Land	343	53	396	3	-	0	(3)	4	399	*51*
Buildings	1,294	190	1,484	327	-	(19)	(23)	(1)	1,766	*407*
Machinery and equipment	2,006	11	2,017	92	-	(39)	(26)	140	2,186	*41*
Other property, plant and equipment	790	38	828	83	-	(36)	(12)	8	870	69
Assets in progress	241	-	241	161	-	0	(3)	(216)	182	-
Advance on property, plant and equipment	8		8	19	-	-	0	(3)	24	-
GROSS VALUE	**4,681**	**292**	**4,973**	**685**	**-**	**(95)**	**(67)**	**(69)**	**5,427**	***567***
Land	(32)	-	(32)	-	(9)	0	1	0	(40)	*(7)*
Buildings	(537)	-	(537)	(3)	(120)	16	10	12	(621)	*(67)*
Machinery and equipment	(1,198)	-	(1,198)	(4)	(123)	35	16	2	(1,272)	*(20)*
Other property, plant and equipment	(366)	-	(366)	(1)	(67)	33	5	(3)	(399)	*(25)*
Assets in progress	-	-	-	-	-	-	0	-	0	-
AMORTISATION/ IMPAIRMENT	**(2,132)**	**-**	**(2,132)**	**(8)**	**(319)**	**84**	**32**	**11**	**(2,332)**	***(119)***
PROPERTY, PLANT AND EQUIPMENT, NET	**2,549**	**292**	**2,841**	**677**	**(319)**	**(10)**	**(36)**	**(58)**	**3,095**	***448***

* *See Note 1.1.2.1 to the 2019/20 URD consolidated financial statements and notes for the first-time application of IFRS 16.*

€ million	30.06.2020	Movements in the year: Acquisitions	Allowances	Disposals	Foreign currency gains and losses	Other movements	30.06.2021	*of which right-of-use assets*
Land	399	4	-	(5)	3	5	405	*53*
Buildings	1,766	84	-	(83)	21	49	1,838	*442*
Machinery and equipment	2,186	60	-	(118)	21	116	2,264	*32*
Other property, plant and equipment	870	80	-	(64)	18	18	923	*75*
Assets in progress	182	217	-	(0)	2	(180)	220	-
Advance on property, plant and equipment	24	9	-	(0)	(0)	(26)	7	-
GROSS VALUE	**5,427**	**454**	**-**	**(271)**	**65**	**(17)**	**5,658**	**602**
Land	(40)	-	(9)	2	(1)	(0)	(48)	*(13)*
Buildings	(621)	-	(120)	58	(9)	3	(691)	*(122)*
Machinery and equipment	(1,272)	(0)	(127)	101	(17)	(3)	(1,317)	*(15)*
Other property, plant and equipment	(399)	(0)	(69)	50	(8)	0	(425)	*(35)*
Assets in progress	0	-	(0)	-	0	-	(0)	-
AMORTISATION/ IMPAIRMENT	**(2,332)**	**(0)**	**(325)**	**211**	**(35)**	**(0)**	**(2,481)**	***(186)***
PROPERTY, PLANT AND EQUIPMENT, NET	**3,095**	**454**	**(325)**	**(60)**	**30**	**(18)**	**3,177**	***416***

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

Investments in non-consolidated entities are recorded in 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 expenses – 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. The valuation criteria generally used for other non-consolidated investments are share of equity and future profitability.

Loans, guarantees and deposits

Loans, guarantees and deposits are valued at amortised cost.

	30.06.2020		30.06.2021	
€ million	**Current**	**Non-current**	**Current**	**Non-current**
Net financial assets				
Equity instruments	-	93	-	286
Other financial assets	-	273	-	294
Net loans and receivables				
Loans, receivables and deposits*	-	156	-	106
Total net non-current financial assets	**-**	**522**	**-**	**685**
Derivative instruments	12	54	8	65
FINANCIAL ASSETS	**12**	**576**	**8**	**750**

* *Following the application of IFRS 16 from 1 July 2019, the category "Loans, receivables and deposits" includes receivables relating to subleases for €15 million at 30 June 2021 (€14 million at 30 June 2020).*

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

		Movements in the year					
€ million	**30.06.2019**	**Acquisitions**	**Allowances**	**Disposals**	**Foreign currency gains and losses**	**Other movements**	**30.06.2020**
Other financial assets	1,097	2	-	(6)	13	(832)	273
Equity instruments	202	19	-	(2)	0	(119)	101
Investment-related receivables	191	31	-	(9)	(9)	16	219
GROSS VALUE	**1,489**	**52**	**-**	**(17)**	**4**	**(935)**	**593**
Provisions for other financial assets	0	-	0	-	0	0	0
Impairment losses recognised on available-for-sale financial assets	-	-	-	-	-	-	-
Provisions on equity instruments	(7)	-	-	-	0	-	(7)
Impairment losses recognised on investment-related receivables	(62)	-	-	-	(1)	0	(63)
PROVISIONS	**(70)**	**-**	**0**	**-**	**(1)**	**0**	**(71)**
NON-CURRENT FINANCIAL ASSETS, NET	**1,419**	**52**	**0**	**(17)**	**3**	**(935)**	**522**

		Movements in the year					
€ million	**30.06.2020**	**Acquisitions**	**Allowances**	**Disposals**	**Foreign currency gains and losses**	**Other movements**	**30.06.2021**
Other financial assets	273	(0)		-	17	4	294
Equity instruments	101	51		(1)	(2)	144	293
Loans, guarantees and deposits	219	24		(11)	(6)	(119)	107
GROSS VALUE	**593**	**75**	**-**	**(12)**	**9**	**28**	**694**
Provisions for other financial assets	0		(0)		0	-	(0)
Impairment losses recognised on available-for-sale financial assets	-		-	-	-	-	-
Provisions on equity instruments	(7)		-	-	0	0	(7)
Provisions for loans, guarantees and deposits	(63)		(1)		4	59	(2)
PROVISIONS	**(71)**		**(1)**	**-**	**4**	**59**	**(9)**
NON-CURRENT FINANCIAL ASSETS, NET	**522**	**75**	**(1)**	**(12)**	**13**	**87**	**684**

Other financial assets at 30 June 2021 included €285 million of plan surplus related to employee benefits, compared to €265 million at the end of June 2020. This change is mainly due to changes in actuarial assumptions over the period (see Note 4.7 – *Provisions*).

At 30 June 2021, equity instruments consisted mainly of unconsolidated securities held by the Group and in particular, those of Jumia Technologies AG, measured at fair value through OCI in the amount of €165 million based on the closing share price of €25.61 on 30 June 2021 (compared with €4.90 per share on 30 June 2020).

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 & 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	**30.06.2019**	**Change in gross values**	**Change in impairment**	**Foreign currency gains and losses**	**Other movements**	**30.06.2020**
Raw materials	140	33	-	(5)	4	173
Work in progress	4,877	295	-	(40)	51	5,183
Goods in inventory	505	94	-	(19)	0	580
Finished products	280	12	-	(7)	11	296
GROSS VALUE	**5,802**	**435**	**-**	**(71)**	**66**	**6,232**
Raw materials	(10)	-	(2)	0	0	(11)
Work in progress	(10)	-	(13)	0	-	(23)
Goods in inventory	(13)	-	(3)	1	(1)	(16)
Finished products	(13)	-	(4)	1	1	(15)
IMPAIRMENT	**(46)**	**-**	**(21)**	**2**	**0**	**(65)**
NET INVENTORIES	**5,756**	**435**	**(21)**	**(69)**	**66**	**6,167**

		Movements in the year				
€ million	**30.06.2020**	**Change in gross values**	**Change in impairment**	**Foreign currency gains and losses**	**Other movements**	**30.06.2021**
Raw materials	173	3	-	(1)	2	177
Work in progress	5,183	214	-	85	4	5,486
Goods in inventory	580	76	-	(10)	-	646
Finished products	296	32	-	(3)	6	331
GROSS VALUE	**6,232**	**325**	**-**	**72**	**11**	**6,641**
Raw materials	(11)	-	(5)	(0)	-	(16)
Work in progress	(23)	-	(5)	(0)	(1)	(29)
Goods in inventory	(16)	-	(7)	(0)	(0)	(23)
Finished products	(15)	-	(3)	0	1	(17)
IMPAIRMENT	**(65)**	**-**	**(20)**	**(0)**	**-**	**(86)**
NET INVENTORIES	**6,167**	**325**	**(20)**	**72**	**11**	**6,555**

At 30 June 2021, ageing inventories intended mainly for use in whisky and cognac production accounted for 82% of work-in-progress. The Group is not significantly dependent on its suppliers.

Note 4.5 Trade receivables and other operating receivables

Trade receivables and other current 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 2020 and 30 June 2021 by due date:

€ million	Net carrying amount	Not due	Due in accordance with the following terms				
			< 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 30.06.2020	906	675	62	79	52	24	14
O/w impairment	*(91)*	*(15)*	*0*	*(3)*	*(8)*	*(11)*	*(55)*
Trade receivables and other operating receivables as of 30.06.2021	1,126	958	109	31	10	4	14
O/w impairment	*(104)*	*(16)*	*(1)*	*(2)*	*(3)*	*(7)*	*(74)*

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

€ million	FY20	FY21
At 1 July	**67**	**91**
Allowances during the year	37	26
Reversals during the year	(3)	(5)
Used during the year	(4)	(7)
Foreign currency gains and losses	(5)	(1)
At 30 June	**91**	**104**

At 30 June 2021, 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.

The change in impairment of trade and other operating receivables during FY20 and FY21 is notably linked to a reassessment of the recoverability of receivables in the context of the Covid-19 pandemic.

In FY20 and FY21, the Group continued to implement its programmes to sell the receivables of several affiliates. Receivables sold under these programmes totalled €513 million at 30 June 2020 and €592 million at 30 June 2021. As substantially all risks and rewards associated with the receivables were transferred, they were derecognised.

Derecognised assets where there is continuing involvement

€ million	Carrying amount of continuing involvement				Fair value of continuing involvement	Maximum Exposure
Continuing involvement	Amortised costs	Held to maturity	Available for sale	Financial liabilities at fair values		
Guarantee deposit – factoring and securitisation	8	-	8	-	8	8

Note 4.6 Other current assets

Other current assets are broken down as follows:

€ million	30.06.2020	30.06.2021
Advances and down payments	40	39
Tax accounts receivable, excluding income tax	195	258
Prepaid expenses	66	88
Other receivables	22	28
TOTAL	**323**	**413**

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 other than corporate income 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 at the balance sheet date is as follows:

€ million	30.06.2020	30.06.2021
Non-current provisions		
Provisions for pensions and other long-term employee benefits	605	477
Other non-current provisions for risks and charges	310	253
Current provisions		
Provisions for restructuring	101	50
Other current provisions for risks and charges	121	113
TOTAL	**1,138**	**893**

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

		Movements in the year						
€ million	30.06.2020	Allowances	Used reversals	Unused reversals	Reclassification	First-time consolidation	Translation adjustments	30.06.2021
Provisions for restructuring	101	17	59	9	(1)	-	0	50
Other current provisions	121	19	11	11	(1)	-	(4)	113
Other non-current provisions	310	62	40	54	(20)	-	(5)	253
TOTAL PROVISIONS	**533**	**99**	**110**	**74**	**(22)**	**-**	**(9)**	**416**

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 6.5 – *Disputes*.

At 30 June 2021, the provisions recorded by the Group for all litigation and risks in which it is involved amounted to €366 million, excluding uncertain tax positions recognised in current tax liabilities. 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 (other than corporate income 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. Provision for pension 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 FY19 and FY20 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.

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 2021, fully or partly funded benefit obligations totalled €5,202 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 2020 and 30 June 2021:

	30.06.2020			30.06.2021		
€ million	**Pension commitments**	**Medical expenses and other employee benefits**	**Total**	**Pension commitments**	**Medical expenses and other employee benefits**	**Total**
Net liability/(asset) at beginning of period	(671)	147	(524)	196	145	341
Net expense/(income) for the period	26	5	30	54	4	58
Actuarial (gains)/losses (1)	916	3	919	(126)	0	(126)
Employer contributions	(53)	-	(53)	(47)	-	(47)
Benefits paid directly by the employer	(10)	(10)	(19)	(8)	(8)	(16)
Changes in scope of consolidation	2	0	2	0	(0)	(0)
Foreign currency gains and losses	(14)	(1)	(15)	(17)	(1)	(18)
Net liability/(asset) at end of period	**196**	**145**	**341**	**52**	**140**	**192**
Amount recognised in assets (2)	(265)	-	(265)	(285)	-	(285)
AMOUNT RECOGNISED IN LIABILITIES (PROVISION AT END OF PERIOD)	**460**	**145**	**605**	**337**	**140**	**477**

(1) Recognised in "Other comprehensive income".
(2) See Note 4.3 – Financial assets.

Actuarial gains and losses correspond mainly to the update of actuarial assumptions and values of plan assets.

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

	30.06.2020			30.06.2021		
Expense for the year *€ million*	**Pension commitments**	**Medical expenses and other employee benefits**	**Total**	**Pension commitments**	**Medical expenses and other employee benefits**	**Total**
Service cost	42	3	46	42	4	46
Interest on provision	(17)	4	(13)	3	4	7
• *o/w interest on the commitment*	*118*	*4*	*122*	*90*	*4*	*93*
• *o/w interest on the assets*	*(136)*	-	*(136)*	*(87)*	-	*(87)*
• *o/w interest on the limitation of the assets*	*0*	-	-	*0*	-	*0*
Fees/levies/premiums	11	-	11	8	-	8
Impact of plan amendments/Reduction of future rights	(11)	(5)	(16)	(0)	(7)	(8)
Impact of liquidation of benefits	-	-	-	0	-	0
Actuarial (gains)/losses	-	3	3	-	5	5
Effect of asset ceiling (including the impact of IFRIC 14)	-	-	-	-	-	-
NET EXPENSE/(INCOME) RECOGNISED IN PROFIT AND LOSS	**26**	**5**	**30**	**54**	**4**	**58**

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

Net liability recognised in the balance sheet *€ million*	30.06.2020			30.06.2021		
	Pension commitments	**Medical expenses and other employee benefits**	**Total**	**Pension commitments**	**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	4,965	147	5,113	5,440	145	5,584
Service cost	42	3	46	42	4	46
Interest cost (effect of unwinding of discount)	118	4	122	90	4	93
Employee contributions	4	1	5	4	1	5
Benefits paid	(257)	(10)	(268)	(257)	(8)	(265)
Administrative fees/premiums/levies	0	-	0	(0)	-	(0)
Plan amendments/reduction of future rights	(11)	(5)	(16)	(1)	(7)	(8)
Liquidation of benefits	0	-	0	0	-	0
Actuarial (gains)/losses	641	6	647	(252)	5	(247)
Currency translation adjustments	(91)	(1)	(92)	251	(1)	249
Changes in scope of consolidation	28	0	28	1	(0)	0
Other items						
ACTUARIAL VALUE OF CUMULATIVE BENEFIT OBLIGATIONS AT END OF PERIOD	**5,440**	**145**	**5,584**	**5,318**	**140**	**5,458**
Change in the fair value of plan assets						
Fair value of plan assets at beginning of period	5,645	-	5,645	5,259	-	5,259
Interest income on plan assets	136	-	136	87	-	87
Experience gains/(losses) on plan assets	(269)	-	(269)	(101)	-	(101)
Employee contributions	4	-	4	4	-	4
Employer contributions	53	-	53	47	-	47
Benefits paid	(248)	-	(248)	(249)	-	(249)
Administrative fees/premiums/levies	(12)	-	(12)	(9)	-	(9)
Plan amendments/reduction of future rights	-	-	-	(1)	-	(1)
Liquidation of benefits	-	-	-	-	-	-
Currency translation adjustments	(77)	-	(77)	269	-	269
Changes in scope of consolidation	26	-	26	0	-	0
FAIR VALUE OF PLAN ASSETS AT END OF PERIOD	**5,259**	**-**	**5,259**	**5,307**	**-**	**5,307**
Present value of funded benefits	5,335	-	5,335	5,206	-	5,206
Fair value of plan assets	5,259	-	5,259	5,307	-	5,307
Deficit/(surplus) on funded benefits	**77**	**-**	**77**	**(102)**	**-**	**(102)**
Present value of unfunded benefits	104	145	249	112	140	253
Effect of ceiling on plan assets (including the impact of IFRIC 14)	15	-	15	41	-	41
NET (ASSETS)/LIABILITIES RECOGNISED IN THE BALANCE SHEET	**196**	**145**	**341**	**52**	**140**	**192**

	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 30.06.2021	*(€ million)*	*%*	*(€ million)*	*%*	*(€ million)*	*%*	*(€ million)*	*%*	*(€ million)*	*%*
United Kingdom	4,233	78%	4,426	83%	0	0%	62	13%	(255)	89%
United States	369	7%	266	5%	0	0%	103	22%	0	0%
Canada	273	5%	301	6%	41	100%	41	9%	(28)	10%
Ireland	295	5%	208	4%	0	0%	87	18%	(1)	0%
France	130	2%	13	0%	0	0%	117	24%	0	0%
Other countries	159	3%	93	2%	0	0%	67	14%	(1)	0%
TOTAL	**5,458**	**100%**	**5,307**	**100%**	**41**	**100%**	**477**	**100%**	**(285)**	**100%**

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

	30.06.2020		30.06.2021	
Breakdown of pension assets	**Pension commitments**	**Medical expenses and other employee benefits**	**Pension commitments**	**Medical expenses and other employee benefits**
Shares	10%	Not applicable	11%	Not applicable
Bonds	10%	Not applicable	11%	Not applicable
Other money market funds	1%	Not applicable	0%	Not applicable
Property assets	2%	Not applicable	3%	Not applicable
Other items	77%	Not applicable	75%	Not applicable
TOTAL	**100%**	**NOT APPLICABLE**	**100%**	**NOT APPLICABLE**

At 30 June 2021, "Other" assets notably include the value of the insurance policy taken out with Rothesay Life covering the obligations insured as part of the buy-in conducted in FY20.

Contributions payable by the Group in FY22 in respect of funded benefits are estimated at €44 million.

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

Benefits to be paid over the next 10 years *€ million*	**Pension commitments**	**Medical expenses and other employee benefits**
2022	266	7
2023	269	6
2024	276	6
2025	285	6
2026	302	6
2027-2031	1,583	34

At 30 June 2020 and 30 June 2021, the main assumptions used for the measurement of pension obligations and other long-term employee benefits were as follows:

	30.06.2020		30.06.2021	
Actuarial assumptions in respect of commitments	**Pension commitments**	**Medical expenses and other employee benefits**	**Pension commitments**	**Medical expenses and other employee benefits**
Discount rate	1.65%	2.94%	1.97%	2.46%
Average rate of increase in annuities	3.15%	Not applicable	3.33%	Not applicable
Average salary increase	2.46%	2.62%	2.89%	3.26%
Expected increase in medical expenses				
• Initial rate	Not applicable	5.72%	Not applicable	5.18%
• Final rate	Not applicable	4.64%	Not applicable	4.00%

	30.06.2020		30.06.2021	
Actuarial assumptions in respect of the expense for the financial year	**Pension commitments**	**Medical expenses and other employee benefits**	**Pension commitments**	**Medical expenses and other employee benefits**
Discount rate	2.35%	2.98%	1.65%	2.94%
Average rate of increase in annuities	3.26%	Not applicable	3.15%	Not applicable
Average salary increase	2.63%	3.05%	2.46%	2.62%
Expected increase in medical expenses				
• Initial rate	Not applicable	6.06%	Not applicable	5.72%
• Final rate	Not applicable	4.69%	Not applicable	4.64%

Actuarial assumptions at 30.06.2021 *(pension and other commitments)* **By region**	**United Kingdom**	**United States**	**Canada**	**Eurozone countries**	**Other non-Eurozone countries**
Discount rate	1.90%	2.56%	3.13%	0.99%	3.70%
Average rate of increase in annuities	3.48%	Not applicable	Not applicable	1.67%	1.83%
Average salary increase	2.50%	2.98%	3.00%	2.66%	5.84%
Expected increase in medical expenses					
• Initial rate	5.50%	5.75%	4.61%	3.50%	Not applicable
• Final rate	5.50%	4.00%	3.56%	3.50%	Not applicable

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

- short-term rate (3-5 years): 0.00% to 0.25%;
- medium-term rate (5-10 years): 0.25% to 0.75%;
- long-term rate (more than 10 years): 0.75% to 1.20%.

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 IAS 19.

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

€ million	Pension commitments	Medical expenses and other employee benefits	Total
Commitments at 30.06.2021	5,318	140	5,458
Commitments at 30.06.2021 with a 0.5% decrease in the discount rate	5,772	151	5,923
Commitments at 30.06.2021 with a 0.5% increase in the discount rate	4,916	131	5,047

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

Post-employment medical benefits	With current rate		
€ million	With current rate	1% increase	1% decrease
On the present value of the benefit obligations at 30.06.2021	112	10	(8)
Expense for FY21	5	0	(0)

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

	30.06.2021	
€ million	Pension commitments	Medical expenses and other employee benefits
Amounts of experience losses or (gains) on benefit obligations	(21)	(4)
Percentage compared with amounts of benefit obligations	-0.4%	-3.2%
Amounts of financial assumption losses or (gains) on benefit obligations	(187)	9
Percentage compared with amounts of benefit obligations	-3.5%	6.3%
Amounts of demographic assumption losses or (gains) on benefit obligations	(44)	1
Percentage compared with amounts of benefit obligations	-0.8%	0.5%
Amounts of experience losses or (gains) on plan assets	101	-
Percentage compared with amounts of plan assets	1.9%	0.0%
Amounts of experience losses or (gains) on the limitation on assets	24	-
Percentage compared with amounts of plan assets	0.5%	0.0%
Average duration	16.40	14.13

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.

IFRS 16 (Leases)

The Group assesses whether a contract is, or contains, a lease if the contract conveys, at inception, the right to control the use of an identified asset for a set period of time in exchange for consideration.

The lease liability is initially calculated at the present value of the future lease payments. The discount rates are based on the Group's borrowing rate plus a spread to take into account country-specific economic environments. They are estimated in each currency using available market data. They take into account the term of the leases. Lease payments may include fixed or variable payments that depend on a rate or index known at the commencement date of the lease.

The period used to calculate the lease liability corresponds to the non-cancellable term of the contract, unless it is reasonably certain that the Group will exercise a renewal option beyond this period. The probability of exercising an option is determined on a lease-by-lease basis, taking into account Management's intentions. This liability is then calculated at amortised cost using the effective interest rate method.

Leases are recognised in the balance sheet from the commencement date. They are presented in "Lease liabilities" with a corresponding entry in "Property, plant and equipment", depending on the nature of the underlying asset (see Note 4.1 – *Property, plant and equipment*). Lease liabilities comprise a current and non-current portion on the basis of the expected future payments.

In the income statement, depreciation expenses are recognised on the basis of the use of the underlying asset and interest expenses are presented in financial income/(expense).

In the cash flow statement, repayments of lease liabilities are reported under "Lease repayments" in cash flow from financing activities, while interest payments are reported under "Interest paid" in cash flow from operating activities.

The Group has chosen not to apply IFRS 16 to leases corresponding to assets with a low unit replacement value or to short-term leases. These leases are recognised directly in expenses.

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

1. Breakdown of net financial debt by nature and maturity

	30.06.2020			30.06.2021		
€ million	Current	Non-current	Total	Current	Non-current	Total
Bonds	**723**	**8,599**	**9,322**	**70**	**8,787**	**8,857**
Syndicated loan	-	-	-	-	-	-
Commercial paper	299	-	299	7	-	7
Other loans and financial debts	81	192	273	115	108	222
Other financial liabilities	**380**	**192**	**572**	**122**	**108**	**229**
GROSS FINANCIAL DEBT	**1,103**	**8,791**	**9,894**	**192**	**8,894**	**9,086**
Fair value hedge derivatives instruments – assets	(3)	(40)	(44)	-	(22)	(22)
Fair value hedge derivatives instruments – liabilities	-	-	-	-	-	-
Fair value hedge derivatives	**(3)**	**(40)**	**(44)**	**-**	**(22)**	**(22)**
Net investment hedge derivatives – assets	-	(13)	(13)	-	(43)	(43)
Net investment hedge derivatives – liabilities	-	-	-	-	-	-
Net asset hedging derivative instruments	**-**	**(13)**	**(13)**	**-**	**(43)**	**(43)**
FINANCIAL DEBT AFTER HEDGING	**1,100**	**8,737**	**9,837**	**192**	**8,830**	**9,022**
Cash and cash equivalents	**(1,935)**	**-**	**(1,935)**	**(2,078)**	**-**	**(2,078)**
NET FINANCIAL DEBT EXCLUDING LEASE LIABILITIES	**(835)**	**8,737**	**7,902**	**(1,886)**	**8,830**	**6,944**
Lease liability	**88**	**433**	**522**	**103**	**405**	**508**
NET FINANCIAL DEBT	**(747)**	**9,171**	**8,424**	**(1,783)**	**9,235**	**7,452**

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

		Changes in cash flows	Changes in cash flows with no cash impact				
€ million	30.06.2020	Total cash flow	Scope	Translation adjustments	Change in fair value	Other items	30.06.2021
Bonds	**9,322**	**(258)**	**-**	**(223)**	**16**	**-**	**8,857**
Syndicated loan	-	-	-	-	-	-	-
Commercial paper	299	(292)	-	-	-	-	7
Other loans and financial debts	273	(41)	-	(10)	-	-	222
GROSS FINANCIAL DEBT	**9,894**	**(591)**	**-**	**(233)**	**16**	**-**	**9,086**
Fair value hedge derivatives instruments – assets	(44)	-	-	-	22	-	(22)
Fair value hedge derivatives	**(44)**	**-**	**-**	**-**	**22**	**-**	**(22)**
Economic net investment hedge derivatives – assets	(13)	-	-	(29)	-	-	(43)
Economic net investment hedge derivatives	**(13)**	**-**	**-**	**(29)**	**-**	**-**	**(43)**
FINANCIAL DEBT AFTER HEDGING	**9,837**	**(591)**	**-**	**(262)**	**38**	**-**	**9,022**
Cash and cash equivalents	(1,935)	(154)	-	11	-	-	(2,078)
Net financial debt excluding lease liabilities	**7,902**	**(745)**	**-**	**(251)**	**38**	**-**	**6,944**
Lease liability	522	(97)	-	2	-	81	508
NET FINANCIAL DEBT	**8,424**	**(842)**	**-**	**(249)**	**38**	**81**	**7,452**

2. Breakdown of debt excluding lease liabilities by currency before and after foreign exchange hedging instruments at 30 June 2020 and 30 June 2021

30.06.2020 *€ million*	Gross financial debt	Amount hedged	Debt after hedging	Cash	Net debt after hedging	% debt after hedging	% Net debt after hedging
EUR	5,635	(515)	5,120	(1,322)	3,797	52%	48%
USD	4,214	621	4,835	(60)	4,774	49%	60%
GBP	-	(96)	(96)	(37)	(134)	-1%	-2%
SEK	3	(124)	(122)	(31)	(152)	-1%	-2%
Other currencies	42	58	101	(485)	(384)	1%	-5%
FINANCIAL DEBT BY CURRENCY	**9,894**	**(57)**	**9,837**	**(1,935)**	**7,902**	**100%**	**100%**

30.06.2021 *€ million*	Gross financial debt	Amount hedged	Debt after hedging	Cash	Net debt after hedging	% debt after hedging	% Net debt after hedging
EUR	5,350	135	5,484	(1,273)	4,211	61%	61%
USD	3,677	(119)	3,558	(36)	3,522	39%	51%
GBP	-	12	12	(30)	(18)	0%	0%
SEK	2	(72)	(70)	(38)	(108)	-1%	-2%
Other currencies	57	(19)	37	(700)	(663)	0%	-10%
FINANCIAL DEBT BY CURRENCY	**9,086**	**(64)**	**9,022**	**(2,078)**	**6,944**	**100%**	**100%**

3. Breakdown of fixed-rate/floating rate debt (excluding lease liabilities) before and after interest rate hedging instruments at 30 June 2020 and 30 June 2021

	30.06.2020				30.06.2021			
€ million	Debt before hedging		Debt after hedging		Debt before hedging		Debt after hedging	
Fixed-rate debt	9,146	93%	8,431	86%	8,975	99%	8,302	92%
Capped floating-rate debt	-	-	-	-	-	-	-	-
Floating-rate debt	691	7%	1,406	14%	47	1%	720	8%
FINANCIAL DEBT AFTER HEDGING BY TYPE OF RATE	**9,837**	**100%**	**9,837**	**100%**	**9,022**	**100%**	**9,022**	**100%**

At 30 June 2021, before taking account of any hedges, the Group's gross debt was 99% fixed rate and 1% floating rate. After hedging, the floating-rate part was 8%.

4. Schedule of financial liabilities at 30 June 2021

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 2020 and 30 June 2021.

30.06.2020 *€ 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	-	(9,804)	(336)	(673)	(1,378)	(753)	(1,038)	(1,688)	(3,939)
Interest	-	(1,740)	(119)	(127)	(217)	(142)	(127)	(118)	(862)
GROSS FINANCIAL DEBT	**(9,894)**	**(11,544)**	**(455)**	**(799)**	**(1,595)**	**(895)**	**(1,165)**	**(1,806)**	**(4,801)**
LEASE LIABILITY	**(522)**	**(599)**	**(40)**	**(49)**	**(97)**	**(75)**	**(56)**	**(49)**	**(233)**
Cross currency swaps	-	-	-	-	-	-	-	-	-
Flows payable	-	-	-	-	-	-	-	-	-
Flows receivable	-	-	-	-	-	-	-	-	-
Derivative instruments – liabilities	(24)	(25)	(23)	(2)	-	-	-	-	-
DERIVATIVE INSTRUMENTS LIABILITIES	**(24)**	**(25)**	**(23)**	**(2)**	**-**	**-**	**-**	**-**	**-**
TOTAL FINANCIAL LIABILITIES	**(10,440)**	**(12,169)**	**(518)**	**(851)**	**(1,692)**	**(970)**	**(1,221)**	**(1,854)**	**(5,034)**

30.06.2021 *€ 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		(9,061)	(63)	(60)	(690)	(1,017)	(1,667)	(1,122)	(4,442)
Interest		(1,856)	(87)	(95)	(168)	(154)	(144)	(119)	(1,088)
GROSS FINANCIAL DEBT	**(9,086)**	**(10,917)**	**(151)**	**(155)**	**(858)**	**(1,171)**	**(1,811)**	**(1,241)**	**(5,531)**
LEASE LIABILITY	**(508)**	**(572)**	**(42)**	**(69)**	**(90)**	**(66)**	**(56)**	**(47)**	**(202)**
Cross currency swaps	-								
Flows payable		-	-	-	-	-	-	-	-
Flows receivable		-	-	-	-	-	-	-	-
Derivative instruments – liabilities	(6)	(6)	(6)	-	-	-	-	-	-
DERIVATIVE INSTRUMENTS LIABILITIES	**(6)**	**(6)**	**(6)**	**-**	**-**	**-**	**-**	**-**	**-**
TOTAL FINANCIAL LIABILITIES	**(9,600)**	**(11,495)**	**(199)**	**(224)**	**(948)**	**(1,236)**	**(1,867)**	**(1,288)**	**(5,733)**

5. Credit lines

At 30 June 2021, credit lines mainly comprised the multi-currency syndicated loan of €2,500 million and a €600 million bilateral line. No drawdowns have been made from these credit lines.

6. Bonds

Nominal amount	Interest rate	Issue date	Maturity	Carrying amount at 30.06.2021 *(€ million)*
800 MUSD	4.25%	12.01.2012	15.07.2022	696
500 MEUR	1.88%	28.09.2015	28.09.2023	506
500 MEUR	0.00%	24.10.2019	24.10.2023	499
650 MEUR	2.13%	29.09.2014	27.09.2024	659
250 MEUR	1.13%	27.04.2020	07.04.2025	253
750 MEUR	1.13%	01.04.2020	07.04.2025	746
600 MEUR	1.50%	17.05.2016	18.05.2026	599
600 MUSD	3.25%	08.06.2016	08.06.2026	509
500 MEUR	0.50%	24.10.2019	24.10.2027	499
600 MUSD	1.25%	01.10.2020	01.04.2028	502
250 MEUR	1.75%	27.04.2020	08.04.2030	264
750 MEUR	1.75%	01.04.2020	08.04.2030	747
900 MUSD	1.63%	01.10.2020	01.04.2031	751
500 MEUR	0.88%	24.10.2019	24.10.2031	495
850 MUSD	5.50%	12.01.2012	15.01.2042	720
500 MUSD	2.75%	01.10.2020	01.10.2050	409
TOTAL BONDS				**8,857**

7. 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 30.06.2020 *€ 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	2,125	(190)	1,935	-	-	-
Liabilities						
Bank debts	786	(190)	596	-	-	-

30.06.2021 *€ 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	2,290	(212)	2,078	-	-	-
Liabilities						
Bank debts	441	(212)	229	-	-	-

Note 4.9 Financial instruments

1. Fair value of financial instruments

		Breakdown by accounting classification				30.06.2020	
€ million	**Measurement level**	**Fair value – profit**	**Fair value through equity**	**Assets at amortised cost**	**Liabilities at amortised cost**	**Balance sheet value**	**Fair value**
Assets							
Equity instruments	Levels 1 and 3	-	93	-	-	93	93
Guarantees, deposits, investment-related receivables		-	-	156	-	156	156
Trade receivables and other operating receivables		-	-	906	-	906	906
Other current assets	Level 2	-	-	323	-	323	323
Derivative instruments – assets	Level 1	53	13	-	-	66	66
Cash and cash equivalents		1,935	-	-	-	1,935	1,935
Liabilities							
Bonds		-	-	-	9,322	9,322	9,749
Bank debts		-	-	-	572	572	572
Lease liabilities		-	-	-	522	522	522
Derivative instruments – liabilities	Level 2	24	-	-	-	24	24

		Breakdown by accounting classification				30.06.2021	
€ million	**Measurement level**	**Fair value – profit**	**Fair value through equity**	**Assets at amortised cost**	**Liabilities at amortised cost**	**Balance sheet value**	**Fair value**
Assets							
Equity instruments	Levels 1 and 3	-	286	-	-	286	286
Guarantees, deposits, investment-related receivables		-		106	-	106	106
Trade receivables and other operating receivables		-		1,126	-	1,126	1,126
Other current assets		-		413	-	413	413
Derivative instruments – assets	Level 2	29	43	-	-	72	72
Cash and cash equivalents	Level 1	2,078	-	-	-	2,078	2,078
Liabilities							
Bonds		-	-	-	8,857	8,857	9,399
Bank debts		-	-	-	229	229	229
Lease liabilities		-	-	-	508	508	508
Derivative instruments – liabilities	Level 2	6	-	-	-	6	6

The methods used are as follows:

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

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

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

In accordance with IFRS 13, derivatives were measured taking into account the Credit Valuation Adjustment (CVA) and the Debt Valuation Adjustment (DVA). The measurement is based on historical data (rating of counterparty banks and probability of default). At 30 June 2021, the impact was not significant.

2. Risk management

Management and monitoring of financial risks is performed by the Financing and Treasury Department. 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 2021, the Group's cash and cash equivalents totalled €2,078 million (compared with €1,935 million at 30 June 2020). An additional €3,360 million of renewable medium-term credit facilities with banks was confirmed and undrawn. 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 also set up a €7 billion EMTN (Euro Medium Term Note) programme in May 2020. The Group's short-term financial debt after hedging was €349 million at 30 June 2021 (compared to €1,100 million at 30 June 2020).

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 Baa1/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 2021, 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 2021, the delayed availability cash amounted to €138 million, including €135 million relating to Cuba. The monetary unification reform that led to the replacement of the convertible peso (CUC) by the Cuban peso (CUP) from 1 January 2021 has no material impact on the Group's financial statements at 30 June 2021.

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 expenses published in euros in the consolidated financial statements, and this could adversely 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 2021, 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.

Maturity of debt and floating-rate EUR hedges (*notional value*)

At 30.06.2021 *€ million*	< 1 year	> 1 year and < 5 years	> 5 years	Total
Total assets (cash)	1,273	-	-	1,273
Total floating-rate liabilities	(35)	3	(0)	(32)
NET FLOATING-RATE DEBT BEFORE HEDGING	**1,238**	**3**	**(0)**	**1,241**
Derivative instruments	(177)	43	-	(135)
NET FLOATING-RATE DEBT AFTER HEDGING	**1,061**	**46**	**(0)**	**1,107**

Maturity of the debt and floating-rate USD hedges (*notional value*)

At 30.06.2021 *€ million*	< 1 year	> 1 year and < 5 years	> 5 years	Total
Total assets (cash)	36	-	-	36
Total floating-rate liabilities	(49)	(17)	-	(65)
NET FLOATING-RATE DEBT BEFORE HEDGING	**(12)**	**(17)**	**-**	**(29)**
Derivative instruments	98	(652)	-	(554)
NET FLOATING-RATE DEBT AFTER HEDGING	**85**	**(668)**	**-**	**(583)**

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 €5 million.

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

A relative change of plus or minus 50 basis points in interest rates (USD and EUR) would not generate any gain or loss on shareholders' equity.

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

At 30 June 2021, 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.

Hedging instruments (by risk category and nature of hedge)

		Notional amount of contracts				Fair value	
Type of hedge at 30.06.2020 *€ million*	**Description of the financial instrument**	**< 1 year**	**> 1 year and < 5 years**	**> 5 years**	**Total**	**Assets**	**Liabilities**
Fair value hedge						**44**	**-**
Interest rate risk hedges	Swaps	357	536	179	1,072	44	-
Interest rate and currency risk hedges	Cross currency swaps	-	-	-	-	-	-
Net investment hedge		**-**	**-**	**-**	**-**	**13**	**-**
Currency risk hedges	NDF & FX options	-	-	-	-	-	-
Interest rate and currency risk hedges	Cross currency swaps	-	460	-	460	13	-
DERIVATIVE INSTRUMENTS INCLUDED IN NET DEBT						**57**	**-**
Cash flow hedge						**0**	**3**
Interest rate risk hedges	Swaps	179	-	-	179	-	3
Hedging of currency risk on intragroup financing and operational hedging	Currency swaps	38	-	-	38	0	0
Commodity risk hedges	Forwards	7	2	-	9	0	0
Non hedge accounting		**-**	**-**	**-**	**-**	**9**	**21**
Hedging of currency risk on intragroup financing and operational hedging	Currency swaps and FX forwards	1,821	-	-	1,821	4	10
Interest rate risk hedges	Swaps	1,250	-	-	1,250	5	11
TOTAL DERIVATIVE INSTRUMENTS						**66**	**24**
TOTAL NON-CURRENT						**54**	**0**
TOTAL CURRENT						**12**	**24**

		Notional amount of contracts				Fair value	
Type of hedge at 30.06.2021 *€ million*	**Description of financial instrument**	**< 1 year**	**> 1 year and < 5 years**	**> 5 years**	**Total**	**Assets**	**Liabilities**
Fair value hedge						**22**	**-**
Interest rate risk hedges	Swaps	-	673	-	673	22	-
Interest rate and currency risk hedges	Cross currency swaps	-	-	-	-	-	-
Net investment hedge						**43**	**-**
Currency risk hedges	FX forwards	-	-	-	-	-	-
Interest rate and currency risk hedges	Cross currency swaps	-	460	-	460	43	-
DERIVATIVE INSTRUMENTS INCLUDED IN NET DEBT						**64**	**-**
Cash flow hedge						**2**	**0**
Interest rate risk hedges	Swaps	-	-	-	-	-	-
Hedging of currency risk on intragroup financing and operational hedging	Currency swaps and FX forwards and FX options	20	-	-	20	1	-
Commodity risk hedges	Swaps	17	-	-	17	2	0
Non hedge accounting						**6**	**6**
Hedging of currency risk on intragroup financing and operational hedging	Currency swaps and FX forwards	1,494	-	-	1,494	6	6
Interest rate risk hedges	Swaps	-	-	-	-	-	-
TOTAL DERIVATIVE INSTRUMENTS						**72**	**6**
TOTAL NON-CURRENT						**65**	**0**
TOTAL CURRENT						**8**	**6**

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 2021 are not ineffective.

Hedged items (by category and nature of hedge)

Type of hedging at 30.06.2020 *€ million*	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 CFH derivatives in OCI
	Assets	Liabilities	Assets	Liabilities			
FAIR VALUE HEDGE (FVH)							
Interest rate risk							
Fixed-rate Bonds hedged	-	1,087	44	-	Bonds	N/A	N/A
End of hedging	-	-	5	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)	0
End of hedging	-	-	-	-	N/A	(6)	11
Currency risk	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Future foreign currency sales hedges	N/A	N/A	N/A	N/A	N/A	(0)	0
End of hedging	-	-	-	-	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	447	-	N/A	N/A	N/A	N/A	N/A
End of hedging	-	-	-	-	N/A	-	-

N/A: not applicable.

Type of hedge at 30.06.2021 *€ million*	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 CFH derivatives in OCI
	Assets	Liabilities	Assets	Liabilities			
FAIR VALUE HEDGE (FVH)							
Interest rate risk							
Fixed-rate Bonds hedged	-	682	22	-	Bonds	N/A	N/A
End of hedging	-	-	-	-	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
End of hedging	-	-	-	-	N/A	(6)	-
Currency risk							
Future foreign currency sales hedges	N/A	N/A	N/A	N/A	N/A	1	1
End of hedging	-	-	-	-	N/A	-	-
Commodity risk							
Commodity risk hedges	N/A	N/A	N/A	N/A	N/A	1	1
NET INVESTMENT HEDGE (NIH)							
Net assets hedged	421	-	N/A	N/A	N/A	N/A	N/A
End of hedging	-	-	-	-	N/A	-	-

N/A: not applicable.

Note 4.11 Other operating payables

Other current liabilities are broken down as follows:

€ million	30.06.2020	30.06.2021
Taxes and social payables	628	718
Other operating payables	388	416
TOTAL	**1,016**	**1,134**

Other current liabilities at 30 June 2021 mainly comprise the interim dividend payment of €347 million on 9 July 2021. Most of these other current liabilities are due within one year.

Note 4.12 Assets held for sale and related liabilities

The Group does not hold significant assets held for sale as defined by IFRS 5 as at 30 June 2021.

Note 5 Notes to the cash flow statement

1. Working capital requirement

Working capital requirements increased by €54 million. The change breaks down as follows:

- increase in inventory: +€305 million;
- increase in trade receivables: +231 million;
- increase in operating and other payables: €(500) million;
- other movements: +€18 million.

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

2. Purchases of financial assets and activities

The acquisitions of financial assets and activities net of disposals generated a cash outflow of €(116) million, mainly related to acquisitions and disposals of activities in the period, related in particular to the transactions described in paragraph 2.1 of Note 1.2 – *Significant events during the financial year*.

3. Issuance/redemption of Bonds

During the financial year, the Group Pernod Ricard carried out bond issuance/subscriptions for €1,788 million and bond redemptions for €2,379 million. These transactions mainly correspond to the bond subscriptions and redemptions described in paragraph 2.2 of Note 1.2 – *Significant events during the financial year*.

In addition, the Group decreased the stock of commercial paper for €292 million.

The Group also paid €110 million in respect of its lease liabilities, of which €97 million related to repayment of the nominal amount and €12 million to interest payments reported in cash flow from operating activities.

Note 6 Additional information

Note 6.1 Shareholders' equity

1. Share capital

In July 2020, the Group reduced its share capital by cancelling 3,545,032 shares previously held that were acquired under the share buyback programme. Following this transaction, the share capital changed to €405,908,668, divided into 261,876,560 shares with a par value of €1.55 each:

	Number of shares	Amount *(€ million)*
Share capital on 30.06.2020	265,421,592	411
Share capital on 30.06.2021	261,876,560	406

All Pernod Ricard shares are issued and fully paid up and have a nominal value of €1.55. Only one class of 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 2021, Pernod Ricard and its controlled affiliates held 1,005,331 Pernod Ricard shares for a value of €133 million. These treasury shares are reported, at 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). These shares may be allocated if options are exercised under the stock option plans or, in the case of bonus shares, if performance targets are met.

3. Interim dividend

At its meeting of 21 April 2021, the Board of Directors decided to pay an interim dividend of €1.33 per share in respect of FY21, *i.e.* a total of €347 million. The interim dividend was paid on 9 July 2021 and recognised under "Other current liabilities" in the balance sheet at 30 June 2021.

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 IFRS 2 (Share-based payments) to transactions whose award and settlement are share-based.

Pursuant to this standard, stock options and performance 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.

Description of share-based payment plans

The Group implements stock option and performance 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 FY21, three share allocation plans were set up on 27 November 2020:

- a stock option plan including a performance condition based on the positioning of the overall performance of the Pernod Ricard share (TSR) compared [1] with the overall performance of a panel of 12 peers over the period from 27 November 2020 to 27 November 2023 inclusive (three years) and a condition of four years' continuous service;
- a performance share plan, including a performance condition based on the average level of Profit from Recurring Operations achieved compared with the budget, measured over three consecutive financial years including the year in which the shares were granted and a condition of four years' continuous service;
- a performance share 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 27 November 2020 to 27 November 2023 inclusive (three years) and a condition of four years' continuous service.

(1) *Total Shareholder Return.*

The expense recognised for options/shares vested or in the process of being vested during the financial year (period from 1 July 2020 to 30 June 2021) is described below:

Stock options	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 30.06.2021	Stock option expense for FY21 (€ thousand)
Plan dated 17.11.2016	Purchase	Conditional	16	18.11.2020	17.11.2024	€105.81	75,872	115
Plan dated 09.11.2017	Purchase	Conditional	15	10.11.2021	09.11.2025	€126.53	77,253	465
Plan dated 21.11.2018	Purchase	Conditional	15	22.11.2022	21.11.2026	€137.78	103,629	495
Plan dated 08.11.2019	Purchase	Conditional	14	09.11.2023	08.11.2027	€162.79	125,578	741
Plan dated 27.11.2020	Purchase	Conditional	14	28.11.2024	27.11.2028	€154.11	136,711	474

Performance shares	Type of shares	Presence of performance condition	Number of beneficiaries	Shares acquired from	Shares vested from	Outstanding shares at 30.06.2021	Share expense for FY21 (€ thousand)
Plan dated 17.11.2016	Free	Conditional	997	18.11.2020	18.11.2020	0	3,104
Plan dated 17.11.2016	Free	Unconditional	6	33% 18.11.2017 33% 18.11.2018 33% 18.11.2019	33% 18.11.2019 33% 18.11.2020 33% 18.11.2021	0	0(1)
Plan dated 09.11.2017	Free	Conditional	1,000	10.11.2021	10.11.2021	186,345	4,541
Plan dated 21.11.2018	Free	Conditional	958	22.11.2022	22.11.2022	192,817	5,536
Plan dated 08.11.2019	Free	Conditional	820	09.11.2023	09.11.2023	166,420	5,552
Plan dated 27.11.2020	Free	Conditional	754	28.11.2024	28.11.2024	267,666	4,886

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

The history of stock option plans that have not yet expired is presented in the "Corporate governance" section of the universal registration document.

For the vested stock option plans, the total number of options outstanding is 145,047, with an average remaining life of two years and eight months.

As at 30 June 2021, the Group recognised an expense of €2.3 million as an operating loss for the five stock option plans vested or in the process of vesting during the financial year, as well as an expense of €23.6 million in respect of the five performance share plans.

Annual expenses *€ million*	30.06.2020	30.06.2021
Stock options – through a double entry to equity	3	2
Performance-based and bonus shares – through a double entry to equity	18	24
TOTAL ANNUAL EXPENSES	**20**	**26**

Changes made to outstanding stock options/shares during the year (period from 1 July 2020 to 30 June 2021) are described below:

	Type of options	Presence of performance condition	Outstanding options at 30.06.2020	Allocated during the period	Cancelled during the period	Exercised during the period	Expired during the period	Outstanding options at 30.06.2021
Plan dated 06.11.2015	Purchase	Conditional	114,893	0	0	45,718	0	69,175
Plan dated 17.11.2016	Purchase	Conditional	124,502	0	6,677	41,953	0	75,872
Plan dated 09.11.2017	Purchase	Conditional	124,050	0	46,797	0	0	77,253
Plan dated 21.11.2018	Purchase	Conditional	109,492	0	5,863	0	0	103,629
Plan dated 08.11.2019	Purchase	Conditional	131,864	0	6,286	0	0	125,578
Plan dated 27.11.2020	Purchase	Conditional	0	136,711	0	0	0	136,711

	Type of shares	Presence of performance condition	Outstanding shares at 30.06.2020	Allocated during the period	Cancelled during the period	Transferred during the period	Expired during the period	Outstanding shares at 30.06.2021
Plan dated 17.11.2016	Free	Conditional	366,522	0	7,120	359,402	0	0
Plan dated 09.11.2017	Free	Conditional	200,523	0	14,178	0	0	186,345
Plan dated 21.11.2018	Free	Conditional	208,312	0	15,495	0	0	192,817
Plan dated 08.11.2019	Free	Conditional	175,706	0	9,286	0	0	166,420
Plan dated 27.11.2020	Free	Conditional	0	270,838	3,172	0	0	267,666

The average strike price of options exercised during FY21 was €104.24.

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 27.11.2020	Purchase	Conditional	159.70	154.11	20.60%	1.97%	0.00%	23.53
Plan dated 27.11.2020	Free	Conditional	159.70	N/A	20.20%	1.97%	0.00%	91.46
Plan dated 27.11.2020	Free	Conditional	159.70	N/A	N/A	1.97%	N/A	147.60

N/A: not applicable

(1) Closing share price at grant date.

The fair values are fixed upon implementation of each plan and do not vary year on year. In addition, only the values relating to the plans allocated during FY21 are presented above (information on previous plans is available in the previous universal 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 27 November 2020 are all conditional 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: the stock options will be pre-vested on 27 November 2023, 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 27 November 2024.

Two performance share plans were granted on 27 November 2020. In one case, the 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 shares granted will depend on the average level of Group Profit from recurring operations for the financial years ended 30 June 2021, 30 June 2022 and 30 June 2023 compared with budgeted Profit from Recurring Operations for each of those financial 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 the other plan takes account of the same market performance condition as applied to the stock options allocated on 27 November 2020: 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 27 November 2020 to 27 November 2023 inclusive (three years). Vesting will be final as of 28 November 2024 if the continuous service condition is met on 27 November 2024.

Note 6.3 Off-balance sheet commitments

€ million	Total	< 1 year	> 1 year and < 5 years	> 5 years
Commitments given at 30.06.2020	**2,367**	**851**	**1,316**	**200**
Commitments given in relation to companies within the Group	***5***	***3***	***2***	***-***
Investment commitments	5	3	2	-
Commitments given as part of specific transactions	-	-	-	-
Other items	-	-	-	-
Commitments given in relation to the financing of the Company	***25***	***8***	***11***	***6***
Financial guarantees given	25	8	11	6
Other items	-	-	-	-
Commitments relating to the operating activities of the issuer	***2,337***	***841***	***1,303***	***194***
Firm and irrevocable commitments to purchase raw materials	1,972	576	1,275	121
Tax commitments (customs guarantees and others)	309	228	9	71
Operating lease agreements	8	3	3	1
Other items	49	33	15	1

(1) *Total Shareholder Return.*

€ million	Total	< 1 year	> 1 year and < 5 years	> 5 years
Commitments received at 30.06.2020	**3,443**	**38**	**3,370**	**35**
Commitments received in relation to companies within the Group	***1***	***0***	***0***	***0***
Commitments received as part of specific transactions in relation to competition and markets	-	-	-	-
Other items	1	0	0	0
Commitments received in relation to the financing of the Company	***3,399***	***36***	***3,362***	***1***
Lines of credit received and not used	3,360	0	3,360	-
Financial guarantees received	39	36	2	1
Other items	0	0	-	-
Commitments relating to the operating activities of the issuer	***43***	***2***	***7***	***34***
Contractual commitments related to business activity and business development	41	2	6	33
Other items	2	0	1	1

€ million	Total	< 1 year	> 1 year and < 5 years	> 5 years
Commitments given at 30.06.2021	**2,340**	**870**	**1,332**	**138**
Commitments given in relation to companies within the Group	***3***	***1***	***1***	***-***
Investment commitments	3	1	1	-
Commitments given as part of specific transactions	-	-	-	-
Other items	-	-	-	-
Commitments given in relation to the financing of the Company	***29***	***22***	***1***	***6***
Financial guarantees given	29	22	1	6
Other items	-	-	-	-
Commitments relating to the operating activities of the issuer	***2,308***	***846***	***1,330***	***133***
Firm and irrevocable commitments to purchase raw materials	2,006	628	1,307	70
Tax commitments (customs guarantees and others)	249	179	9	61
Leases	10	4	4	1
Other items	44	34	9	1

€ million	Total	< 1 year	> 1 year and < 5 years	> 5 years
Commitments received at 30.06.2021	**3,450**	**40**	**3,368**	**42**
Commitments received in relation to companies within the Group	***0***	***-***	***0***	***-***
Commitments received as part of specific transactions in relation to competition and markets	-	-	-	-
Other items	0	-	0	-
Commitments received in relation to the financing of the Company	***3,401***	***36***	***3,363***	***1***
Lines of credit received and not used	3,360	0	3,360	-
Financial guarantees received	41	36	3	1
Other items	0	0	-	-
Commitments relating to the operating activities of the issuer	***49***	***4***	***4***	***41***
Contractual commitments related to business activity and business development	47	4	4	40
Other items	2	0	0	1

1. Lines of credit received and not used

The lines of credit received and not used correspond primarily to the nominal amounts of the syndicated loan and a bilateral credit line not drawn at 30 June 2021 (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, the Group's main affiliates have signed raw material supply agreements, mainly for *eaux-de-vie*, grapes, base wines and grain.

Note 6.4 Contingent liabilities

Pernod Ricard has received several notices of tax adjustment for the financial years 2007 to 2016, specifically concerning, for an amount of 8,231 million Indian rupees (equivalent to €93.2 million, including interest as of the date of the reassessment), the tax deductibility of promotion and advertising expenses. It should be noted that the level and amount of this risk have been gradually and significantly reduced in recent years and that the Company obtained two court rulings in its favour in FY20 for the period from FY07 to FY14. These court decisions further strengthen Pernod Ricard India's position on the tax deductibility of advertising and promotional expenses. Reassured by these decisions and after consulting with its tax advisers, Pernod Ricard India will continue to dispute 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 individual and group 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 2021 for all litigation and risks in which it is involved amounted to €366 million, compared with €431 million at 30 June 2020 (see Note 4.7 – *Provisions*), excluding uncertain tax positions recognised in current tax liabilities. 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 six 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 Organisation (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 trademark registration 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 in 2016: one to dismiss all actions commenced against them and one to expedite proceedings on certain issues. Both applications have been fully disclosed and are awaiting a decision by the Court.

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 by a court on 14 August 2017 has been suspended by the Supreme Court. The Company continues to actively work with the authorities and courts to resolve pending issues.

Pernod Ricard India (P) 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 FY20, Pernod Ricard India (P) obtained two court rulings in its favour in FY20 for the period from FY07 to FY14, strengthening its position on the tax deductibility of advertising and promotional expenses.

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 4.5 – *Provisions*) or in current tax liabilities (see Note 3.3 – *Corporate income tax*), when it is probable that a present obligation resulting from a past event will require a settlement the amount of 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

Two separate complaints were filed before the Colombian Competition Agency (the Superintendencia De Industria Y Comercio) on 14 November 2017 by the Department of Cundinamarca (Colombia) and its wholly owned distilling company Empresa de Licores de Cundinamarca against Pernod Ricard SA, Pernod Ricard Colombia SA and a competitor company. An additional complaint was filed in September 2019 by the departments of Valle and Antioquia (as well as its wholly-owned distillation companies). 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 damages corresponding to the loss of profits and taxes over the period 2013/17 (2019 in the case of Valle and Antioquia).

Pernod Ricard intends to vigorously defend itself against these allegations. These recent complaints contain 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 financial year ended 30 June 2021.

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

€ million	30.06.2020	30.06.2021
Board of Directors (1)	1	1
Group Executive Committee		
• Short-term benefits	15	10
• Post-employment benefits	5	2
• Share-based payments (2)	5	5
TOTAL EXPENSES RECOGNISED FOR THE FINANCIAL YEAR	**26**	**19**

(1) Directors' compensation.

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

Moreover, the Executive Director is eligible for the following termination compensation:

- 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

On August 23, 2021, the US Court of Appeals for the Federal Circuit handed down its ruling in favour of the National Association of Manufacturers. The impact of this favourable court ruling on the Pernod Ricard Group's financial statements at June 30, 2021 is presented in Note 2.3 - *Other significant events during the financial year*.

On 31 August 2021, the Group entered into an agreement to acquire a minority stake in Sovereign Brands, owner of a rapidly growing portfolio of super-premium wine and spirits brands. The latter comprises mainly the brands Luc Belaire (French sparkling wines), Bumbu (a range of rum-based products from the Caribbean), the Brazilian gin McQueen and the Violet Fog, and the French liqueur Villon. This equity investment is the first step in a long-term partnership aimed at generating commercial opportunities between Sovereign Brands and Pernod Ricard, such as the study of possible joint industrial and commercial projects.

Note 6.8 Fees of the Statutory Auditors and members of their networks for the 12-month financial year(1)

	KPMG			Deloitte & Associés			Other items			Total		
	Amount (excluding tax)			Amount (excluding tax)			Amount (excluding tax)			Amount (excluding tax)		
€ million	**FY20**	**FY21**	**%**	**FY20**	**FY21**	**%**	**FY20**	**FY21**	**%**	**FY20**	**FY21**	**%**
Audit												
Statutory Auditors, certification, review of separate and consolidated financial statements (3)												
Issuer (2)	0.6	0.7	18%	0.7	0.7	15%	0.0	0.0	0%	1.2	1.3	16%
Fully consolidated affiliates	2.6	2.5	69%	3.4	3.4	76%	0.2	0.1	82%	6.2	6.0	73%
SUBTOTAL	**3.2**	**3.1**	**87%**	**4.0**	**4.1**	**91%**	**0.2**	**0.1**	**82%**	**7.4**	**7.4**	**89%**
Services other than the certification of financial statements (4)												
Issuer (2)	0.1	0.1	2%	0.6	0.2	5%	0.0	0.0	0%	0.7	0.3	3%
Fully consolidated affiliates	0.7	0.4	11%	0.3	0.2	4%	0.0	0.0	18%	0.9	0.6	8%
including legal, tax, corporate	*0.5*	*0.4*	*10%*	*0.2*	*0.2*	*4%*	*0.0*	*0.0*	*0%*	*0.7*	*0.5*	*6%*
SUBTOTAL	**0.8**	**0.5**	**13%**	**0.9**	**0.4**	**9%**	**0.0**	**0.0**	**18%**	**1.7**	**0.9**	**11%**
TOTAL	**4.0**	**3.6**	**100%**	**4.9**	**4.5**	**100%**	**0.2**	**0.2**	**100%**	**9.1**	**8.3**	**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.*

Note 7 Consolidation scope

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 Consolidation scope

The main changes to the Group's scope of consolidation at 30 June 2021 are presented in Note 1.2 – *Significant events during the financial year*.

Note 7.2 List of main consolidated companies

Companies	Country	% interest 30.06.2020	% interest 30.06.2021	Consolidation method ***
Pernod Ricard SA	France	Parent Company	Parent Company	
Laurenskirk (Pty) Ltd	South Africa	80	80	FC
Pernod Ricard South Africa PTY Ltd	South Africa	100	100	FC
Black Forest Distillers GmbH	Germany	60	100	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*	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 SpA	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
Bodeboca SL	Spain	100	100	FC
Drinksandco Marketplace, SLU	Spain	100	100	FC
Pernod Ricard España	Spain	100	100	FC
Pernod Ricard Winemakers Espana, SAU	Spain	100	100	FC
Vermuteria de Galicia	Spain	0	80	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
Castle Brands, Inc.	United States	100	100	FC
Del Maguey Inc.	United States	62.36	62.36	FC
Firestone & Robertson Distilling Company LLC	United States	100	100	FC
Pernod Ricard Americas IP Management LLC	United States	100	100	FC
Pernod Ricard Americas Travel Retail LLC	United States	100	100	FC

Companies	Country	% interest 30.06.2020	% interest 30.06.2021	Consolidation method ***
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, LLC	United States	100	100	FC
PRUSA Acquisitions LLC	United States	100	100	FC
Rabbit Hole Spirits, LLC	United States	80	80	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
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 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

Companies	Country	% interest 30.06.2020	% interest 30.06.2021	Consolidation method ***
Irish Distillers International LTD	Ireland	100	100	FC
Pernod Ricard Italia SPA	Italy	100	100	FC
The Kyoto Distillery KK*	Japan	35	51	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 UAB	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
Seagram Myanmar Company Ltd*	Myanmar	34	34	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
Pernod Ricard Peru SA	Peru	100	100	FC
Pernod Ricard Philippines, Inc.	Philippines	70	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 – Karlovarska 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**	United Kingdom	100	100	FC
Chivas Brothers International Ltd**	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**	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
Italicus Ltd	United Kingdom	50.1	50.1	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

Companies	Country	% interest 30.06.2020	% interest 30.06.2021	Consolidation method ***
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 Ic ve Dis Ticaret Limited Sirketi	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

* *The companies Corby Spirit and Wine Limited, The Kyoto Distillery KK and Seagram Myanmar Company Ltd are consolidated using the full consolidation method because of the Group's majority controlling interest in them.*

** *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.

*** *"FC" for fully consolidated.*

**** *The merger of Pernod SAS and Ricard SAS, announced during the financial year, took effect on 1 July 2020.*