HALF-YEAR FINANCIAL REPORT

31 DECEMBER 2018

Pernod Ricard

Créateurs de convivialité

CONTENTS

1/ Certification by the person assuming responsibility for the half-year financial report

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

Alexandre Ricard

Chairman & CEO

2/ Half-year activity report

The quote ''Restated'' only refers to the restatments provided on FY18 financial statements in compliance with IFRS 15 (see below detail in Note 1.4.1 of the Appendices to the condensed consolidated interim financial statements). The data are affected by IFRS 15, if and only if this quote is mentioned.

1. Significant events in half year FY19

There were no significant acquisitions or disposals during the first half of FY19.

2. Key figures and business analysis

Sales for H1 FY19 totalled €5,185m, with **organic growth of +7.8%** and **reported growth of +5.0%**, due to negative FX.

Growth continued to be dynamic, thanks to the consistent implementation of the **medium-term growth roadmap**:

- **good diversified growth**
- **strong price / mix**, in particular on the Strategic International Brands
- positive impact of **earlier Chinese New Year**[1] which will unwind in H2
- **significant progress on FY16-20 Operational Excellence roadmap**: expectation is to complete €200m P&L savings by end June 2019, one year agead of plan

Strong dynamism was due to:

- **Americas:** robust growth **+4%,** with USA growing broadly in line with market
- **Asia-Rest of World:** strong acceleration **+16%,** thanks to China and India (with both markets further enhanced by technical factors[2]) and Africa Middle-East
- **Europe: stable** overall, with continued momentum in Eastern Europe but contrasted performance in Western Europe

Very strong performance across portfolio, with strong price/mix at +2.3%:

- **Strategic International Brands: +10%,** strong growth driven by Martell, Jameson Scotch, Gin and Champagne and strong price/mix effect (+5.9%)
- **Strategic Local Brands: +11%,** acceleration thanks to Seagram's Indian whiskies (including positive pricing)
- **Specialty: +11%** with very strong growth of Lillet, Monkey 47 and Altos
- **Strategic Wines: -8%,** due to implementation of value strategy and high comparison basis on Campo Viejo (+23% in H1 FY18).

Q2 Sales were €2,798m, with +5.6% organic growth (+3.2% reported), following a Q1 that was enhanced by phasing and the comparison base.

H2 growth is expected to moderate due to wholesaler inventory optimisation in USA, a commercial dispute in France and Germany, and Martell sustainable growth management.

H1 FY19 PRO[3] was €1,654m, with organic growth of +12.8% and **+10.6% reported**. For full-year FY19, the **FX impact on PRO[3] is estimated at c. +€30m[4].**

The H1 organic PRO margin was up very significantly, by +148bps, thanks to:

- **very strong topline growth**
- **Gross margin expansion +71bps,** partially favoured by earlier CNY
    - **improved pricing** driven by Martell, Seagram's Indian Whiskies, Chivas, Jameson and Perrier-Jouët
    - **negative mix** impact due to acceleration of Seagram's Indian Whiskies, although their margin is improving
    - **COGS inflationary pressure** mostly offset by **Operational excellence** initiatives
- **A&P: +5%** with reduction in A&P ratio due to H1/H2 phasing
- **Structure cost discipline** : **+5%.**

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[1] Chinese New Year (CNY) on 5 February 2019 vs. 16 February 2018

[2] CNY timing for China; low comparison basis due to lapping highway ban in Q1 FY18 for India

[3] PRO: Profit from Recurring Operations; A&P: Advertising & Promotional expenditure

[4] Based on average FX rates projected on 24 January 2019, particularly a EUR/USD rate of 1.14

H2 margin to be softer due to managing Martell growth sustainability, finished goods' inventory optimisation in USA and A&P phasing.

The H1 FY19 corporate income **tax rate** on recurring items was **c.25%;** the rate is expected at c. 26% **for full-year FY19**.

Group share of Net PRO was €1,105m, +11% reported vs. H1 FY18, thanks mainly to excellent improvement in PRO.

Group share of Net profit was €1,023m, -11% reported vs. H1 FY18, despite excellent improvement in PRO due to non-recurring items (one-off Scotch bulk sale, tax reimbursement and re-evaluation in of deferred tax pursuant to the USA tax reform.)

Free Cash Flow was €585m, in decline vs. H1 FY18 (due to non-reccuring one-offs in H1 FY18). Net debt decreased by €152m vs. H1 FY17 to €7,223m at 31 December 2018 despite the €93m increase in the dividend payment. The **Net Debt/EBITDA** ratio at average rates[5] was **down significantly to 2.6x** at 31 December 2018.

The average **cost of debt was 3.8% for H1 FY19 and** expected at c. 3.9% for full year FY19.

A. Profit from Recurring Operations

(€ million)	31.12.2017 Restated 6 months	31.12.2018 6 months	Reported growth In M€	Reported growth In %	Organic* growth In M€	Organic* growth In %
Net sales	4,937	5,185	248	5%	378	8%
Gross margin after logistics expenses	3,027	3,239	212	7%	270	9%
Advertising and promotion expenses	(771)	(799)	(28)	4%	(40)	5%
Contribution after advertising and promotion	2,257	2,440	184	8%	230	10%
Profit from Recurring Operations	1,496	1,654	**158**	**11%**	**193**	**13%**

*At constant forex and Group structure (organic growth)

Pernod Ricard's H1 FY19 consolidated net sales (excluding tax and duties) increased +7.8% to €5,185, compared to €4,937m in H1 FY18 restated:

- **Robust growth in the Americas** (+4% vs. +6% in H1 FY18 restated), with US growing broadly in line with the market
- **Very dynamic growth** (+16% vs. +7% in H1 FY18 restated), thanks to China and India, with both markets further enhanced by technical factors[6], and Africa Middle East
- **Continued strong momentum in Eastern Europe but contrasted performance in Western Europe** (+0% vs. +3% in H1 FY18 restated)
- **Strong growth on Strategic International Brands** (+10% vs. +5% in H1 FY18 restated), driven by Martell, Jameson, Scotch, Gin and Champagne and strong price effect
- **Acceleration of Strategic Local Brands** (+11% vs. +5% in H1 FY18 restated), thanks to Seagram's Indian Whiskies
- **Speciality** (+11% vs. +14% in H1 FY18 restated) **very strong growth of Lillet, Monkey 47 and Altos**
- **Decline on Strategic Wines** (-8% vs. +5% in H1 FY18) due to the implementation of the value strategy in the UK and a high basis of comparison on Campo Viejo

Gross margin after logistics expenses totalled €3,239 million, representing organic growth of +9%. The gross margin ratio expanded to 62.5% (+71bps on an organic basis), partially favoured by the earlier CNY. This improvement was driven by:

- **Improved pricing** driven by Martell, Seagram's Indian Whiskies, Chivas, Jameson and Perrier-Jouët
- **Negative mix** impact due to acceleration of Seagram's Indian Whiskies, although their margin is improving
- **COGS inflationary pressure** mostly offset by **Operational excellence** initiatives

Advertising and Promotional investment increased +5%, with a reduction in the A&P ratio due to H1/H2 phasing

The Contribution after advertising and promotional investments reached €2,440 million (+10%). This represented 47.1% of sales, up +107bps on an organic basis compared to H1 FY18.

[5] Based on average EUR/USD rates: 1.18 in 2018 vs. 1.13 in 2017

[6] *China: impact of earlier* Chinese New Year (5 February 2019 vs. 16 February 2018), India: low comparison basis due to lapping highway ban in Q1 FY18

Profit from Recurring Operations (PRO) grew +12.8% (+148bps), an excellent performance driven by Gross margin improvement and structure cost discipline , further enhanced by H1 phasing of CNY and A&P.

H2 margin to be softer due to managing Martell growth sustainability, finished goods' inventory optimisation in USA and A&P phasing

Business activity by geographic area

Americas

(€ million)	31.12.2017 Restated 6 months	31.12.2018 6 months	Reported growth In M€	Reported growth In %	Organic* growth In M€	Organic* growth In %
Net sales	1,369	1,389	20	1%	51	4%
Gross margin after logistics expenses	908	942	34	4%	29	3%
Advertising and promotion expenses	(283)	(276)	8	-3%	4	-1%
Contribution after advertising and promotion	625	666	42	7%	33	5%
Profit from Recurring Operations	**423**	**470**	**47**	**11%**	**36**	**8%**

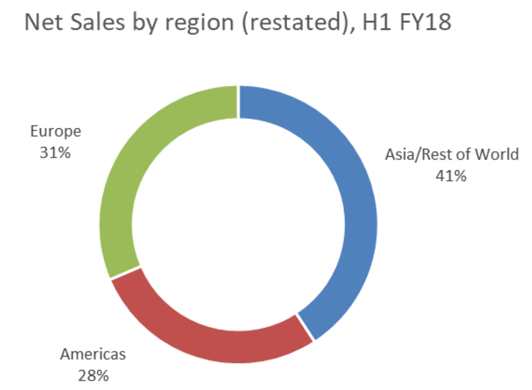
Asia/Rest of World

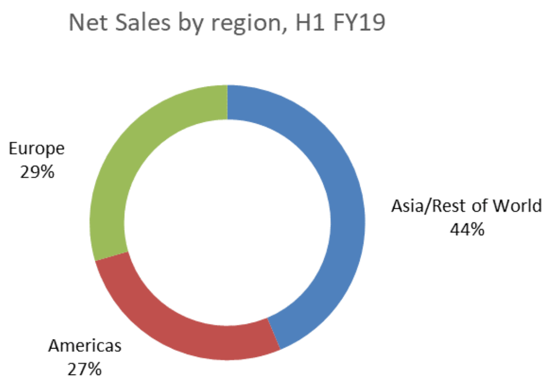
(€ million)	31.12.2017 Restated 6 months	31.12.2018 6 months	Reported growth In M€	Reported growth In %	Organic* growth In M€	Organic* growth In %
Net sales	2,015	2,266	251	12%	323	16%
Gross margin after logistics expenses	1,166	1,353	187	16%	231	20%
Advertising and promotion expenses	(279)	(309)	(30)	11%	(37)	13%
Contribution after advertising and promotion	887	1,044	157	18%	194	22%
Profit from Recurring Operations	**628**	**766**	**138**	**22%**	**167**	**26%**

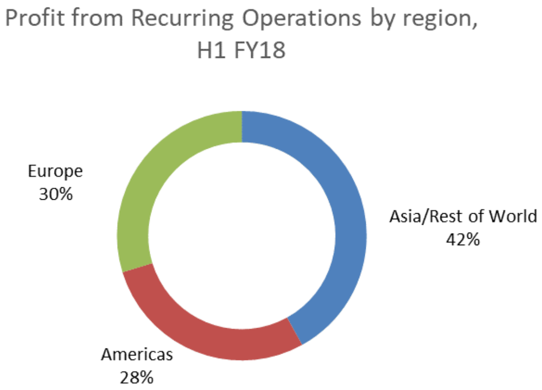
Europe

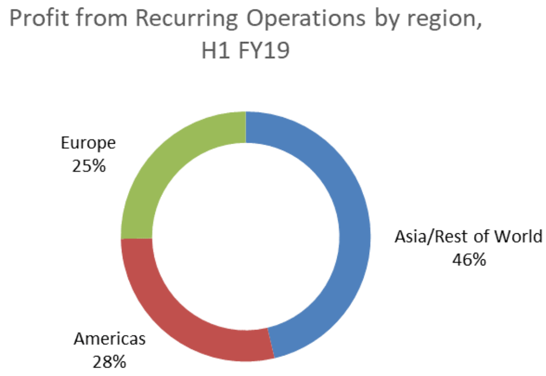
(€ million)	31.12.2017 Restated 6 months	31.12.2018 6 months	Reported growth In M€	Reported growth In %	Organic* growth In M€	Organic* growth In %
Net sales	1,552	1,530	(23)	-1%	4	0%
Gross margin after logistics expenses	953	944	(9)	-1%	9	1%
Advertising and promotion expenses	(208)	(214)	(6)	3%	(7)	3%
Contribution after advertising and promotion	745	730	(15)	-2%	2	0%
Profit from Recurring Operations	**445**	**418**	**(27)**	**-6%**	**(10)**	**-2%**

*At constant forex and Group structure (organic growth)









Profit from Recurring Operations (PRO) in the **Americas** grew +8%[1] (+11% reported), thanks to:

- **Robust organic Sales growth**, with USA growing in line with the market
- **Gross margin rate in slight decline** due to negative mix and Agave cost inflation
- **A&P** at -1% due to phasing of investments to support priority brands (in particular Martell and Jameson in USA)
- **Structure cost increase below that of Sales**, thanks to strong discipline
- **Positive FX** impact linked to USD strength vs. Euro

PRO in the **Asia / Rest of World** region grew +26%[1] (+22% reported), thanks to:

- **Sales acceleration** driven by China (with earlier CNY to unwind in H2) and India
- **Significant Gross margin expansion** due mainly to price increases (Martell & Seagram's Indian whiskies)
- **A&P increase** broadly in line with topline growth, supporting key campaigns, particularly on Martell and Chivas in China
- Structure cost growth reflecting **targeted investment in growth relays**
- **Negative FX impact** mainly due to weaker Turkish Lira and Indian Rupee vs. Euro

In **Europe**, PRO slightly declined -2%[1] (-6% reported) driven by:

- **Sales growth stable**, with continued strong momentum in Eastern Europe but contrasted performance in Western Europe
- **Gross margin increase** thanks to operational excellence initiatives and positive mix (UK / Central Europe) and prices (particularly Germany and UK)
- **A&P increase** in support of Strategic brands with increased H1 weighting, which will unwind in H2
- **Structure costs** at +c.1%, thanks to strong discipline
- **Negative FX impact** mainly due to weaker Russian Ruble vs. Euro

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

B. Group share of Net Profit from Recurring Operations

(€ million)	31.12.2017 6 months	31.12.2018 6 months
Profit from Recurring Operations	1,496	1,654
Financial income/(expenses) from recurring operations	(153)	(157)
Corporate income tax on recurring operations	(333)	(379)
Net Profit from discontinued operations, non-controlling interests and share of net profit from equity associates	(16)	(13)
Group share of Net Profit from Recurring Operations	**994**	**1,105**
Group Net Profit per share from recurring operations – diluted (in euro)	**3,74**	**4,16**

Net financial expenses from recurring operations
Net financial expenses from recurring operations totalled €(157) million, a 2% increase on the comparable period. The average cost of debt increased to 3.8% (vs. 3.4% H1 FY18). For Full Year FY19, the cost of debt is expected to be c. 3.9% (as anticipated in 29 August 2018 communication).

Net debt
Net debt was €7,223 million at 31 December 2018 compared to €6,962 million at 30 June 2018, an increase of €260 million. This was due to Cash Generation offset by by an increase in dividend payout (full payout in H1), M&A mainly linked to Jumia minority stake acquisition and a translation adjustment (EUR/USD rate 1.15 at 31/12/2018 vs. 1.17 at 30/06/2018) on USD-denominated debt (54% of Gross Debt as of 31/12/2018).

Income tax on recurring operations
Income tax from recurring operations amounted to €(379) million, equating to a tax rate close to 25%, in line with FY18. For Full Year FY19, a tax rate close to 26% is expected (as anticipated in 29 August 2018 communication).

Group share of net profit from recurring operations
Group share of Net Profit from Recurring Operations amounted to €1,105 million at 31 December 2018, an increase of +11% compared to H1 FY18.

C. Group share of Net Profit

(€ million)	31.12.2017 6 months	31.12.2018 6 months
Profit from Recurring Operations	1,496	1,654
Other operating income and expenses	62	(66)
Operating profit	**1,558**	**1,588**
Financial income/(expenses) from recurring operations	(153)	(157)
Other financial income/(expenses)	4	1
Corporate income tax	(246)	(397)
Net Profit from discontinued operations, non-controlling interests and share of net profit from equity associates	(16)	(13)
Group share of Net Profit	**1,147**	**1,023**

Other operating income and expenses

Other operating income and expenses amounted to €(66) million at 31 December 2018.

Group share of net profit
Group share of net profit was €1,023 million, a decrease of -11%.

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

The major risks and uncertainties Pernod Ricard Group faces are listed under chapter "Risk management" of the 2017/18 Registration Document, available from the website of the Autorité des Marchés Financiers and from the Pernod Ricard website.

4. Outlook

For full-year FY19, in uncertain environment, Pernod Ricard expects:

- **good diversified growth** to continue
- **H2 growth to moderate** due to Martell sustainable growth management, wholesaler inventory optimisation in USA, and commercial dispute in France and Germany
- continuation of **good price-mix**
- **faster completion of €200m** FY16-20 operational excellence roadmap P&L savings: by end FY19
- c.**50 bps organic improvement in PRO margin**
    - **FX** impact of c.+€30m[7] on PRO

Upgrade of FY19 Guidance to Organic growth in PRO between +6% and +8%

TRANSFORM & ACCELERATE 3-YEAR PLAN

"Transform & Accelerate" started in FY19 with the objective of embedding dynamic growth and improving operational leverage, in line with the objective of maximising long term value creation.

FY19-21 ambition:

- **+4% to +7% topline growth**, leveraging key competitive advantages and consistent investment behind key priorities
- focus on **pricing and building on operational excellence initiatives, with new plan aiming at delivering savings of €100m by FY21**
- strong **A&P investment, maintained at c.16% of Sales,** with careful arbitration to support must-win brands and markets while stimulating innovation
- **discipline on Structure costs**, investing in priorities while maintaining agile organisation, with growth below topline growth rates
- **Operating leverage of c.50-60 bps, provided topline is in +4 to +7% bracket.**

REMINDER OF FINANCIAL POLICY

- progressively increase **dividend distribution to c. 50%** of Net profit from Recurring Operations by FY20 (NB FY18 dividend at 41%)
- commitment to **active portfolio management and value-creating M&A** while retaining **investment grade** rating.

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

Definitions and link-up of alternative performance indicators with IFRS indicators are described in the Management report of the Registration Document 2017/18.

6. Main related party transactions

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

[7] Based on average FX rates projected on 24 January 2019, particularly a EUR/USD rate of 1.14

3/ Condensed consolidated interim financial statements

The quote ''Restated'' only refers to the restatments provided on FY18 financial statements in compliance with IFRS 15 (see below detail in Note 1.4.1 of the Appendices to the condensed consolidated interim financial statements). If the informations are disclosed without this quote, it means that they are not affected by IFRS 15.

1. Half-year consolidated income statement

(€ million)	31.12.2017 Restated	31.12.2018	Notes
Net sales	4,937	5,185	3
Cost of sales	(1,910)	(1,946)	3
Gross margin after logistics expenses	**3,027**	**3,239**	3
Advertising and promotion expenses	(771)	(799)	
Contribution after advertising and promotion expenses	**2,257**	**2,440**	
Structure costs	(761)	(786)	
Profit from recurring operations	**1,496**	**1,654**	
Other operating income/(expenses)	62	(66)	4
Operating profit	**1,558**	**1,588**	
Financial expenses	(172)	(174)	5
Financial income	23	18	5
Financial income/(expenses)	**(149)**	**(156)**	
Corporate income tax	(246)	(397)	6
Share of net profit/(loss) of associates	-	0	
Net profit	**1,163**	**1,036**	
o/w:			
- Non-controlling interests	16	14	
- Group share	**1,147**	**1,023**	
Earnings per share - basic (*in euros*)	4,34	3,87	7
Earnings per share - diluted (*in euros*)	4,32	3,85	7

2. Half-year consolidated statement of comprehensive income

(€ million)	31.12.2017	31.12.2018	Notes
Net profit for the period	**1,163**	**1,036**	
Non-recyclable items			
Actuarial gains/(losses) related to defined benefit plans	**122**	**(15)**	
Amounts recognised in shareholders' equity	159	(18)	12
Tax impact	(37)	3	
Equity instruments	**0**	**-**	
Unrealized gains and losses recognised in shareholders' equity	0	-	
Tax impact	(0)	-	
Recyclable items			
Net investment hedges	**4**	**(2)**	
Amounts recognised in shareholders' equity	4	(2)	
Tax impact	-	-	
Cash flow hedges	**8**	**5**	
Amounts recognised in shareholders' equity [(1)]	12	8	
Tax impact	(4)	(3)	
Translation differences	**(321)**	**59**	
Other comprehensive income for the period, net of tax	**(188)**	**47**	
Comprehensive income for the period	**976**	**1,083**	
o/w:			
- Group share	964	1,069	
- Non-controlling interests	12	14	

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

3. Consolidated balance sheet

Assets

(€ million)	30.06.2018	31.12.2018	Notes
Net amounts			
Intangible assets	11,539	11,627	8
Goodwill	5,319	5,371	8
Property, plant and equipment	2,424	2,433	
Non-current financial assets	886	958	12
Inv estments in associates	11	15	
Non-current deriv ativ e instruments	2	2	
Deferred tax assets	1,556	1,571	6
Non-current assets	**21,737**	**21,976**	
Inv entories and work in progress	5,472	5,515	9
Trade receiv ables and other operating receiv ables	1,122	1,991	
Income taxes receiv able	177	80	
Other current assets	280	282	11
Current deriv ativ e instruments	17	18	
Cash and cash equiv alents	754	910	13
Current assets	**7,821**	**8,797**	
Assets held for sale	0	6	
Total assets	**29,558**	**30,779**	

Liabilities

(€ million)	30.06.2018	31.12.2018	Notes
Capital	411	411	17
Share premium	3,052	3,052	
Retained earnings and currency translation adjustments	9,757	10,993	
Group net profit	1 577	1,023	
Group shareholders' equity	**14,797**	**15,479**	
Non-controlling interests	181	180	
Total shareholders' equity	**14,978**	**15,659**	
Non-current prov isions	448	424	12
Prov isions for pensions and other long-term employee benefits	526	522	12
Deferred tax liabilities	2,593	2,697	6
Bonds-non-current	6,777	6,865	13
Other non-current financial liabilities	463	455	13
Non-current deriv ativ e instruments	31	20	
Total non-current liabilities	**10,838**	**10,983**	
Current prov isions	143	133	12
Trade payables	1,951	2,214	
Income taxes payable	225	238	
Other current liabilities	960	750	15
Bonds-current	93	96	13
Other current financial liabilities	360	700	13
Current deriv ativ e instruments	11	6	
Total current liabilities	**3,743**	**4,137**	
Liabilities related to assets held for sale	-	-	
Total liabilities and shareholders' equity	**29,558**	**30,779**	

4. Statement of changes in shareholders' equity

(€ million)	Capital	Additional paid-in capital	Consolidated reserves	Actuarial gains and losses	Changes in fair value	Currency translation adjustments	Treasury shares	Equity attributable to equity holders of the Parent	Non - controlling interests	Total shareholders' equity
Opening position on 01.07.2017	**411**	**3,052**	**11,014**	**(198)**	**(56)**	**(208)**	**(309)**	**13,706**	**180**	**13,886**
Comprehensive income for the period	-	-	1 147	122	8	(313)	-	**964**	12	**976**
Capital increase	-	-	-	-	-	-	-	**-**	-	**-**
Share-based payments	-	-	18	-	-	-	-	**18**	-	**18**
(Acquisition)/disposal of treasury shares	-	-	-	-	-	-	(19)	**(19)**	-	**(19)**
Sale and repurchase agreements	-	-	-	-	-	-	(13)	**(13)**	-	**(13)**
Dividends distributed	-	-	(284)	-	-	-	-	**(284)**	(8)	**(292)**
Changes in scope of consolidation	-	-	-	-	-	-	-	**-**	-	**-**
Other transactions with minority interests	-	-	-	-	-	-	-	**-**	1	**1**
Other movements	-	-	0	-	-	-	-	**0**	(0)	**0**
Closing position on 31.12.2017	**411**	**3,052**	**11,895**	**(76)**	**(48)**	**(521)**	**(341)**	**14,372**	**184**	**14,556**

(€ million)	Capital	Additional paid-in capital	Consolidated reserves	Actuarial gains and losses	Changes in fair value	Currency translation adjustments	Treasury shares	Equity attributable to equity holders of the Parent	Non - controlling interests	Total shareholders' equity
Opening position on 01.07.2018	**411**	**3 052**	**12 022**	**59**	**(38)**	**(380)**	**(329)**	**14 797**	**181**	**14 978**
Restatement for IFRS 9[1]	**-**	**-**	(1)	**-**	**-**	**-**	**-**	**(1)**	**-**	**(1)**
Opening position on 01.07.2018 restated	**411**	**3 052**	**12 022**	**59**	**(38)**	**(380)**	**(329)**	**14 797**	**181**	**14 977**
Comprehensive income for the period	-	-	1 023	(15)	5	56	-	**1 069**	14	**1 083**
Capital increase	-	-	-	-	-	-	-	**-**	-	**-**
Share-based payments	-	-	18	-	-	-	-	**18**	-	**18**
(Acquisition)/disposal of treasury shares	-	-	-	-	-	-	(45)	**(45)**	-	**(45)**
Sale and repurchase agreements	-	-	-	-	-	-	(2)	**(2)**	-	**(2)**
Dividends distributed	-	-	(357)	-	-	-	-	**(357)**	(14)	**(371)**
Changes in scope of consolidation	-	-	-	-	-	-	-	**-**	-	**-**
Other transactions with minority interests	-	-	-	-	-	-	-	**-**	-	**-**
Other movements	-	-	(0)	-	-	-	-	**(0)**	0	**(0)**
Closing position on 31.12.2018	**411**	**3 052**	**12 705**	**44**	**(33)**	**(324)**	**(376)**	**15 479**	**180**	**15 659**

[1]Financial impact of IFRS 9 amendments disclosed in the Note 1.4.2 of the appendices to the consolidated financial statement

5. Consolidated cash flow statement

(€ million)	31.12.2017	31.12.2018	Notes
Cash flow from operating activities			
Group net profit	1,147	1,023	
Non-controlling interests	16	14	
Share of net profit/(loss) of associates, net of div idends receiv ed	(0)	(0)	
Financial (income)/expenses	149	156	5
Tax (income)/expenses	246	397	6
Net profit from discontinued operations	-	-	
Depreciation of fixed assets	106	111	
Net change in prov isions	(17)	4	
Net change in impairment of goodwill, property, plant and equipment and intangible assets	1	26	
Changes in fair v alue of commercial deriv ativ es	(2)	(5)	
Changes in fair v alue of biological assets	-	0	
Net (gain)/loss on disposal of assets	(39)	(1)	4
Share-based payment	18	18	18
Self-financing capacity before financing interest and taxes	**1,625**	**1,740**	
Decrease/(increase) in working capital requirements	(436)	(654)	16
Interests paid	(163)	(170)	
Interests receiv ed	17	17	
Taxes paid/receiv ed	(118)	(220)	
Net change in cash flow from operating activities	**925**	**712**	
Cash flow from investing activities			
Capital expenditure	(135)	(136)	
Proceeds from disposals of property, plant and equipment and intangible assets	5	6	
Change in scope of consolidation	-	-	
Purchases of financial assets and activ ities	(35)	(100)	
Disposals of financial assets and activ ities	46	0	16
Net change in cash flow from investing activities	**(118)**	**(230)**	
Cash flow from financing activities			
Div idends and interim div idends paid	(543)	(636)	17
Other changes in shareholders' equity	-	-	
Issuance of debt	601	485	16
Repayment of debt	(650)	(141)	16
(Acquisition)/disposal of treasury shares	(32)	(54)	
Other transactions with non-controlling interests	-	-	
Net change in cash flow from financing activities	**(625)**	**(347)**	
Cash flow from non-current assets held for sale	-	-	
Increase/(decrease) in cash and cash equivalents before foreign exchange impact	**182**	**135**	
Restatment for IFRS 15 on opening position		16	
Effect of exchange rate changes	27	4	
Increase/(decrease) in cash and cash equivalents after foreign exchange impact	**209**	**156**	
Cash and cash equivalents at beginning of period	**677**	**754**	
Cash and cash equivalents at end of period	**886**	**910**	

6. Notes to the consolidated financial statements

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

On 6 February 2019, the Board of Directors approved the condensed consolidated interim financial statements ended 31 December 2018.

Unless otherwise indicated :

- All elements related to the period ended 31 December 2017 to the condensed consolidated interim financial statements are restated in compliance with the application of IFRS 15 (see Note 1.4.1- *IFRS 15 – Revenue from Contracts with Customers*) ;
- The quote "Restated" only refers to the 2017/18 financial statements restated as required by the implementation of IFRS 15.

Note 1 – Accounting policies

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

Because of its listing in a country of the European Union (EU), and in accordance with EC regulation 1606/2002, the condensed consolidated interim financial statements of the Group for the first half-year ended 31 December 2018 have been prepared in accordance with IAS 34 (interim financial reporting) of the IFRS (International Financial Reporting Standards) as adopted by the European Union.

The Group has not anticipated any standards, amendments or interpretations published by the IASB but not yet approved or not yet mandatory in the European Union, as of 31 December 2018.

Note that:

- the Group's financial year runs from 1 July to 30 June;
- condensed consolidated interim financial statements were prepared in accordance with the same accounting principles and methods as those used in the preparation of the annual consolidated financial statements at 30 June 2018, subject to the changes in accounting standards listed under section 1.3;
- the condensed consolidated interim financial statements do not include all the information required in the preparation of the consolidated financial statements and must be read in conjunction with the consolidated financial statements at 30 June 2018.

Estimates — The preparation of consolidated financial statements in accordance with IFRS requires that Management makes a certain number of estimates and assumptions, which have an impact on the Group's assets, liabilities and shareholders' equity and items of profit and loss during the financial year. These estimates are made on the assumption that the company will continue as a going concern, and are based on information available at the time of their preparation. Estimates may be revised where the circumstances on which they were based change or where new information becomes available. Future outcomes can differ from these estimates. At 31 December 2018, the Management was not aware of any factors likely to call into question estimates and assumptions used in the preparation of full-year consolidated financial statements at 30 June 2018.

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

Hyperinflation **–** Under the provisions of IAS 29, Argentina is considered to be a hyperinflationary economy with effect from 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.

1.2 Seasonality

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

1.3 Changes in accounting standards

Standards, amendments and interpretations whose implementation is mandatory from 1July 2018

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

- IFRS 15, "*Revenue from contracts with customers*": See Note 1.4.1 below;
- IFRS 9, "*Financial Instruments*": See Note 1.4.2 below;
- Amendments to IFRS 2, "*Classification and measurement of share-based payment transactions*";
- IFRIC 22, "*Foreign currency transactions and advance consideration*".
- Amendments to IAS 28 "Investments in associates and joint ventures";
- The IFRS improvements cycle 2014-2016.

Other than IFRS 15 and IFRS 9, whose impacts are described in Notes 1.4.1. and 1.4.2., these amendments and interpretations have no impact on the Group's financial statements.

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

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

- **IFRS 16 "*Leases*"** :

The Group will apply the retrospective transition approach by recording the cumulative effect of the initial application of the standard on the date of first-time application. The choice of this transition approach means that no restatement shall be made to comparative information from previous periods;

We have finalised the recording of leases and the collection of the data required to estimate the effect of IFRS 16 on the Group's results and financial position, and a financial statement impact assessment is under way.

The scale of the application of IFRS 16 is reflected in the figures for operating lease commitments (see amount as at 30 June 2018 under Note 6.3 to the consolidated financial statements for the 2017/2018 financial year). Nevertheless, given the changes to standards and the assumptions used by the Group, lease commitments may not be entirely representative of the lease liabilities that will be recorded in application of IFRS 16.

- **IFRIC 23 "*Uncertainty over income tax treatments*"**
- **Amendments to IFRS 9 "*Prepayment features with negative compensation*";**
- **The IFRS improvements cycle 2015-2017.**

1.4 Impact of the first-time application of IFRS 15 and IFRS 9

1.4.1 IFRS 15 – *Revenue from contracts with customers*

This new standard replaces previous provisions, including IAS 11 "Construction contracts" and IAS 18 "Revenue".

The Group applied the full retrospective approach when transitioning to the new standard in its financial statements from 1 July 2018. The comparative periods are presented following restatement for the impact of this standard, with the exception of the Balance Sheet and Cash Flow Statement, for which the impact is not significant. As at 30 June 2018, the main impacts of IFRS 15 on the Balance Sheet related to a €16 million cash increase, and a WCR reduction of the same amount.

Its application did not have a significant impact on the recognition of net sales. In particular, it had no impact on:

- profit from Recurring Operations;
- the event triggering recognition of net sales.

The following two main topics have been identified as being impacted:

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

The impacts of this standard on the comparative financial statements are shown below.

Accounting policies amended following the application of IRFS 15

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 and promotional activities at point of sale, and advertising and promotion 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.

Restatments of financial statements

Consolidated income statement at 31 December 2017 closing

(€ million)	31.12.2017 Published	IFRS 15 Restatment	31.12.2017 Restated
Net sales	5,082	(145)	4,937
Cost of sales	(1,883)	(27)	(1,910)
Gross margin after logistics expenses	**3 200**	**(172)**	**3,027**
Adv ertising and promotion expenses	(930)	159	(771)
Contribution after advertising and promotion expenses	**2,270**	**(13)**	**2,257**
Structure costs	(774)	13	(761)
Profit from recurring operations	**1,496**	**-**	**1,496**
Other operating income/(expenses)	62	-	62
Operating profit	**1,558**	**-**	**1,558**
Financial expenses	(172)	-	(172)
Financial income	23	-	23
Financial income/(expenses)	**(149)**	**-**	**(149)**
Corporate income tax	(246)	-	(246)
Share of net profit/(loss) of associates	0	-	-
Net profit	**1,163**	**-**	**1,163**
o/w:			
- Non-controlling interests	16	-	16
- Group share	**1,147**	**-**	**1,147**
Earnings per share - basic (in euros)	4,34	-	4,34
Earnings per share - diluted (in euros)	4,32	-	4,32

Consolidated income statement at 30 June 2018 closing

(€ million)	30.06.2018 Published	IFRS 15 Restatment	30.06.2018 Restated
Net sales	8,987	(265)	8,722
Cost of sales	(3,383)	(50)	(3,433)
Gross margin after logistics expenses	**5,604**	**(315)**	**5,289**
Adv ertising and promotion expenses	(1,720)	291	(1,429)
Contribution after advertising and promotion expenses	**3,884**	**(24)**	**3,860**
Structure costs	(1,526)	24	(1,502)
Profit from recurring operations	**2,358**	**-**	**2,358**
Other operating income/(expenses)	(62)	-	(62)
Operating profit	**2,296**	**-**	**2,296**
Financial expenses	(375)	-	(375)
Financial income	74	-	74
Financial income/(expenses)	**(301)**	**-**	**(301)**
Corporate income tax	(392)	-	(392)
Share of net profit/(loss) of associates	-	-	-
Net profit	**1,603**	**-**	**1,603**
o/w:			
- Non-controlling interests	26	-	26
- Group share	**1,577**	**-**	**1,577**
Earnings per share - basic (in euros)	5,97	-	5,97
Earnings per share - diluted (in euros)	5,94	-	5,94

Business activity by geographic area on financial half-year ended 31 December 2017

Group

(€ million)	31.12.2017 Published	IFRS 15 Restatment	31.12.2017 Restated
Net sales	5,082	(145)	4,937
Gross margin after logistics expenses	3 200	(172)	3,027
Advertising and promotion expenses	(930)	159	(771)
Contribution after advertising and promotion	2,270	(13)	2,257
Profit from Recurring Operations	**1,496**	**-**	**1,496**

Americas

(€ million)	31.12.2017 Published	IFRS 15 Restatment	31.12.2017 Restated
Net sales	1,399	(29)	1,369
Gross margin after logistics expenses	937	(29)	908
Advertising and promotion expenses	(299)	16	(283)
Contribution after advertising and promotion	638	(13)	625
Profit from Recurring Operations	**423**	**-**	**423**

Asia/Rest of World

(€ million)	31.12.2017 Published	IFRS 15 Restatment	31.12.2017 Restated
Net sales	2,065	(49)	2,015
Gross margin after logistics expenses	1,243	(76)	1,166
Advertising and promotion expenses	(355)	76	(279)
Contribution after advertising and promotion	887	-	887
Profit from Recurring Operations	**628**	**-**	**628**

Europe

(€ million)	31.12.2017 Published	IFRS 15 Restatment	31.12.2017 Restated
Net sales	1,619	(66)	1,552
Gross margin after logistics expenses	1,020	(66)	953
Advertising and promotion expenses	(275)	66	(208)
Contribution after advertising and promotion	745	-	745
Profit from Recurring Operations	**445**	**-**	**445**

Breakdown of sales

(€ million)	31.12.2017 Published	IFRS 15 Restatment	31.12.2017 Restated
Strategic International Brands	3,221	(117)	3,104
Strategic Wines	264	(4)	260
Strategic Local Brands	933	(30)	903
Other products	664	6	670
Total	**5,082**	**(145)**	**4,937**

Business activity by geographic area on financial year ended 30 June 2018

Group

(€ million)	30.06.2018 Published	IFRS 15 Restatment	30.06.2018 Restated
Net sales	8,987	(265)	8,722
Gross margin after logistics expenses	5,604	(315)	5,289
Adv ertising and promotion expenses	(1,720)	291	(1,429)
Contribution after adv ertising and promotion	3,884	(24)	3,860
Profit from Recurring Operations	**2,358**	**-**	**2,358**

Americas

(€ million)	30.06.2018 Published	IFRS 15 Restatment	30.06.2018 Restated
Net sales	2,546	(62)	2,484
Gross margin after logistics expenses	1,690	(62)	1,628
Adv ertising and promotion expenses	(533)	38	(495)
Contribution after adv ertising and promotion	1 157	(24)	1,133
Profit from Recurring Operations	**735**	**-**	**735**

Asia/Rest of World

(€ million)	30.06.2018 Published	IFRS 15 Restatment	30.06.2018 Restated
Net sales	3,648	(84)	3,564
Gross margin after logistics expenses	2,164	(134)	2,030
Adv ertising and promotion expenses	(662)	134	(528)
Contribution after adv ertising and promotion	1,502	-	1 502
Profit from Recurring Operations	**996**	**-**	**996**

Europe

(€ million)	30.06.2018 Published	IFRS 15 Restatment	30.06.2018 Restated
Net sales	2,792	(119)	2,673
Gross margin after logistics expenses	1,749	(119)	1,630
Adv ertising and promotion expenses	(525)	119	(406)
Contribution after adv ertising and promotion	1,224	-	1,224
Profit from Recurring Operations	**626**	**-**	**626**

Breakdown of sales

(€ million)	30.06.2018 Published	IFRS 15 Restatment	30.06.2018 Restated
Strategic International Brands	5,623	(218)	5,405
Strategic Wines	480	(5)	475
Strategic Local Brands	1,717	(56)	1,661
Other products	1,166	15	1,181
Total	**8,987**	**(265)**	**8,722**

1.4.2 IFRS 9 – "Financial Instruments"

IFRS 9 is applied based on the retrospective approach for phases 1 and 2 and on the prospective approach for phase 3 from 1 July 2018, with no adjustment to the comparatives. This standard replaces IAS 39, which was applied up to 30 June 2018.
On this date, and following the first-time application of IFRS 9, consolidated shareholders' equity saw a negative impact of €(1) million. This impact was caused by the impairment of trade receivables.

The other provisions of IFRS 9 had no impact on the amount of consolidated shareholders' equity at 1 July 2018. The Group's analyses and various conclusions are broken down by phase below.

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

The Group analysed the financial assets in the context of the new IFRS 9 classification, based on the Company's management model and the contractual features of the financial assets. The Group's financial assets (excluding IAS 19 related assets) primarily include equity instruments (essentially investments in non-consolidated companies), loans, receivables and deposits.
Following this analysis, the equity instruments (valued at €13 million as at 30 June 2018) classified as "Available-for-sale financial assets" under IAS 39 were reclassified as "Equity instruments valued at fair value through Equity" under IFRS 9. This reclassification was decided because:

- by their very nature, these assets do not generate cash flows that are solely payments of principal and interest on specified dates;
- the Group did not opt to classify these assets at fair value through profit and loss. In future, upon each acquisition of equity instruments, an analysis shall be conducted to determine the Group's management intention, thus determining the accounting method for changes in fair value.

Fair value valuation methods are described in Note 14 (*Financial Instruments*) of these Notes, and have not been amended.

Other financial assets, including loans, receivables, deposits and guarantees, are not affected by a change in valuation method and will continue to be valued according to the amortised cost method.

All of the financial assets will still be shown under "Financial assets" on the Balance sheet, and are presented (except for IAS 19 related assets) based on their category and valuation method under Note 14 – *Financial Instruments* of these Notes.

The analysis did not identify any financing renegotiation activities for which restatement was required.

Phase 2 – Financial asset impairment model

The analysis focused primarily on impairment of trade receivables, as the Group does not have any significant external loans, and does not have any financial receivables.

The Group opted for the simplified method to measure impairment of trade receivables. Analysis of the historical losses recorded on these receivables did not show any significant amounts. Moreover, receivables are often insured against any payment defaults, thereby reducing the risk of losses correspondingly. The adjustment recognised (negative impact of €(1) million on the Group's equity) relates to a number of receivables which are not significant on an individual basis.

Phase 3 – Hedge accounting

The analysis did not identify any changes to be applied to the accounting method for hedging instruments used by the Group.

Accounting policies amended following the application of IFRS 9

- **Financial assets**

The Group's financial assets primarily include its investments in non-consolidated companies, loans, guarantees and deposits, guarantee deposits required under tax regulations in certain countries, and retirement plan assets (not included in the scope of IFRS 9).

Equity instruments

Investments in non-consolidated entities are recorded in the Balance sheet at fair value. Net (gains)/losses at fair value and net (gains)/losses on disposal are recorded based on management's intention, either (i) in the income statement under the heading "Financial (income)/expenses – Other non-current financial income/(expenses), or (ii) as consolidated equity under the heading Other comprehensive income, and are not recycled through profit and 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.

- **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 expected losses over the lifetime of the receivables.

Note 2 – Consolidation scope

There is no significant change in the consolidation scope in the first half of the 2018/19 financial year.

Note 3 – Operating segments

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

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

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

Europe

(€ million)	31.12.2017 6 months Restated	31.12.2018 6 months
Net sales	1,552	1,530
Gross margin after logistics costs	953	944
Advertising and promotion expenses	(208)	(214)
Contribution after A&P	745	730
Profit from Recurring Operations	**445**	**418**

Americas

(€ million)	31.12.2017 6 months Restated	31.12.2018 6 months
Net sales	1,369	1,389
Gross margin after logistics costs	908	942
Advertising and promotion expenses	(283)	(276)
Contribution after A&P	625	666
Profit from Recurring Operations	**423**	**470**

Asia/Rest of World

(€ million)	31.12.2017 6 months Restated	31.12.2018 6 months
Net sales	2,015	2,266
Gross margin after logistics costs	1,166	1,353
Advertising and promotion expenses	(279)	(309)
Contribution after A&P	887	1 044
Profit from Recurring Operations	**628**	**766**

Total

(€ million)	31.12.2017 6 months Restated	31.12.2018 6 months
Net sales	4,937	5,185
Gross margin after logistics costs	3,027	3,239
Advertising and promotion expenses	(771)	(799)
Contribution after A&P	2,257	2,440
Profit from Recurring Operations	**1,496**	**1,654**

Breakdown of sales

(€ million)	31.12.2017 6 months Restated	31.12.2018 6 months
Strategic International Brands	3,104	3,369
Priority Premium Wines	260	236
Strategic Local Brands	903	959
Other products	670	620
Total	**4,937**	**5,185**

From 31 December 2018, the segmentation below is used for financial disclosures. The same segmentation was applied to the financial half-year end 31 December 2018 for comparative purposes.

(€ million)	31.12.2017 6 months Restated	31.12.2018 6 months
Strategic International Brands	3,104	3,369
Priority Premium Wines	260	236
Strategic Local Brands	911	963
Speciality	137	155
Other products	525	462
Total	**4,937**	**5,185**

Note 4 – Other operating income and expenses

Other operating income and expenses are broken down as follows:

(€ million)	31.12.2017 6 months	31.12.2018 6 months
Impairment of property, plant and equipment and intangible assets	(1)	(26)
Gains or losses on asset disposals and acquisition costs	33	(8)
Net restructuring and reorganisation expenses	(20)	(14)
Disputes and risks	(3)	(2)
Other non-current operating income and expenses	53	(16)
Other operating income/(expenses)	**62**	**(66)**

Note 5 – Financial income/(expense)

(€ million)	31.12.2017 6 months	31.12.2018 6 months
Interest expense on net financial debt	(162)	(166)
Interest income on net financial debt	17	17
Net financing cost	**(144)**	**(149)**
Structuring and placement fees	(1)	(1)
Net financial impact of pensions and other long-term employee benefits	(8)	(3)
Other net current financial income (expense)	1	(4)
Financial income/(expense) from recurring operations	**(153)**	**(157)**
Foreign currency gains/(losses)	5	0
Other non-current financial income/(expenses)	(1)	1
Total financial income/(expenses)	**(149)**	**(156)**

At 31 December 2018, net financing costs were mainly composed of bond interests for €126 million.

Note 6 – Income tax

Analysis of the income tax expense:

(€ million)	31.12.2017 6 months	31.12.2018 6 months
Current income tax	(206)	(298)
Deferred income tax	(41)	(98)
Total	**(246)**	**(397)**

Analysis of effective tax rate:

(€ million)	31.12.2017 6 months	31.12.2018 6 months
Operating profit	1,558	1,588
Financial income/(expense)	(149)	(156)
Taxable profit	**1,409**	**1,433**
Theoretical tax charge at the effective income tax rate in France	**(485)**	**(493)**
Impact of tax rate differences by jurisdiction	204	169
Tax impact of variation in exchange rates	2	(1)
Re-estimation of deferred tax assets linked to tax rate changes	64	(8)
Impact of tax losses used/not used	2	1
Impact of reduced/increased tax rates on taxable results	(13)	0
Taxes on distributions	51	(29)
Other impacts	(72)	(35)
Effective tax expense	**(246)**	**(397)**
Effective tax rate	**17%**	**28%**

The December 2017 US tax reform "Tax Cuts and Jobs Act" has triggered a revaluation of deferred tax assets and liabilities due to the decrease of the US Federal tax rate, which resulted in a tax income of €55 million at 31 December 2017.

Following the invalidation by the French Constitutional Court in October 2017 of the French system for taxing dividends (so called "3% tax"), the Group recognized an income related to the reimbursement of the tax estimated at €71 million at 31 December 2017.

Deferred taxes are broken down by nature as follows:

(€ million)	30.06.2018	31.12.2018
Margins in inventories	87	89
Fair value adjustments on assets and liabilities	22	21
Provision for pension benefits	90	91
Loss carried forward	870	870
Provisions (other than provisions for pensions benefits) and other items	487	500
Total deferred tax assets	**1,556**	**1,571**
Accelerated tax depreciation	116	117
Fair value adjustments on assets and liabilities	1 936	2 006
Other items	541	574
Total deferred tax liabilities	**2,593**	**2,697**

Note 7 – Earnings per share

	31.12.2017 6 months	31.12.2018 6 months
Numerator (€ million)		
Group share of net profit	1,147	1,023
Denominator (in number of shares)		
Average number of outstanding shares	264.033,746	264.206,944
Dilutive effect of bonus share allocations	1.050,284	1.073,014
Dilutive effect of stock options and subscription options	386,937	200,929
Average number of outstanding shares—diluted	**265.470,967**	**265.480,887**
Earnings per share (€)		
Earnings per share – basic	4,34	3,87
Earnings per share – diluted	4,32	3,85

Note 8 – Intangible assets and goodwill

(€ million)	30.06.2018	31.12.2018
Goodwill	5,456	5,511
Brands	12,757	12,883
Other intangible assets	407	420
Gross value	**18,620**	**18,814**
		-
Goodwill	(137)	(141)
Brands	(1,334)	(1,370)
Other intangible assets	(291)	(306)
Depreciation/Impairement	**(1,762)**	**(1,817)**
Intangible assets, net	**16,858**	**16,998**

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

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

Note 9 – Inventories

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

(€ million)	30.06.2018	31.12.2018
Raw materials	136	145
Work in progress	4,614	4,677
Goods in inventory	467	483
Finished products	300	258
Gross value	**5,517**	**5,563**
Raw materials	(9)	(10)
Work in progress	(11)	(11)
Goods in inventory	(13)	(13)
Finished products	(13)	(13)
Impairment	**(45)**	**(48)**
Net inventories	**5,472**	**5,515**

At 31 December 2018, 78% of work-in-progress relate to maturing inventories intended to be used for whisky and cognac production. The Group is not significantly dependent on its suppliers.

Note 10 – Transfers of financial assets

In the first half of the period 2018/19, the Group continued to implement its programs to sell the receivables of several subsidiaries. Receivables sold under these programs totaled €772 million at 31 December 2018 and €610 million at 30 June 2018. 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 countinuing involvement				Fair value of continuing involvement	Maximum Exposure
Continuing involvement	Amortised costs	Held to maturity	Available for sale	Financial liabilities at fair value		
Guarantee deposit – factoring and securisation	12	-	-	-	12	12

Note 11 – Other current assets

Other current assets are broken down as follows:

(€ million)	30.06.2018	31.12.2018
Advances and down payments	27	49
Tax accounts receivable, excluding income tax	153	142
Prepaid expenses	77	72
Other receivables	23	19
Total	**280**	**282**

Note 12 – Provisions

12.1 Breakdown of provisions

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

(€ million)	30.06.2018	31.12.2018	Notes
Non-current provisions			
Provisions for pensions and other long-term employee benefits	526	522	12.3
Other non-current provisions for risks and charges	448	424	12.2
Current provisions			
Provisions for restructuring	43	36	12.2
Other current provisions for risks and charges	100	97	12.2
Total	**1,117**	**1,079**	

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

At 31 December 2018, the amount of provisions booked by the Group in respect of all disputes or risks in which it is involved amounted to €521 million. The Group does not provide details (with exceptions), as it believes the disclosure of the amount of any provision booked in consideration of each pending dispute would be likely to cause serious harm to the Group.

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

		Movements of the period					
(€ million)	30.06.2018	Allowances	Used	Unused reversals	Translation adjustments	Other movements	31.12.2018
Provisions for restructuring	43	7	(14)	(0)	0	-	36
Other current provisions	100	3	(4)	(3)	1	0	97
Other non-current provisions	448	34	(17)	(47)	3	4	424
Total Provisions	**591**	**45**	**(35)**	**(51)**	**4**	**4**	**557**

12.3 Provisions for pensions and other long-term employee benefits

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

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

(€ million)	31.12.2017	31.12.2018
Net liability / (asset) at beginning of period	**128**	**(227)**
Net expense/(income) for the period	34	58
Actuarial (gains)/losses[1]	(159)	18
Employer contributions and benefits paid directly by the employer	(47)	(44)
Changes in scope of consolidation	(0)	0
Foreign currency gains and losses	(8)	9
Net liability / (asset) at end of period	**(52)**	**(188)**
Amount recognised in assets	650	710
Amount recognised in liabilities	**598**	**522**

[1] Recognised as items of other comprehensive income.

On 31 December 2018, non-current financial assets (€958 million) include €710 million of plan surplus related to employee benefits.

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

(€ million)	31.12.2017	31.12.2018
Service cost	24	22
Interest on provision	2	(4)
Fees/levies/premiums	5	5
Impact of plan amendments / Reduction of future rights	2	34
Impact of liquidation of benefits	-	-
Net expense/(income) recognised in Profit and Loss	**34**	**58**

On 26 October 2018, the High Court's judgment on the Lloyds Banking Group case triggered a requirement to equalise pension benefits for men and women for the calculation of their Guaranteed Minimum Pension liability in the United Kingdom. The primary valuation as of 31 December 2018, led to a €34 million increase of the defined benefit obligation in relation to Pernod Ricard defined benefit plans in the United Kingdom, with a corresponding charge to other operating expenses.

Note 13 – Financial liabilities

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

13.1 Breakdown of net financial debt by nature and maturity

(€ million)	30.06.2018 Current	30.06.2018 Non-current	30.06.2018 Total	31.12.2018 Current	31.12.2018 Non-current	31.12.2018 Total
Bonds	**93**	**6,777**	**6,869**	**96**	**6,865**	**6,961**
Syndicated loan				-	-	-
Commercial paper	280	-	280	505	-	505
Other loans and financial debts	80	463	542	195	455	651
Other financial liabilities	**360**	**463**	**822**	**700**	**455**	**1,156**
Gross financial debt	452	7,239	7,691	796	7,320	8,117
Fair v alue hedge deriv ativ es instruments – assets	-	-	-	-	-	-
Fair v alue hedge deriv ativ es instruments – liabilities	-	25	25	-	14	14
Fair value hedge derivatives	**-**	**25**	**25**	**-**	**14**	**14**
Net assets hedging deriv ativ e instruments - assets	(1)	-	(1)			
Net assets hedging deriv ativ e instruments - liabilities	-	-	-	2	-	2
Net asset hedging derivative instruments	**(1)**		**(1)**	**2**	**-**	**2**
Financial debt after hedging	452	7,265	7,716	798	7,334	8,132
Cash and cash equivalents	(754)	-	(754)	(910)	-	(910)
Net financial debt	**(303)**	**7,265**	**6,962**	**(112)**	**7,334**	**7,223**

13.2 Breakdown of debt by currency before and after foreign exchange hedging instruments at 30 June 2018 and 31 December 2018

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

On 31.12.2018 (€ million)	Gross financial debt	Amount hedged	Debt after hedging	Cash	Net debt after hedging	% debt after hedging	% net debt after hedging
EUR	3,603	175	3,778	(135)	3,642	46%	50%
USD	4,413	(19)	4,394	(135)	4,259	54%	59%
GBP	5	(144)	(139)	(36)	(175)	-2%	-2%
SEK	7	(63)	(56)	(19)	(75)	-1%	-1%
Other currencies	88	67	155	(584)	(429)	2%	-6%
Financial debt by currency	**8,117**	**16**	**8,132**	**(910)**	**7,223**	**100%**	**100%**

13.3 Breakdown of debt by currency and type of rate hedging at 30 June 2018 and 31 December 2018

On 30.06.2018 (€ million)	Debt after hedging by currency	Fixed-rate debt [(1)]	Capped floating-rate debt	Floating-rate debt	% (fixed-rate + capped floating-rate debt)/ Debt after hedging	Cash	% (fixed-rate + capped floating-rate debt)/ net debt
EUR	3,802	2,655	-	1,147	70%	(221)	74%
USD	4,076	3,406	-	670	84%	(8)	84%
GBP	(117)	-	-	(117)	N.M	(1)	N.M
SEK	(9)	-	-	(9)	N.M	-	N.M
Other currencies	(36)	22	-	(58)	N.M	(523)	N.M
Total	**7 716**	**6 084**		**1 633**	**79%**	**(754)**	**87%**

On 31.12.2018 (€ million)	Debt after hedging by currency	Fixed-rate debt [(1)]	Capped floating-rate debt	Floating-rate debt	% (fixed-rate + capped floating-rate debt)/ Debt after hedging	Cash	% (fixed-rate + capped floating-rate debt)/ net debt
EUR	3,778	2,727	-	1,051	72%	(135)	75%
USD	4,394	3,467	-	927	79%	(135)	81%
GBP	(139)	-	-	(139)	N.M.	(36)	N.M.
SEK	(56)	-	-	(56)	N.M.	(19)	N.M.
Other currencies	155	40	-	116	N.M.	(584)	N.M.
Total	**8,132**	**6,234**	**-**	**1,898**	**77%**	**(910)**	**86%**

N.M.: not meaningful.

(1) Hedge accounting and other derivatives.

13.4 Breakdown of fixed-rate/floating rate debt before and after interest rate hedging instruments at 30 June 2018 and 31 December 2018

	30.06.2018				31.12.2018			
(€ million)	Debt before hedging		Debt after hedging		Debt before hedging		Debt after hedging	
Fixed-rate debt	6 770	88%	6 084	79%	6 933	85%	6 234	77%
Capped floating-rate debt	-	-	-	-	-	-	-	-
Floating-rate debt	946	12%	1 633	21%	1 200	15%	1 898	23%
Financial debt after hedging by type of rate	**7 716**	**100%**	**7 716**	**100%**	**8 132**	**100%**	**8 132**	**100%**

At 31 December 2018, before taking into account of any hedges, 85% of the Group's gross debt was fixed-rate and 15% floating-rate. After hedging, the floating-rate part was 23%.

13.5 Schedule of financial liabilities at 30 June 2018 and 31 December 2018

The following table shows the maturity of future financial liability-related cash flows (nominal and interest). Variable interest flows have been estimated on the basis of rates at 30 June 2018 and 31 December 2018.

On 30.06.2018 (€ million)	Balance sheet value	Contractual flows	< 6 months	6 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years
Nominal value	-	(7,679)	(323)	(38)	(891)	(1,071)	(1,587)	(727)	(3,042)
Interest	-	(1,886)	(123)	(126)	(249)	(232)	(176)	(104)	(876)
Gross financial debt	**(7,691)**	**(9,565)**	**(447)**	**(164)**	**(1,140)**	**(1,303)**	**(1,763)**	**(830)**	**(3,918)**
Cross currency swaps:	-	-	-	-	-	-	-	-	-
Flows payable	-	-	-	-	-	-	-	-	-
Flows receivable	-	-	-	-	-	-	-	-	-
Derivative instruments - liabilities	(43)	(33)	(15)	(2)	(7)	(5)	(1)	(1)	(2)
Derivative instruments - liabilities	**(43)**	**(33)**	**(15)**	**(2)**	**(7)**	**(5)**	**(1)**	**(1)**	**(2)**
Total financial liabilities	**(7,734)**	**(9,598)**	**(461)**	**(166)**	**(1,147)**	**(1,308)**	**(1,764)**	**(831)**	**(3,921)**

On 31.12.2018 (€ million)	Balance sheet value	Contractual flows	< 6 months	6 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	> 5 years
Nominal value		(8,085)	(657)	(42)	(889)	(1,088)	(2,308)	(539)	(2,562)
Interest		(1,793)	(128)	(125)	(254)	(208)	(149)	(90)	(839)
Gross financial debt	**(8,117)**	**(9,878)**	**(785)**	**(167)**	**(1,143)**	**(1,296)**	**(2,457)**	**(629)**	**(3,401)**
Cross currency swaps:	-								
Flows payable									
Flows receivable									
Derivative instruments - liabilities	(26)	(23)	(8)	(2)	(4)	(2)	(2)	(2)	(4)
Derivative instruments - liabilities	**(26)**	**(23)**	**(8)**	**(2)**	**(4)**	**(2)**	**(2)**	**(2)**	**(4)**
Total financial liabilities	**(8,143)**	**(9,901)**	**(793)**	**(169)**	**(1,147)**	**(1,298)**	**(2,459)**	**(631)**	**(3,405)**

13.6 Syndicated loan

On 31 December 2018, the multi-currency syndicated loan of €2,500 million has not been drawn down.

13.7 Bonds

Nominal amount	Interest rate	Issue date	Maturity	Carrying amount at 31.12.2018 *(€ million)*
EUR 850 million	2,00%	03/20/14	06/22/20	857
USD 1,000 million	5,75%	04/07/11	04/07/21	882
USD 201 million	Marge + Libor 6 mois	01/26/16	01/26/21	179
USD 1,500 million	4,45%	10/25/11	01/15/22	1,342
USD 800 million	4,25%	01/12/12	07/15/22	703
EUR 500 million	1,88%	09/28/15	09/28/23	489
EUR 650 million	2,13%	09/29/14	09/27/24	651
EUR 600 million	1,50%	05/17/16	05/18/26	603
USD 600 million	3,25%	06/08/16	06/08/26	510
USD 850 million	5,50%	01/12/12	01/15/42	747
TOTAL BONDS				**6,961**

Note 14 – Financial instruments

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

(€ million)	Measurement level	Breakdown by accounting classification				31.12.2018	
		Fair value – profit	Fair value through Equity	Assets at amortised cost	Liabilities at amortised cost	Balance sheet value	Fair value
Assets							
Equity instruments	Level 3	-	103	-	-	103	103
Guarantees, deposits, investment-related receivables		-	-	145	-	145	145
Trade receivables and other operating receivables		-	-	1,991	-	1,991	1,991
Other current assets		-	-	282	-	282	282
Derivative instruments – assets	Level 2	20	-	-	-	20	20
Cash and cash equivalents	Level 1	910	-	-	-	910	910
Liabilities		-	-	-			
Bonds		-	-	-	6,961	6,961	7,174
Bank debt		-	-	-	1,126	1,126	1,126
Finance lease debt		-	-	-	29	29	29
Derivative instruments – liabilities	Level 2	26	-	-	-	26	26

The methods used are as follows:

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

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

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

In accordance with IFRS 13, derivatives were measured taking into account the Credit Valuation Adjustment (CVA) and the Debt Valuation Adjustment (DVA). The measurement is based on historical data (rating of counterparty banks and probability of default). At 31 December 2018, the impact was not significant.

Note 15 – Other current liabilities

Other current liabilities are broken down as follows:

(€ million)	30.06.2018	31.12.2018
Taxes and social payables	613	674
Other operating payables	347	75
Other payables	-	-
Total	**960**	**750**

Note 16 – Notes to the consolidated cash flow statement

16.1 Working capital requirement

The working capital requirement has increased by €654 million due to a usually stronger activity at the end of December compared to the end of June. It is mainly explained as follows:

- trade receivables: +€914 million;
- trade payables: €(261) million;
- others: +€1 million.

16.2 Bond issues/repayment of debt

The Group outstanding amount on the syndicated loan is stable between 30 June 2018 and 31 December 2018.

The Group increased the stock of commercial paper for €225 million.

16.3 Disposals of financial assets and activities

The Group has not made any significant disposal over the period.

Note 17 – Shareholders' equity

17.1 Share capital

Pernod Ricard's share capital changed as follows between 1 July 2018 and 31 December 2018:

	Number of shares	Amount (€ million)
Share capital on 30 June 2018	265 421 592	411
Share capital on 31 December 2018	**265 421 592**	**411**

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

17.2 Treasury shares

On 31 December 2018, Pernod Ricard SA and its controlled subsidiaries held 1,273,347 Pernod Ricard shares for a value of €134 million.

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

17.3 Dividends paid and proposed

Following the resolution agreed upon during the Shareholders' Meeting of 21 November 2018, the total dividend in respect of the financial year ended 30 June 2018 was €2.36 per share. An interim dividend payment of €1.01 per share having been paid on 6 July 2018, the balance amounting to €1.35 per share has been paid on 30 November 2018.

Note 18 – Share-based payments

The Group recognised an expense of €18 million within operating profit relating to stock option and performance-based share applicable on 31 December 2018.

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

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

	Units
Number of outstanding options / shares at 30 June 2018	**2 351 874**
Number of options exercised / shares acquired during the period	(416 477)
Number of options / shares cancelled ov er the period	(125 081)
Number of options / shares newly granted ov er the period	449 826
Number of outstanding options / shares at 31 December 2018	**2 260 142**

Note 19 – Off-balance sheet commitments

The Group's off-balance sheet commitments given are broadly stable at €2,462 million as of 31 December 2018. Off-balance sheet commitments received are decreasing to €2,585 million as of 31 December 2018.

Note 20 – Contingent liabilities

Pernod Ricard has received several notices of tax adjustment for the financial years 2006/07 to 2014/15, specifically concerning, for an amount of 7,183 million Indian rupees (equivalent to €90 million, including interest as of the date of the reassessment), the tax deductibility of promotion and advertising expenses. After consulting with its tax advisers, Pernod Ricard India disputes the merits of the reassessment proposal and believes it has a probable chance of success in litigation. Accordingly, no provision has been booked for this matter.

Note 21 – Disputes

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

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

The provisions recorded by Pernod Ricard as at 31 December 2018, for all litigation and risks in which it is involved, amounted to €521 million, compared to €548 million at 30 June 2018 (see Note 12 - *Provisions*). Pernod Ricard provides no further details (other than in exceptional circumstances), as disclosing the amount of any provision for ongoing litigation could cause the Group serious harm.

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

Disputes relating to brands

Havana Club

The Havana Club brand is owned in most countries by a joint venture company called Havana Club Holding SA (HCH), of which Pernod Ricard is a shareholder, and is registered in over 160 countries in which the Havana Club rum is distributed. In the United States, this brand is owned by a Cuban company (Cubaexport). Ownership of this brand is currently being challenged in the United States by a competitor of Pernod Ricard.

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

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

2. A competitor of the Group has petitioned the USPTO to cancel the Havana Club trademarks in the United States. In January 2004, the USPTO denied the petition and refused to cancel the trademark registration. As this decision was appealed, proceedings are now 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 their complaint. In response, Cubaexport and HCH filed two motions: one to dismiss all actions commenced against them and one to expedite proceedings on certain issues.

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

Tax disputes

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

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

India

Pernod Ricard India (P) Ltd has an ongoing dispute with the Indian customs authorities over the declared transaction value of concentrates of alcoholic beverages (CAB) imported into India. Customs are challenging the transaction values, arguing that some competitors used different values for the import of similar goods. This matter was ruled on by the Supreme Court which issued an order in July 2010, setting out the principles applicable for the determination of values which should be taken into account for the calculation of duty. Pernod Ricard India (P) Ltd has already paid the corresponding amounts up to 2001. For the period between 2001 and December 2010, Pernod Ricard India (P) Ltd has paid deposited 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.

Moreover, Pernod Ricard India received several notices of tax adjustment for the financial years 2006/07 to 2014/15 relating to the tax deductibility of advertising and promotional expenses (see Note 20 – Contingent liabilities).

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

Commercial disputes

Colombia

A complaint was filed before the Colombian Competition Agency (the Superintendencia De Industria Y Comercio) on 14th November 2017 by the Department of Cundinamarca and its wholly owned distilling company Empresa de Licores de Cundinamarca against Pernod Ricard S.A., Pernod Ricard Colombia S.A. and a competitor company. The complaint alleges that the defendants have committed violations of the Colombian Unfair Competition Act and, in particular, Articles 7 and 18 thereof through the illegal import of spirits into Colombia. The complaint alleges that the defendant companies have gained an unfair market advantage over local producers through such activity. The plaintiffs seek to reclaim lost profits and taxes for a four year period between 2013 and 2017. Pernod Ricard intends to vigorously defend itself against such allegations. This recent complaint contains allegations that are similar to those made in prior legal proceedings before the New York courts brought by Cundinamarca, the Republic of Colombia and several other Colombian departments in 2004. The New York proceedings were dismissed volontarily by the parties in 2012.

Note 22 – Related parties

During the first half-year ended 31 December 2018, relations between the Group and its associates remained the same as in the financial year ended 30 June 2018, as mentioned in the 2017/18 registration document.

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

Note 23 – Subsequent Events

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

4/ Statutory Auditors' Review Report on the Half-year Financial Information

For the period from July 1 to December 31, 2018

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

To the Shareholders of Pernod Ricard,

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

- the review of the accompanying condensed half-yearly consolidated financial statements of Pernod Ricard, for the period from July 1 to December 31, 2018,
- the verification of the information presented in the half-yearly management report.

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

I. Conclusion on the financial statements

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

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

Without qualifying our conclusion, we draw your attention to the matter set out in note 1.4 to the condensed half-yearly consolidated financial statements regarding the impacts of the first-time application as of July 1, 2018 of the standard IFRS 9 "Financial instruments" and the standard IFRS 15 "Revenue from Contracts with Customers".

II. Specific verification

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

Paris La Défense, February 7, 2019

The Statutory Auditors

French original signed by

KPMG Audit

A division of KPMG S.A.

Eric Ropert
Partner

Caroline Bruno-Diaz
Partner

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