Virbac

Half-yearly financial report

At June 30, 2017

Virbac : NYSE Euronext - compartiment A - code ISIN : FR0000031577 / MNEMO : VIRP
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Shaping the future of animal health

HALF YEARLY MANAGEMENT REPORT

FIRST HALF 2017 SIGNIFICANT EVENTS

Sébastien Huron will become the new chairman of the executive board, as of December 2017
At its annual shareholders' meeting held on June 23, Virbac announced that Éric Marée, chairman of the executive board for the past 17 years, had informed the supervisory board of his wish not to serve another term once the current term ends on December 20, 2017 and is therefore retiring. Marie-Hélène Dick, chairwoman of the supervisory board, revealed the intention of the board, which met on June 22, to appoint Sébastien Huron chairman of the executive board once the current tenure of the executive board ends. Until then, Éric Marée, Sébastien Huron and the other members of the executive board will work closely together to prepare for this transition.

Recognition of a revenue arising from a licensing contract
A Group's subsidiary signed in March 2014 a contract granting an exclusive license on a technology it owns, to a third company. The co-contracting party is therefore allowed to develop, produce, formulate and obtain the required authorisations to distribute and sell the products arising from the use of this technology. The analysis of the terms of the contract and more specifically the stipulated resolutory clause led the Group to postpone the recognition of the corresponding revenue.
The license revenue amounting to $3.15 million being definitively acquired at closing date of the first half 2017, it has been recognised into the interim consolidated statements.

Continuation of the implementation of the factoring scheme launched in 2016
Virbac extended the factoring scheme, which engendered the de-recognition of additional account receivables for a total amount of €9.5 million compared to December 31,2016.

SIGNIFICANT EVENTS SUBSEQUENT TO JUNE 30, 2017

As part of its financing policy, the Group strengthened its liquidity through establishment of a medium-to-long-term line of credit of up to $90 million. This new line thus completes the RCF line (Revolving Credit Facility) of €420 million, signed in 2015 with the historical pool of banks, bilateral loans, and outstanding market-based contracts (*Schuldschein*).

REVIEW OF THE FINANCIAL SITUATION AND RESULTS

The condensed consolidated financial statements of Virbac for the period from January 1 to June 30, 2017 have been reviewed by the auditors and are available on corporate.virbac.com website.

Consolidated number in million Euros	S1 2017	S1 2016	Change 2017 / 2016
Revenue from ordinary activities	**437.5**	**430.0**	**+1.8%**
Growth at constant exchange rates [1]			-0.5%
Pro-forma growth at constant exchange rates [1]			-0.5%
Current operating profit before depreciation of assets arising from acquisitions	**40.7**	**39.7**	**+2.5%**
Operating profit from ordinary activities	**32.5**	**31.5**	**+3.2%**
As a % of revenue	*7.4%*	*7.3%*	
Operating result	**32.5**	**31.5**	**+3.2%**
Result for the period	**16.0**	**15.2**	**+5.6%**
attributable to the owners of the parent company	13.9	13.1	+6.3%
attributable to the non-controlling interests	2.1	2.1	+1.3 %

1 The pro-forma growth at constant exchange rates corresponds to the organic growth excluding the change of exchange rates, in calculating the indicator for the period and the one of the previous period on the base of exchange rates applied on the previous period, and excluding the change in scope, in calculating the indicator for the period from the consolidation scope of the previous period.

First-half sales have reached €437.5 million compared to €430.0 million in the same period of 2016, with an overall evolution of +1.8%. Excluding the favorable impact of exchange rates, sales were down slightly to -0.5%.

The operating profit from ordinary activities is growing. It amounts to €32.5 million compared to €31.5 million last year, an increase of +3.2%. This result includes €8.2 million of depreciation expenses related to intangible rights from acquisitions, at the same level as of June 30, 2016. The current operating profit adjusted from these items amounts to €40.7 million as of June 30, 2017, an increase of +2.5% compared to last year. This positive evolution of the current operating profit before depreciation of assets arising from acquisitions is due to the strong performance registered in several countries, particularly in Latin America, and also to cost controls, particularly on support functions and in a lesser extent on R&D activities.
These elements are partly offset by a lower contribution of the United States due to the high level of inventories in the distribution channels. Foreign exchange rates had a positive impact on current operating profit before depreciation of assets arising from acquisitions of €1.4 million.

The operating result amounts to €32.5 million, no other non-current incomes or expenses have been recorded in the first half 2017.

The result for the period attributable to the owners of the parent company amounts to €13.9 million after deduction of interest and tax expenses, an increase of +6.3% compared to last year.

The result for the period attributable to the non-controlling interests, which reflect mainly the share of minority interests in Centrovet, amounted to €2.1 million.

Financial situation

In the first half 2017, the Group's net debt reached €542.9 million, decreasing by €4.2 million compared to December 31, 2016. In the past, the Group recorded a significant increase in financing needs in the first half, resulting from the seasonal increase of working capital requirement. The stability of the first half of 2017 is particularly due to the exchange effect euro vs. dollar. At constant parity, the net debt would be higher of €34.3 million. The stability of the first half 2017 is also due to several factors such as : no payment of dividend by Virbac SA in respect of 2016 results, a strict control of working capital requirements and the implementation of operational financing solutions (factoring in certain Group subsidiaries).

The main features of the two funding instruments put in place in April 2015 are still in place:

- a syndicated loan of €420 million, drawn in euros and dollars, contracted with a pool of banks and repayable in full upon maturity in April 2020, with the option to extend the term to April 2022;
- market-based contracts (*Schuldschein*) consisting of four instalments, with maturities of five, seven and ten years, at variable and fixed rates.

As at June 30, 2017, the position of these funding instruments was as follows:

- the drawn credit facility amounted to $419 million;
- the market-driven contracts amounted to €15 million and $15.5 million.

Moreover, new funding instruments were signed during the first quarter with Banque Publique d'Investissement for an amount totalling €15 million, repayable over 7 years (March 2024).

These fundings include a financial covenant compliance clause that requires the borrower to adhere to the following financial ratio, which is based on the consolidated financial statements and reflects net consolidated indebtedness [(1)] for the period considered on the consolidated Ebitda (Earnings before interests, taxes, depreciation and amortisation) [(2)] for the same test period.

Following discussions with the various creditors at the end of the fourth quarter of 2016, the initial ratio was relaxed until the end of 2017, as follows:

- the ratio should not exceed 5.5 at June 30, 2017;
- the ratio should not exceed 4.75 at December 31,2017.

As at June 30, 2017, the ratio is respected, at 4.64, or 5.01 at constant exchange rates [(3)].

[(1)] Net consolidated indebtedness represents the total of the other financial liabilities current and non-current, as follows: loans, bank overdrafts, accrued interests not yet matured, debt relating to leasing contracts, employee profit-sharing, currency and interest rate derivatives, and others; deducted from following elements : cash and cash equivalents, fixed-term deposits, and currency and interest rate derivatives as shown into the consolidated statements.
[(2)] Consolidated Ebitda represents the operating result of the considered period plus the allowances to amortisations and provisions net from releases, and dividends received from non-consolidated entities.
[(3)] The ratio at constant exchange rates is calculated as follows: net indebtedness as at June 30, 2017 calculated by using the closing exchange rates applicable as at December 31, 2016 and consolidated Ebitda as at June 30, 2017 calculated by using the average exchange rates applicable in 2016.

Annual outlook

Given the slower than expected recovery in the United States, and despite overall performance at the level expected in the other regions, the Group's revenue at constant exchange rates is expected to be around 2016 in 2017.
For the full year, the Group anticipates a ratio of "current operating profit before depreciation of assets arising from acquisitions" to "net sales", at constant exchange rates, at the level of 2016. The progression of this ratio may be higher at current exchange rates.
From a financial standpoint, tight control of invested capital and the impact of the appreciation of the euro against the dollar should allow further debt reduction, which should be between €30 million and €50 million for the year. Furthermore, as part of its funding policy, the Group strengthened its liquidity through establishment of a medium-to-long-term line of credit of up to USD90 million. This new line thus completes the RCF line (Revolving credit facility) of €420 million, signed in 2015, with historical banking pool, bilateral lines and outstanding *Schuldschein* loans. As with the situation at the end of June 2017, the Group should be able to fulfill its financial covenant set at 4.75 (Net debt/EBITDA) by December 31, 2017.

SALES PERFORMANCE

By segment

Consolidated number in million Euros	S1 2017	S1 2016	Change at actual rates	Change at constant rates and scope [1]
Companion animals	241.9	252.2	-4.1%	-4.9%
Food producing animals	188.3	173.1	+8.8%	+4.4%
Other activities	7.3	4.6	+58.2%	+53.2%
Total	**437.5**	**430.0**	**+1.8%**	**-0.5%**

1 The change at constant exchange rates and scope corresponds to organic growth in sales excluding fluctuations in exchange rates by calculating the indicator for the year in question and that of the previous financial year based on identical exchange rates (the exchange rate used is that of the previous financial year), and excluding variation of the scope by calculating the indicator for the financial year in question based on the consolidation scope of the previous financial year.

Companion animals

sales in the companion animals segment fell overall by -4.1%, of which -4.9% at constant scope and exchange rates, reflecting a slower than expected return in the United States. Outside the United States, the decline in activity was -0.7%, of which -1.2% organic growth. The ranges most negatively impacted in comparison to the same period in 2016 are the internal and external parasiticides for companion animals and dog vaccines that have suffered from the temporary reduction of production capacity. Conversely, the specialties ranges for dogs and cats continue to progress.

Food producing animals

Business in the food producing animal segment recorded an overall increase of +8.8%, of which +4.4% at constant rates. The positive effect of exchange rates is in Asia-Pacific and Latin America. At constant rates and perimeter, the bovine and the industrial (swine and poultry) posted healthy growth of +5.7% and +4.2% respectively. The aquaculture sector was down slightly in the first half (-0.4% at constant exchange rates).

Other businesses

These activities, which represent no more than 1% of sales registered a slight decrease. They correspond to the markets of lesser strategic importance for the Group and mainly include contract manufacturing in the United States and Australia. The increase shown on this line is linked to the revenue of licensing contract of $3.15 million recognised into the interim consolidated accounts.

By geographic region

Consolidated number in million Euros	S1 2017	S1 2016	Change at actual rates	Change at constant rates and scope [1]
France	50.6	51.6	-2.0%	-2.0%
Europe excluding France	119.5	119.6	-0.1%	+1.5%
North America	64.7	72.4	-10.7%	-12.1%
Latin America	73.5	68.0	+8.1%	+3.6%
Africa & Middle East	16.0	14.5	+10.0%	-4.6%
Asia	69.6	61.8	+12.6%	+7.9%
Pacific	43.6	42.1	+3.6%	-2.1%
Total	**437.5**	**430.0**	**+1.8%**	**-0.5%**

[1] The change at constant exchange rates and scope corresponds to organic growth in sales excluding fluctuations in exchange rates by calculating the indicator for the year in question and that of the previous financial year based on identical exchange rates (the exchange rate used is that of the previous financial year), and excluding variation of the scope by calculating the indicator for the financial year in question based on the consolidation scope of the previous financial year.

In the United States, activity in the first half was down -10.7%, of which -12.1% at comparable exchange rates, an improvement, however, compared with the first quarter, which was down by -44% at constant exchange rates. Sentinel was down in ex-Virbac net sales, although ex-distributor sales remained stable over the period. Virbac sales in the Iverhart range are down sharply, although they are growing at ex-distributor sales. This increase is nevertheless much lower than anticipated and did not allow a significant restocking of the distributors given their stock level. The other ranges are stable in ex-Virbac sales, but continue to increase in sales to clinics.
Outside of the United States, the Group achieved a good first half showing a +1.8% organic growth (+4.3% at actual rates).
Europe is generally stable at constant exchange rates, notably due to a downturn in the OTC (unfavorable base effect due to the launch of Fipro Duo parasiticides in early 2016). In the rest of the world, organic growth continues to be sustained in many emerging countries, particularly in China, Brazil and Mexico. Conversely, in India, performance was strongly influenced by the double impact of demonetization at the beginning of the year and the entry into force of the new tax regulations which led distributors to massively reduce their stock at the end of June. Performance was also more contrasted in Japan due to competition. Finally, in Chile, activity decreased slightly compared to 2016 with contrasting activity (vaccines in progress and antibiotic range down, but compared to a high base in the first half of 2016).

MAIN SOURCES OF RISKS AND UNCERTAINTY FOR THE NEXT SIX MONTHS OF THE YEAR

The risk factors to which the Group is exposed, are mentioned in the 2016 Annual report of Virbac, available on the website corporate.virbac.com. The nature of these risks has not changed significantly in the first half of 2017. These risks are likely to occur in the second half of 2017 or during subsequent years.

OPERATIONS WITH RELATED PARTIES

Information on related parties is detailed in Note A18 of 2017 condensed half yearly financial statements. No changes or significant impact have appeared in the first half of 2017.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

HALF YEARLY CONSOLIDATED FINANCIAL STATEMENTS

Statement of financial position

in € thousand	Notes	30/06/2017	31/12/2016
Goodwill	**A1**	320,008	342,368
Intangible assets	**A2**	325,491	354,380
Tangible assets	**A4**	239,795	246,818
Other financial assets		15,616	10,530
Share in companies accounted for by the equity method	**A5**	2,774	2,513
Deferred tax assets	**A15**	34,356	27,041
Non-current assets		**938,040**	**983,650**
Inventories and work in progress	**A6**	194,414	197,908
Trade receivables	**A7**	137,312	129,197
Other financial assets		81	81
Other receivables	**A8**	52,546	57,870
Cash and cash equivalents		46,946	48,454
Assets classified as held for sale		-	-
Current assets		**431,299**	**433,511**
Assets		**1,369,339**	**1,417,161**
Share capital		10,573	10,573
Reserves attributable to the owners of the parent company		461,311	463,055
Equity attributable to the owners of the parent company		**471,884**	**473,628**
Non-controlling interests		39,267	47,159
Equity		**511,151**	**520,787**
Deferred tax liabilities		43,347	43,661
Provisions for employee benefits		18,557	18,016
Other provisions	**A10**	3,288	2,558
Other financial liabilities	**A11**	487,390	438,460
Other payables		416	583
Non-current liabilities		**552,998**	**503,278**
Other provisions	**A10**	2,214	2,197
Trade payables	**A9**	91,812	105,261
Other financial liabilities	**A11**	102,471	157,057
Other payables		108,693	128,580
Current liabilities		**305,190**	**393,096**
Liabilities		**1,369,339**	**1,417,161**

Income statement

in € thousand	Notes	30/06/2017	30/06/2016	Change
Revenue from ordinary activities	**A12**	**437,536**	**429,960**	***1.8%***
Purchases consumed		-150,966	-142,627	
External costs		-89,385	-95,940	
Personnel costs		-136,426	-135,371	
Taxes and duties		-6,568	-6,706	
Depreciations and provisions		-14,108	-11,811	
Other operating income and expenses	**A13**	647	2,238	
Current operating profit before depreciation of assets arising from acquisitions		**40,730**	**39,742**	***2.5%***
Depreciations of intangible assets arising from acquisitions		-8,209	-8,226	
Operating profit from ordinary activities		**32,521**	**31,516**	***3.2%***
Other non-current income and expenses		-	-	
Operating result		**32,521**	**31,516**	***3.2%***
Financial income and expenses	**A14**	-11,633	-6,992	
Profit before tax		**20,888**	**24,524**	***-14.8%***
Income tax	**A15**	-5,332	-9,721	
Share from companies' result accounted for by the equity method	**A5**	473	377	
Result for the period		**16,029**	**15,179**	***5.6%***
attributable to the owners of the parent company		13,921	13,098	*6.3%*
attributable to the non-controlling interests		2,108	2,081	*1.3%*
Profit attributable to the owners of the parent company, per share	**A16**	1.65 €	1.55 €	*6.3%*
Profit attributable to the owners of the parent company, diluted per share	**A16**	1.65 €	1.55 €	*6.3%*

Comprehensive income statement

in € thousand	30/06/2017	30/06/2016	Change
Result for the period	**16,029**	**15,179**	***5.6%***
Conversion gains and losses	-18,604	-2,549	
Effective portion of gains and losses on hedging instruments	165	-2,626	
Items subsequently reclassifiable to profit and loss (before tax)	**-18,439**	**-5,175**	***256.3%***
Actuarial gains and losses	431	-1,519	
Items not subsequently reclassifiable to profit and loss (before tax)	**431**	**-1,519**	***-128.4%***
Other items of comprehensive income (before tax)	**-18,007**	**-6,694**	***169.0%***
Tax on items subsequently reclassifiable to profit and loss	-60	904	
Tax on items not subsequently reclassifiable to profit and loss	-124	522	
Comprehensive income	**-2,163**	**9,912**	***-121.8%***
attributable to the owners of the parent company	-1,116	5,509	*-120.3%*
attributable to the non-controlling interests	-1,047	4,403	*-123.8%*

Statement of change in equity

in € thousand	Share capital	Share premiums	Reserves	Conversion reserves	Result for the period	Equity attributable to the owners of the parent company	Non-controlling interests	Equity
Equity as at 31/12/2015	**10,573**	**6,534**	**408,886**	**3,012**	**9,405**	**438,410**	**43,880**	**482,290**
2015 allocation of net income	-	-	9,405	-	-9,405	-	-	-
Distribution of dividends	-	-	-	-	-	-	-3,873	**-3,873**
Treasury shares	-	-	205	-	-	**205**	-	**205**
Changes in scope	-	-	-	-	-	-	-	-
Other variations	-	-	-93	-	-	**-93**	-	**-93**
Comprehensive income	-	-	-5,957	6,417	34,646	**35,106**	7,152	**42,258**
Equity as at 31/12/2016	**10,573**	**6,534**	**412,446**	**9,429**	**34,646**	**473,628**	**47,159**	**520,787**
2016 allocation of net income	-	-	34,646	-	-34,646	**-**	-	**-**
Distribution of dividends	-	-	-	-	-	**-**	-6,845	**-6,845**
Treasury shares	-	-	-258	-	-	**-258**	-	**-258**
Changes in scope	-	-	-	-	-	**-**	-	**-**
Other variations	-	-	-370	-	-	**-370**	-	**-370**
Comprehensive income	-	-	412	-15,449	13,921	**-1,116**	-1,047	**-2,163**
Equity as at 30/06/2017	**10,573**	**6,534**	**446,876**	**-6,020**	**13,921**	**471,884**	**39,267**	**511,151**

The ordinary shareholders' meeting of June 23, 2017 decided to pay no dividend on the result of fiscal year 2016.

For information, changes in equity of the first half of 2016 were as follows:

in € thousand	Share capital	Share premiums	Reserves	Conversion reserves	Result for the period	Equity attributable to the owners of the parent company	Non-controlling interests	Equity
Equity as at 31/12/2015	**10,573**	**6,534**	**408,886**	**3,012**	**9,405**	**438,410**	**43,880**	**482,290**
2015 allocation of net income	-	-	9,405	-	-9,405	-	-	-
Distribution of dividends	-	-	-	-	-	-	-2,337	**-2,337**
Treasury shares	-	-	-902	-	-	**-902**	-	**-902**
Changes in scope	-	-	-	-	-	-	-	-
Other variations	-	-	-	-	-	**-**	-	**-**
Comprehensive income	-	-	-2,719	-4,871	13,098	**5,509**	4,403	**9,912**
Equity as at 30/06/2016	**10,573**	**6,534**	**414,670**	**-1,859**	**13,098**	**443,017**	**45,946**	**488,963**

Cash flow statement

in € thousand	Notes	30/06/2017	30/06/2016
Result for the period		**16,029**	**15,179**
Elimination of share from companies' profit accounted for by the equity method	**A5**	-473	-377
Elimination of depreciations and provisions		23,437	20,430
Elimination of deferred tax change		-7,310	-2,261
Elimination of gains and losses on disposals	**A13**	-18	91
Other income and expenses with no cash impact		-204	2,102
Cash flow		**31,461**	**35,165**
Effect of net change in inventories	**A6**	-3,643	-17,296
Effect of net change in trade receivables	**A7**	-12,926	7,668
Effect of net change in trade payables	**A9**	-4,975	-13,617
Effect of net change in other receivables and payables		-13,451	11,087
Effect of change in working capital requirements		**-34,995**	**-12,158**
Net financial interests paid	**A14**	10,226	9,288
Net cash flow generated by operating activities		**6,692**	**32,295**
Acquisitions of intangible assets	**A3-A8**	-3,413	-3,181
Acquisitions of tangible assets	**A4-A9**	-14,554	-16,898
Disposals of intangible and tangible assets		87	145
Change in financial assets		-1,420	-2,684
Change in debts relative to acquisitions		-	-
Acquisitions of subsidiaries or activities		-	-
Disposals of subsidiaries or activities		-	-
Dividends received		-	-
Net cash flow allocated to investing activities		**-19,300**	**-22,618**
Dividends paid to the owners of the parent company		-	-
Dividends paid to the non-controlling interests		-1,655	-2,337
Change in treasury shares		-352	-985
Increase/decrease of capital		-	-
Cash investments		-	669
Debt issuance	**A11**	102,732	907,521
Repayments of debt	**A11**	-90,489	-900,630
Net financial interests paid	**A14**	-10,226	-9,288
Net cash flow from financing activities		**10**	**-5,050**
Change in cash position		**-12,598**	**4,627**

Statement of change in cash position

in € thousand	30/06/2017	30/06/2016
Cash and cash equivalents	48,454	51,163
Bank overdraft	-9,158	-12,098
Accrued interests not yet matured	-36	-54
Opening net cash position	**39,260**	**39,011**
Cash and cash equivalents	46,946	60,161
Bank overdraft	-23,096	-17,170
Accrued interests not yet matured	-56	-45
Closing net cash position	**23,794**	**42,946**
Impact of currency conversion adjustments	-2,868	-692
Impact of changes in scope	-	-
Net change in cash position	**-12,598**	**4,627**

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

General information note

Virbac is an independent global pharmaceutical laboratory exclusively dedicated to animal health and markets a full range of products designed for companion animals and food producing animals.

Virbac is a public limited company under French law with an executive board and a supervisory board. Its trading name is "Virbac".
The company was established in 1968 in Carros. The lifetime of the company was extended until June 17, 2113.
The head office is located at 1ère avenue 2 065m LID, 06511 Carros. The company is registered on the Grasse Trade registry under the number 417350311 RCS Grasse.

The Virbac share is listed on the Paris stock exchange in section A of Euronext.

The 2017 condensed half-year consolidated financial statements were approved by the executive board on August 29, 2017.

The explanatory notes below support the presentation of the consolidated accounts and form an integral part of them.

Significant events for the period

Recognition of a revenue arising from a licensing contract
A Group's subsidiary signed in March 2014 a contract granting an exclusive license on a technology it owns, to a third company. The co-contracting party is therefore allowed to develop, produce, formulate and obtain the required authorisations to distribute and sell the products arising from the use of this technology. The analysis of the terms of the contract and more specifically the stipulated resolutory clause led the Group to postpone the recognition of the corresponding revenue.
The license revenue amounting to $3.15 million being definitively acquired at closing date of the first half 2017, it has been recognised into the interim consolidated statements.

Continuation of the implementation of the factoring scheme launched in 2016
Virbac extended the factoring scheme, which engendered the de-recognition of additional account receivables for a total amount of €9.5 million compared to December 31,2016.

Significant events after the closing date

As part of its financing policy, the Group strengthened its liquidity through establishment of a medium-to-long-term line of credit of up to $90 million. This new line thus completes the RCF line (Revolving Credit Facility) of €420 million, signed in 2015 with the historical pool of banks, bilateral loans, and outstanding market-based contracts (*Schuldschein*).

Scope of consolidation

The condensed consolidated financial statements as at June 30, 2017 include the financial statements of the companies that Virbac controls indirectly or directly, in law and in fact. The list of consolidated companies is provided in note A19.

Main accounting principles applied

The Virbac group’s consolidated financial statements were drawn up in line with the international accounting standards as adopted by the European Union (accounting basis available on the ec.europa.eu website). The international accounting standards include the IFRS (International financial reporting standards), the IAS (International accounting standards) and their interpretations SIC (Standards interpretations committee) and IFRIC (International financial reporting interpretations committee).

The half-year condensed financial statements as of June 30, 2017, are presented and have been prepared in accordance with standard IAS 34 “Interim financial reporting”. The condensed interim financial statements do not include the whole information required by the IFRS reference system. They should be analysed with the consolidated statements of the previous year’s balance sheet date, as of December 31, 2016.
The accounting principles applied to the condensed consolidated financial statements are identical to those applied to the preparation of the consolidated statements of the previous year’s balance sheet date, as of December 31, 2016.

On the reporting date of these consolidated financial statements, the following standards and interpretations were submitted by IASB (International accounting standards board) and adopted by the European Union. Application date of these standards is after January 1, 2017, with an option for early application:

- IFRS 9 “financial instruments”;
- IFRS 15 “revenue from contracts with customers”.

On the reporting date of these consolidated financial statements, the following standards and interpretations were submitted by IASB (International accounting standards board) but still not adopted by the European Union or not applicable by anticipation:

- amendments to IAS 7, “information related to financing activities”;
- amendments to IAS 12, “recognition of deferred tax assets for unrealised losses”;
- annual improvements (2014-2016 cycle), “annual improvements to IFRS”, applicable to periods beginning on or after January 1, 2017;
- IFRS 16 “leases”;
- amendments to IFRS 2 “classification and measurement of share-based payment transactions”;
- IFRIC 22 “foreign currency transactions and advance consideration”;
- IFRIC 23 “uncertainty over income tax treatments”;
- amendments to IFRS 4 “applying IFRS 9 with IFRS 4”;
- amendments to IAS 40 “transfert of investment property”.

The Group is currently performing an analysis on the practical consequences of these new texts and the effects of their application on the accounts. Where necessary, the Group will apply these standards in its financial statements when adopted by the European Union.

Consolidation rules

Consolidation methods

The accounts of companies under exclusive control are consolidated by global integration. Those companies over which Virbac exercises joint control or significant influence are accounted for by the equity method.
All companies have been consolidated on the basis of financial statements using 30 June, 2017 as their balance sheet date.

Conversion of financial statements

The functional currency in the Group's foreign subsidiaries is the current local currency with the exception of the company Virbac Uruguay whose functional currency is US dollar.
The financial statements of foreign companies for which the functional currency is not the euro are converted according to the following principles:

- the balance sheet items are converted at the rate in force at the close of the period. The conversion difference resulting from the application of a different exchange rate on opening equity is shown as equity in the consolidated balance sheet;
- the income statements are converted at the average rate for the period. The conversion difference resulting from the application of an exchange rate different from the balance sheet rate is shown as equity on the consolidated balance sheet.

Elimination of inter-company transactions

All reciprocal transactions between the Group's companies consolidated by overall inclusion are eliminated. Regarding the other intra-group transactions:

- the benefits included in the inventories and fixed assets bought from other companies in the Group are eliminated;
- the intra-group dividends received are recorded in the reserves on a gross basis.

Transfer prices charged for transactions between Group’s subsidiaries are the same as the ones that would have been determined in an arm’s length transaction with third party.

Estimations

The drawing up of consolidated financial statements prepared in accordance with international accounting standards implies that the Group makes a number of estimates and assumptions believed to be realistic and reasonable.
Certain facts and circumstances could lead to changes in estimates and assumptions, which could affect the value of assets, liabilities, equity and Group income.

Acquisition prices

Some acquisition contracts relating to business combinations or the purchase of intangible assets, include a clause likely to change the price of the acquisition, depending on the objectives associated with financial income, the obtainment of marketing authorisation, or results of efficacy testing.
In this case, the Group should estimate, at the close of the fiscal year, the acquisition price based on the most realistic assumptions for achieving these objectives.

Tax charge

The Group tax charge is calculated on the basis of the effective tax rate estimated for the fiscal year 2017, and applied to the result before tax as at June 30, 2017. This annual effective tax rate was estimated based on the tax rates (and tax regulations) in force or substantially adopted at the end of June 2017.

A1. Goodwill

Change in goodwill by CGU

in € thousand	Gross value as at 31/12/2016	Impairment value as at 31/12/2016	Book value as at 31/12/2016	Increases	Sales	Impair-ment of value	Conversion gains and losses	Book value as at 30/06/2017
Italy	1,585	-	**1,585**	-	-	-	-	**1,585**
Denmark	4,643	-	**4,643**	-	-	-	-	**4,643**
Leishmaniosis vaccine	5,421		**5,421**	-	-	-	-	**5,421**
Greece	1,358	-	**1,358**	-	-	-	-	**1,358**
Colombia	1,968	-	**1,968**	-	-	-	-144	**1,824**
India	15,816	-	**15,816**	-	-	-	-436	**15,380**
United States	244,274	-3,890	**240,384**	-	-	-	-18,223	**222,161**
Australia	3,432	-342	**3,091**	-	-	-	-32	**3,059**
Peptech	3,308	-	**3,308**	-	-	-	-57	**3,251**
New Zealand	16,753	-169	**16,584**	-	-	-	-421	**16,163**
Chile	33,292	-	**33,292**	-	-	-	-2,195	**31,097**
Uruguay	4,513	-	**4,513**	-	-	-	-345	**4,168**
SBC	7,865	-	**7,865**	-	-	-	-485	**7,380**
Other CGUs	4,283	-1,743	**2,540**	-	-	-	-22	**2,518**
Goodwill	**348,511**	**-6,144**	**342,368**	**-**	**-**	**-**	**-22,360**	**320,008**

No change occurred in the scope of consolidation during the current period, therefore the variation of this item is due to exchange rate fluctuations.

A2. Intangible assets

in € thousand	Concessions, patents, licences and brands		Other intangible assets	Intangible assets in progress	Intangible assets
	Indefinite life	Finite life			
Gross value as at 31/12/2016	**177,102**	**245,535**	**51,176**	**9,476**	**483,289**
Acquisitions and other increases	-	46	263	1,263	**1,571**
Disposals and other decreases	-	-19	-578	-	**-597**
Changes in scope	-	-	-	-	**-**
Transfers	-	174	899	-901	**172**
Conversion gains and losses	-9,985	-14,146	-483	-392	**-25,007**
Gross value as at 30/06/2017	**167,117**	**231,589**	**51,276**	**9,445**	**459,428**
Depreciation as at 31/12/2016	**-219**	**-84,512**	**-43,888**	**-291**	**-128,909**
Depreciation expense	-	-8,689	-1,514	-	**-10,203**
Impairment losses (net of reversals)	-	-	-3	-	**-3**
Disposals and other decreases	-	19	578	-	**597**
Changes in scope	-	-	-	-	**-**
Transfers	-	-	-3	-	**-3**
Conversion gains and losses	-	4,159	415	9	**4,584**
Depreciation as at 30/06/2017	**-219**	**-89,022**	**-44,414**	**-282**	**-133,937**
Net value as at 31/12/2016	**176,883**	**161,023**	**7,288**	**9,185**	**354,380**
Net value as at 30/06/2017	**166,898**	**142,567**	**6,862**	**9,164**	**325,491**

The breakdown of the net value of "concessions , patents and brands" is as follows:

Breakdown by date and operation of external growth

As at June 30, 2017

in € thousand	Acquisition date	Brands	Patents and know-how	Marketing authorisations and registration rights	Customers lists and others	Total
United States: Sentinel	2015	43,901	30,950	48,786	14,064	**137,701**
SBC	2015	-	4,004	1,964	-	**5,968**
Uruguay: Santa Elena	2013	3,435	9,596	-	-	**13,031**
Australia: Axon	2013	970	1,492	-	-	**2,461**
Australia: Fort Dodge	2010	1,629	484	-	-	**2,113**
New Zealand	2012	3,408	987	-	3,591	**7,986**
Centrovet	2012	21,140	39,141	-	10,972	**71,254**
Multimin	2011-2012	3,544	6,195	-	-	**9,739**
Peptech	2011	1,043	157	-	-	**1,200**
Colombia: Synthesis	2011	1,780	-	948	-	**2,728**
Schering-Plough Europe	2008	4,879	373	6,124	-	**11,376**
India: GSK	2006	12,216	-	-	-	**12,216**
Leishmaniosis vaccine	2003	-	1,984	15,827	-	**17,811**
Others		7,242	1,610	3,920	1,108	**13,881**
Total intangible assets		**105,187**	**96,973**	**77,569**	**29,736**	**309,464**

Breakdown by nature

As at June 30, 2017

in € thousand	Intangible assets with indefinite life	Intangible assets with finite life	Total
Brands	105,187	-	**105,187**
Patents and know-how	42,849	54,124	**96,973**
Marketing authorisations and registration rights	18,847	58,722	**77,569**
Customers lists and others	15	29,720	**29,735**
Total intangible assets	**166,898**	**142,567**	**309,464**

A3. Impairment tests

The Group performs impairment tests on the net book value of the assets at least annually, for year-end closing.
At half-year closing, the Group watches if there is objective evidence that an asset is impaired, based on qualitative and quantitative criteria, and, when appropriate, proceeds to an impairment test.

At the end of June 2017, the Group re-examined the value of its CGU United States because of less favorable year-end forecasts than anticipated while the year-end 2016 impaiment tests campaign. Nevertheless, the conclusion of the test did not conduct Virbac to recognize an impairment at June, 30.

The tests performed at June 30,2017 are based on business plans validated by the management and the key assumptions used for these tests are stated below:

in € thousands	Net book value as of 30/06/2017		Discount rate	Terminal growth rate
	Goodwill	Assets		
CGU United States	222,161	223,035	7.50%	2.00%

Sensitivity tests

Sensitivity testing involves changing the key assumptions as follows:
- increasing discount rate by +2.0 points;
- reducing the perpetual growth rate by -2.0 points.

Moreover, the Group proceeds to additional sensitivity tests corresponding to the calculation of the break-even point, that is the discount rate combined with a zero perpetual growth rate, on the basis of which the Group would have to recognize an impairment.

The conclusions of the sensitivity tests and the calculation of the break-even point for the CGU United States at June 30, 2017, are shown below:

- increasing discount rate by +2.0 points

in € thousands	Net book value as of 30/06/2017	Key assumption discount rate +2.0 points	Key assumption growth rate	Impairment
CGU United States	445,196	9.50%	2.00%	-

- reducing the perpetual growth rate by -2.0 points

in € thousands	Net book value as of 30/06/2017	Key assumption discount rate	Key assumption growth rate -2.0 points	Impairment
CGU United States	445,196	7.50%	0.00%	-

- break-even point

in € thousands	Net book value as of 30/06/2017	Discount rate, combined with a zero terminal growth rate, from which an impairment should be recognized
CGU United States	445,196	8.91%

A4. Tangible assets

in € thousand	Land	Buildings	Technical facilities, materials and industrial equipment	Other tangible assets	Tangible assets in progress	Tangible assets
Gross value as at 31/12/2016	**20,902**	**175,345**	**172,344**	**33,280**	**45,905**	**447,776**
Acquisitions and other increases	-	437	1,747	1,372	7,589	**11,144**
Disposals and other decreases	-34	-81	-433	-1,564	-1	**-2,113**
Changes in scope	-	-	-	-	-	**-**
Transfers	-	1,551	2,677	646	-4,877	**-3**
Conversion gains and losses	-733	-3,031	-2,915	-1,035	-2,998	**-10,713**
Gross value as at 30/06/2017	**20,135**	**174,221**	**173,419**	**32,698**	**45,618**	**446,091**
Depreciation as at 31/12/2016	**-**	**-85,322**	**-94,237**	**-21,400**	**-**	**-200,958**
Depreciation expense	-	-3,671	-5,644	-1,900	-	**-11,215**
Impairment losses (net of reversals)	-	-4	-	-7	-	**-11**
Disposals and other decreases	-	79	422	1,543	-	**2,044**
Changes in scope	-	-	-	-	-	**-**
Transfers	-	-	-15	377	-	**362**
Conversion gains and losses	-	1,137	1,660	684	-	**3,481**
Impairment as at 30/06/2017	**-**	**-87,781**	**-97,813**	**-20,702**	**-**	**-206,296**
Net value as at 31/12/2016	**20,902**	**90,023**	**78,107**	**11,880**	**45,905**	**246,818**
Net value as at 30/06/2017	**20,135**	**86,440**	**75,606**	**11,996**	**45,618**	**239,795**

At constant exchange rate, the amount of tangible assets and tangible assets in progress increased in the first half of 2017. This increase is mainly related to:

- continued investments aimed at transferring the production of the Sentinel range (in the plant of St. Louis and also the facilities of a subcontractor of Virbac US in Italy) for an amount of $3,258 thousand (€2,855 thousand), other investments were also incurred in the plant of St. Louis for an amount of $1,719 thousand (€1,506 thousand);
- recurring investments in Carros (€3,417 thousand).

A5. Share in companies accounted for by the equity method

in € thousand	Company's individual accounts using equity method				Consolidated financial statements	
	Balance sheet total	Equity	Sales	Result	Share of equity	Share of result
AVF Animal Health Co Ltd	N.D	N.D	-	-	2,774	473
Share in companies accounted for by the equity method					**2,774**	**473**

A6. Inventory and work in progress

in € thousand	Raw materials and supplies	Work in progress	Finished products and goods for resale	Inventories and work in progress
Gross value as at 31/12/2016	**88,106**	**13,155**	**112,274**	**213,535**
Variations	-1,302	1,358	2,529	**2,586**
Changes in scope	-	-	-	**-**
Transfers	-	-	-	**-**
Conversion gains and losses	-3,156	-109	-4,584	**-7,849**
Gross value as at 30/06/2017	**83,648**	**14,404**	**110,220**	**208,272**
Depreciation as at 31/12/2016	**-8,039**	**-1,431**	**-6,158**	**-15,627**
Allowances	-1,917	-567	-2,416	**-4,900**
Reversals	1,960	1,431	2,567	**5,958**
Changes in scope	-	-	-	**-**
Transfers	-	-	-	**-**
Conversion gains and losses	466	-	246	**711**
Depreciation as at 30/06/2017	**-7,531**	**-567**	**-5,761**	**-13,858**
Net value as at 31/12/2016	**80,067**	**11,724**	**106,116**	**197,907**
Net value as at 30/06/2017	**76,118**	**13,837**	**104,459**	**194,413**

A7. Trade receivables

in € thousand	Trade receivables
Gross value as at 31/12/2016	**133,932**
Variations	**12,895**
Changes in scope	**-**
Transfers	**-**
Conversion gains and losses	**-4,789**
Gross value as at 30/06/2017	**142,038**
Depreciation as at 31/12/2016	**-4,735**
Allowances	**-189**
Reversals	**220**
Changes in scope	**-**
Transfers	**-**
Conversion gains and losses	**-22**
Depreciation as at 30/06/2017	**-4,726**
Net value as at 31/12/2016	**129,197**
Net value as at 30/06/2017	**137,312**

The de-recognition of trade receivables continued thanks to the extension of the factoring scheme to new subsidiaries or to new customers in other entities of the Group. Nevertheless, this did not offset the increase of trade receivables related to the business growth during the second quarter of 2017.

A8. Other receivables

in € thousand	31/12/2016	Variations	Changes in scope	Transfers	Conversion gains and losses	30/06/2017
Income tax receivables	**3,545**	-2,089	-	-	7	**1,463**
Social receivables	**526**	365	-	-	-36	**855**
Other receivables to the State	**27,117**	-8,620	-	2,332	-219	**20,610**
Advances and prepayments on orders	**3,147**	1,602	-	-	-230	**4,519**
Depreciation on various other receivables	**-**	-	-	-	-	**-**
Prepaid expenses	**5,635**	1,611	-	272	-198	**7,319**
Other various receivables	**17,900**	4,466	-	-3,975	-611	**17,779**
Other receivables	**57,870**	**-2,664**	**-**	**-1,371**	**-1,289**	**52,546**

The decrease of this item is mainly due to the assignment of the receivable related to the tax credit research of the year 2016 (for a total amount of €7,636 thousand). This decrease is partially offset by the recognition of the estimated receivable related to the tax credit research of the year 2017, amounting to €3,450 thousand.

A9. Trade payables

in € thousand	31/12/2016	Variations	Changes in scope	Transfers	Conversion gains and losses	30/06/2017
Current trade payables	**99,131**	-6,325	-	875	-2,487	**91,193**
Payables of intangible assets	**1,732**	-1,842	-	184	-74	**0**
Payables of tangible assets	**4,398**	-3,409	-	-184	-186	**618**
Trade payables	**105,261**	**-11,577**	**-**	**875**	**-2,748**	**91,812**

A10. Other provisions

in € thousand	31/12/2016	Allowances	Reversals	Changes in scope	Transfers	Conversion gains and losses	30/06/2017
Trade disputes and industrial tribunals	**2,032**	276	-655	-	-184	-9	**1,460**
Various risks and charges	**527**	1,192	-130	-	254	-15	**1,827**
Other non-current provisions	**2,558**	**1,468**	**-784**	**-**	**70**	**-24**	**3,288**
Trade disputes and industrial tribunals	**576**	787	-67	-	-	-67	**1,229**
Various risks and charges	**1,621**	-	-518	-	-70	-48	**985**
Other current provisions	**2,197**	**787**	**-585**	**-**	**-70**	**-115**	**2,214**
Other provisions	**4,755**	**2,255**	**-1,369**	**-**	**-**	**-140**	**5,502**

Other provisions mainly relate to social or tax risks. They include an amount of €900 thousand (whereas €460 thousand already recorded as at December 31, 2016) in order to cope with the financial impact of tax audits led in the Group.

Reversed provisions were used for the purpose of which they were intended.

Contingent liabilities

No provision is recognised if the company considers that the liability is contingent (as defined by IAS 37). Only a provision related to an estimate of proceeding fees might be recorded.

This is the case in particular of a claim lodged in 2014 by a competitor of the Group in reparation of alleged damage relating to a method to use patent. The company considers that claim to be both legally unfounded and quantitatively disproportionate in view of its amount. It is therefore a contingent liability, with a low probability of leading to a significant outflow.

This is also the case of a claim lodged by a competitor of the Group in reparation of alleged damage relating to the reputation of one of its brands and the infringement of this brand. Virbac considers that claim to be both legally unfounded and quantitatively disproportionate in view of the requested compensation. It is therefore a contingent liability, with a low probability of leading to a significant outflow.

Two law suits were filed against Virbac in 2016 and 2017, related to a compensation for breach of contract that the Group considers as unfounded. After inquiry of its lawyers, Virbac disputes the merits of these claims and considered these as contingent liabilities with a low probability of leading to a significant outflow.

A11. Other financial liabilities

Change in other financial liabilities

in € thousand	31/12/2016	Increase	Decrease	Changes in scope	Transfers	Conversion gains and losses	30/06/2017
Loans	**430,709**	88,203	-10,319	-	98	-25,269	**483,421**
Bank overdrafts	**-**	-	-	-	-	-	**-**
Accrued interests not yet matured	**-**	-	-	-	-	-	**-**
Debt relating to leasing contracts	**3,036**	299	-42	-	-1,161	-43	**2,089**
Employee profit sharing	**4**	-	-2	-	-	-	**2**
Currency and interest rate derivatives	**4,711**	-	-2,834	-	-	1	**1,878**
Other	-	-	-	-	-	-	**-**
Other non-current financial liabilities	**438,460**	**88,502**	**-13,197**	**-**	**-1,063**	**-25,312**	**487,390**
Loans	**144,515**	13,888	-78,421	-	173	-4,359	**75,796**
Bank overdrafts	**9,158**	14,063	-	-	-	-125	**23,096**
Accrued interests not yet matured	**36**	20	-	-	-	-	**56**
Debt relating to leasing contracts	**3,286**	168	-1,691	-	1,694	-159	**3,298**
Employee profit sharing	**61**	175	-13	-	-	1	**224**
Currency and interest rate derivatives	**-**	-	-	-	-	-	**-**
Other	**-**	-	-	-	-	-	**-**
Other current financial liabilities	**157,057**	**28,314**	**-80,125**	**-**	**1,867**	**-4,642**	**102,471**
Other financial liabilities	**595,517**	**116,816**	**-93,322**	**-**	**804**	**-29,954**	**589,861**

The main features of the two funding instruments put in place in April 2015 are still in place:

- a syndicated loan of €420 million, drawn in euros and dollars, contracted with a pool of banks and repayable in full upon maturity in April 2020, with the option to extend the term to April 2022;
- market-based contracts (*Schuldschein*) consisting of four instalments, with maturities of five, seven and ten years, at variable and fixed rates.

As at June 30, 2017, the position of these funding instruments was as follows:

- the drawn credit facility amounted to $419 million;
- the market-driven contracts amounted to €15 million and $15.5 million.

Moreover, new funding instruments were signed during the first quarter with Banque Publique d'Investissement for an amount totalling €15 million, repayable over 7 years (March 2024).

These fundings include a financial covenant compliance clause that requires the borrower to adhere to the following financial ratio, which is based on the consolidated financial statements and reflects net consolidated indebtedness (1) for the period considered on the consolidated Ebitda (Earnings before interests, taxes, depreciation and amortisation) (2) for the same test period.

Following discussions with the various creditors at the end of the fourth quarter of 2016, the initial ratio was relaxed until the end of 2017, as follows :

- the ratio should not exceed 5.5 at June 30, 2017;
- the ratio should not exceed 4.75 at December 31,2017.

As at June 30, 2017, the ratio is respected, at 4.64, or 5.01 at constant exchange rates (3).

(1) Net consolidated indebtedness represents the total of the other financial liabilities current and non-current, as follows: loans, bank overdrafts, accrued interests not yet matured, debt relating to leasing contracts, employee profit-sharing, currency and interest rate derivatives, and others; deducted from following elements : cash and cash equivalents, fixed-term deposits, and currency and interest rate derivatives as shown into the consolidated statements.
(2) Consolidated Ebitda represents the operating result of the considered period plus the allowances to amortisations and provisions net from releases, and dividends received from non-consolidated entities.
(3) The ratio at constant exchange rates is calculated as follows: net indebtedness as at June 30, 2017 calculated by using the closing exchange rates applicable as at December 31, 2016 and consolidated Ebitda as at June 30, 2017 calculated by using the average exchange rates applicable in 2016.

Other financial liabilities by maturity

As at June 30, 2017

in € thousand	Payments			Total
	less than 1 year	from 1 to 5 years	more than 5 years	
Loans	75,796	460,921	22,500	**559,217**
Bank overdrafts	23,096	-	-	**23,096**
Accrued interests not yet matured	56	-	-	**56**
Debt relating to leasing contracts	3,298	2,089	-	**5,387**
Employee profit sharing	224	2	-	**227**
Currency and interest rate derivatives	-	1,878	-	**1,878**
Other	-	-	-	**-**
Other financial liabilities	**102,471**	**464,890**	**22,500**	**589,861**

A12. Revenue from ordinary activities

in € thousand	30/06/2017	30/06/2016	*Change*
Sales of finished goods and merchandise	491,784	480,186	*2.4%*
Services	57	780	*-92.7%*
Additional income from activity	3,766	622	*505.1%*
Royalties paid	165	55	*199.3%*
Gross sales	**495,772**	**481,644**	***2.9%***
Discounts, rebates and refunds on sales	-46,121	-40,195	*14.7%*
Expenses deducted from sales	-9,743	-8,692	*12.1%*
Financial discounts	-2,159	-1,986	*8.7%*
Provision for returns	-212	-811	*-73.9%*
Expenses deducted from sales	**-58,236**	**-51,684**	***12.7%***
Revenue from ordinary activities	**437,536**	**429,960**	***1.8%***

Sales globally increased by 1.8% during the first semester, supported by good performances in all regions, excepted in the United-States where activity decreased by 10.7% compared with first half 2016 (-12.1% at constant exchange rates). Excluding currency effects, revenue was slightly down (-0.5%).

The first-half revenue includes the proceeds from a licensing agreement of $3.15 million (€2.82 million). This income explains the variation of the line "additional income from activity".

A13. Other operating income and expenses

in € thousand	30/06/2017	30/06/2016	*Change*
Royalties paid	-1,912	-1,943	*-1.6%*
Grants received (including research tax credit)	4,554	3,960	*15.0%*
Allowances for depreciation of receivables	-189	-46	*313.5%*
Reversals of depreciation of receivables	220	70	*215.6%*
Bad debts	-50	-41	*21.4%*
Net book value on disposed assets	-69	-236	*-70.9%*
Income from disposals of assets	87	145	*-40.1%*
Other operating income and expenses	-1,995	329	*-706.4%*
Other current income and expenses	**647**	**2,238**	***-71.1%***

The item "Other operating income and expenses" at June 30, 2017, includes a commission amounting to €0.5 million to be paid following the license contract. It also includes expenses related to the recall of Iverhart products with short expiry date (for €0.5 million), for which a provision had been recognized in 2016.

A14. Financial income and expenses

in € thousand	30/06/2017	30/06/2016	*Change*
Gross cost of financial debt	-10,321	-10,011	*3.1%*
Income from cash and cash equivalents	95	723	*-86.9%*
Net cost of financial debt	**-10,226**	**-9,288**	***10.1%***
Foreign exchange gains and losses	-6,378	6,248	*-202.1%*
Changes in foreign currency derivatives and interest rate	5,005	-3,869	*-229.4%*
Other financial charges	-66	-91	*-27.6%*
Other financial income	31	8	*314.0%*
Other financial income and expenses	**-1,407**	**2,296**	***-161.3%***
Financial income and expenses	**-11,633**	**-6,992**	***66.4%***

The financial result was affected by a deterioration of the foreign exchange gains ans losses which represented a gain amounting to €6.2 million at the end of June 2016, and a loss amounting to €6.4 miilion at the and of June 2017, that is a deterioration of -€12.6 million. This latter is mainly due to the weakening of the Chilean peso (CLP), which contributes to -€10.5 million. This exchange loss is largely offset by the variation of derivative financial exchange instruments.

A15. Income tax

In accordance with IAS 34, in the financial statements at June 30, 2017, the tax charge was determined by applying to the profit before tax for the period the average tax rate estimated for the year 2017.

Deferred tax assets

The increase of the deferred tax receivable is mainly due to the capitalization by Virbac US, of the tax losses incurred during the first half 2017.

A16. Result per share

	30/06/2017	30/06/2016
Profit attributable to the owners of the parent company	**13,921,355 €**	**13,098,252 €**
Total number of shares	8,458,000	8,458,000
Impact of dilutive instruments	-	-
Number of treasury shares	31,628	33,677
Outstanding shares	8,426,372	8,424,323
Profit attributable to the owners of the parent company, per share	**€1.65**	**€1.55**
Profit attributable to the owners of the parent company, diluted per share	**€1.65**	**€1.55**

Treasury shares

Virbac holds treasury shares intended to supply plans to award performance shares, as well as the market-making contract. The amount of these shares is recorded as a reduction of equity.

As at June 30, 2017, the number of shares held by the Group amounted to 31,628 (against 33,677 shares as at June 30, 2016) for a total of €4,275 thousand.

A17. Operating segments

In accordance with IFRS 8, the Group provides information on operating segments as used internally by the executive board, considered as the chief operating decision maker.

The segment reporting of the Group is the geographical area. The breakdown by geographic area covers seven sectors, according to the location of the assets of the Group:

- France;
- Europe (excluding France);
- Latin America;
- North America;
- Asia;
- Pacific;
- Africa & Middle East.

The Group's operations are organised and managed separately according to the nature of the markets. There are two marketing segments that are companion animals and food producing animals. These can not be considered as a segment information for the reasons listed below:

- nature of products: most therapeutic segments are common to companion and food producing animals (antibiotics, pesticides ...);
- production processes: the production lines are common to both segments and there is no significant differentiation of supply sources;
- type or category of customers: the distinction is made between the ethical sector (veterinarians) and OTC (Over the counter);
- internal organisation: the management structures of the Virbac Group are organised by geographical areas. There is no responsibility for marketing segment at Group level;
- distribution methods: the main distribution channels are more dependent on countries that segment marketing. The sales force may be, in some cases, common to both segments marketing;
- nature of the regulatory environment means the bodies authorising the placing on the market are the same regardless of the segment.

In the information presented below, the areas correspond to geographical areas (areas of implementation of the Group's assets). The result for France include the Group’s head office expenses and a substantial proportion of its research and development expenses.

As at June 30, 2017

in € thousand	France	Europe (excluding France)	Latin America	North America	Asia	Pacific	Africa & Middle East	Total
Revenue from ordinary activities	66,107	108,728	73,879	64,623	68,083	43,778	12,338	**437,536**
Current operating profit before depreciations of assets aring from acquisitions	9,356	6,202	11,437	-9,283	11,921	9,045	2,052	**40,730**
Profit attributable to the owners of the parent company	9,625	4,451	-1,115	-13,907	8,574	4,798	1,495	**13,921**
Non-controlling interests	2	-	2,106	-	-	-	-	**2,108**
Consolidated profit	**9,627**	**4,451**	**991**	**-13,907**	**8,574**	**4,798**	**1,495**	**16,029**

As at June 30, 2017

in € thousand	France	Europe (excluding France)	Latin America	North America	Asia	Pacific	Africa & Middle East	Total
Assets by geographic area	258,418	78,982	272,406	530,513	100,342	116,577	12,101	**1,369,339**
Intangible investment	1,382	45	120	-	24	-	-	**1,571**
Tangible investment	3,564	78	2,089	4,656	378	377	3	**11,144**

A18. Information on related parties

Transactions between the Group and related parties mainly concern:

Compensation and assimilated benefits granted to the members of the administrative and management bodies

In the first half of the year 2017, there is no significant transaction concluded between the Group and a member of the management body or a shareholder exercising a significant influence on the company.
Throughout the first half of the year 2017, no performance-related stock grants were awarded.

Transactions with companies on which Virbac exercices a significant influence or a joint control

Transactions between related parties are arm's length operations. There is no major change in the nature of the transactions with related parties throughout the first half of the year 2017 compared to December 31, 2016.

A19. Scope of consolidation

Company name	Locality	Country	30/06/2017		31/12/2016	
			Control	Consolidation	Control	Consolidation
France						
Virbac (parent company)	Carros	France	100.00%	Full	100.00%	Full
Interlab	Carros	France	100.00%	Full	100.00%	Full
Virbac France	Carros	France	100.00%	Full	100.00%	Full
Virbac Distribution	Wissous	France	100.00%	Full	100.00%	Full
Virbac Nutrition	Vauvert	France	100.00%	Full	100.00%	Full
Bio Véto Test	La Seyne sur Mer	France	100.00%	Full	100.00%	Full
Alfamed	Carros	France	99.70%	Full	99.70%	Full
Europe (excluding France)						
Virbac Belgium SA	Wavre	Belgium	100.00%	Full	100.00%	Full
Virbac Nederland BV *	Barneveld	Netherlands	100.00%	Full	100.00%	Full
Virbac (Switzerland) AG	Glattbrugg	Switzerland	100.00%	Full	100.00%	Full
Virbac Ltd	Bury St. Edmunds	United Kingdom	100.00%	Full	100.00%	Full
Virbac SRL	Milan	Italy	100.00%	Full	100.00%	Full
Virbac Danmark A/S	Kolding	Denmark	100.00%	Full	100.00%	Full
Virbac Pharma Handelsgesellshaft mbH	Bad Oldesloe	Germany	100.00%	Full	100.00%	Full
Virbac Tierarzneimittel GmbH	Bad Oldesloe	Germany	100.00%	Full	100.00%	Full
Virbac SP zoo	Warsaw	Poland	100.00%	Full	100.00%	Full
Virbac Hungary Kft	Budapest	Hungary	100.00%	Full	100.00%	Full
Virbac Hellas SA	Agios Stefanos	Greece	100.00%	Full	100.00%	Full
Animedica SA	Agios Stefanos	Greece	100.00%	Full	100.00%	Full
Virbac España SA	Barcelona	Spain	100.00%	Full	100.00%	Full
Virbac Österreich GmbH	Vienna	Austria	100.00%	Full	100.00%	Full
Virbac de Portugal Laboratorios Lda	Almerim	Portugal	100.00%	Full	100.00%	Full
North America						
Virbac Corporation *	Fort Worth	United States	100.00%	Full	100.00%	Full
PP Manufacturing Corporation	Framingham	United States	100.00%	Full	100.00%	Full

*** Pre-consolidated levels**

Company name	Locality	Country	30/06/2017		31/12/2016	
			Control	Consolidation	Control	Consolidation
Latin America						
Virbac do Brasil Industria e Comercio Ltda	São Paulo	Brazil	100.00%	Full	100.00%	Full
Virbac Mexico SA de CV	Guadalajara	Mexico	100.00%	Full	100.00%	Full
Laboratorios Virbac Mexico SA de CV	Guadalajara	Mexico	100.00%	Full	100.00%	Full
Virbac Colombia Ltda	Bogota	Colombia	100.00%	Full	100.00%	Full
Laboratorios Virbac Costa Rica SA	San José	Costa Rica	100.00%	Full	100.00%	Full
Virbac Chile SpA	Santiago	Chile	100.00%	Full	100.00%	Full
Virbac Patagonia Ltda	Santiago	Chile	100.00%	Full	100.00%	Full
Holding Salud Animal SA	Santiago	Chile	51.00%	Full	51.00%	Full
Centro Veterinario y Agricola Limitada	Santiago	Chile	51.00%	Full	51.00%	Full
Farquimica SpA	Santiago	Chile	51.00%	Full	51.00%	Full
Bioanimal Corp SpA	Santiago	Chile	51.00%	Full	51.00%	Full
Productos Quimico Ehlinger	Santiago	Chile	51.00%	Full	51.00%	Full
Centrovet Inc	Allegheny	United States	51.00%	Full	51.00%	Full
Centrovet Argentina	Buenos Aires	Argentina	51.00%	Full	51.00%	Full
Inversiones HSA Ltda	Santiago	Chile	51.00%	Full	51.00%	Full
Rentista de capitales Takumi Ltda	Santiago	Chile	51.00%	Full	51.00%	Full
Virbac Uruguay SA	Montevideo	Uruguay	99.17%	Full	99.17%	Full
Virbac Latam Spa	Santiago	Chile	100.00%	Full	100.00%	Full
Asia						
Virbac Trading (Shanghai) Co. Ltd	Shanghai	China	100.00%	Full	100.00%	Full
Virbac H.K. Trading Limited	Hong Kong	Hong Kong	100.00%	Full	100.00%	Full
Asia Pharma Ltd	Hong Kong	Hong Kong	100.00%	Full	100.00%	Full
Virbac Korea Co. Ltd	Seoul	South Korea	100.00%	Full	100.00%	Full
Virbac (Thailand) Co. Ltd	Bangkok	Thailand	100.00%	Full	100.00%	Full
Virbac Taiwan Co. Ltd	Taipei	Taiwan	100.00%	Full	100.00%	Full
Virbac Philippines Inc.	Taguig City	Philippines	100.00%	Full	100.00%	Full
Virbac Japan Co. Ltd	Osaka	Japan	100.00%	Full	100.00%	Full
Virbac Asia Pacific Co. Ltd	Bangkok	Thaïland	100.00%	Full	100.00%	Full
Virbac Vietnam Co. Ltd	Ho Chi Minh Ville	Vietnam	100.00%	Full	100.00%	Full
Virbac Animal Health India Private Limited	Mumbai	India	100.00%	Full	100.00%	Full
SBC Virbac Limited	Hong Kong	Hong Kong	100.00%	Full	100.00%	Full
SBC Virbac Biotech Limited	Tapei	Taiwan	100.00%	Full	100.00%	Full
AVF Animal Health Co Ltd Hong-Kong	Hong Kong	Hong Kong	50.00%	Equity method	50.00%	Equity method
AVF Chemical Industrial Co Ltd Hong Kong	Hong Kong	Hong Kong	-	-	50.00%	Equity method
AVF Chemical Industrial Co Ltd China	Jinan (Shandong)	China	50.00%	Equity method	50.00%	Equity method
Pacific						
Virbac (Australia) Pty Ltd *	Milperra	Australia	100.00%	Full	100.00%	Full
Virbac New Zealand Limited	Hamilton	New Zealand	100.00%	Full	100.00%	Full
Africa & Middle East						
Virbac RSA (Proprietary) Ltd *	Centurion	South Africa	100.00%	Full	100.00%	Full

*** Pre-consolidated levels**

STATUTORY AUDITORS' REVIEW REPORT ON THE HALF-YEARLY FINANCIAL INFORMATION

Period from January 1 to June 30, 2017

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,

In compliance with the assignment entrusted to us by your annual general meeting and in accordance with Article L.451-1-2 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 Virbac for the period from January 1 to June 30, 2017;
- the verification of the information contained in 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.

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

SPECIFIC VERIFICATION

We have also verified 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.

Nice and Marseille, September 8, 2017
The statutory auditors
French original signed by

Novances - David & Associés
Jean-Pierre Giraud

Deloitte & Associés
Vincent Gros

STATEMENT OF RESPONSIBILITY FOR THE HALF-YEARLY FINANCIAL REPORT

I certify, to my knowledge, that the financial statements are prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position, and result of the company and all companies included in the consolidation, and that the management report presents an accurate picture of the evolution of the business, result, and financial position of the company and all companies included in the consolidation as well as a description of the main risks and uncertainties to which they are exposed.

Carros, 5 September 2017

Éric Marée, chairman of the executive board