

Consolidated accounts

CONSOLIDATED FINANCIAL STATEMENTS

Statement of financial position

in € thousand	Notes	2018	2017 *
Goodwill	A1-A3	309,711	303,048
Intangible assets	A2-A3	295,016	314,297
Tangible assets	A4	236,685	238,848
Other financial assets	A5	10,771	9,825
Share in companies accounted for by the equity method	A6	3,140	3,161
Deferred tax assets *	A7	9,936	7,530
Non-current assets		865,259	876,709
Inventories and work in progress	A8	195,776	184,758
Trade receivables *	A9	101,507	112,947
Other financial assets	A5	768	1,441
Other receivables	A10	46,686	53,079
Cash and cash equivalents	A11	62,810	48,378
Assets classified as held for sale	A12	-	-
Current assets		407,549	400,603
Assets		1,272,807	1,277,311
Share capital		10,573	10,573
Reserves attributable to the owners of the parent company *		449,735	425,755
Equity attributable to the owners of the parent company	A13	460,307	436,327
Non-controlling interests *		35,567	42,496
Equity		495,875	478,824
Deferred tax liabilities	A7	36,423	38,989
Provisions for employee benefits	A14	20,294	17,782
Other provisions	A15	10,532	3,010
Other financial liabilities	A16	375,900	409,634
Other payables	A17	2,520	571
Non-current liabilities		445,669	469,988
Other provisions	A15	1,778	2,240
Trade payables	A18	89,572	108,733
Other financial liabilities	A16	112,995	98,756
Other payables	A17	126,919	118,771
Current liabilities		331,265	328,501
Liabilities		1,272,807	1,277,311

* The first application of IFRS 9 generated a non-material adjustment of some lines of the statement of financial position (see note A9).

Income statement

in € thousand	Notes	2018	2017	Change
Revenue from ordinary activities	A19	868,932	861,882	0.8%
Purchases consumed	A20	-294,289	-303,438	
External costs	A21	-179,068	-179,029	
Personnel costs		-267,255	-263,116	
Taxes and duties		-11,931	-11,992	
Depreciations and provisions	A22	-28,745	-26,514	
Other operating income and expenses	A23	432	2,549	
Current operating profit before depreciation of assets arising from acquisitions¹		88,076	80,341	9.6%
Depreciations of intangible assets arising from acquisitions	A22	-15,043	-15,946	
Operating profit from ordinary activities		73,033	64,396	13.4%
Other non-current income and expenses	A24	-8,040	-6,348	
Operating result		64,993	58,048	12.0%
Financial income and expenses	A25	-24,104	-17,811	
Profit before tax		40,889	40,237	1.6%
Income tax	A26	-20,366	-39,243	
<i>Including non-current tax expense</i>		<i>-2,438</i>	<i>-21,379</i>	
Share from companies' result accounted for by the equity method		462	765	
Net result from ordinary activities²	A27	31,463	29,485	6.7%
Result for the period		20,985	1,759	1093.1%
attributable to the owners of the parent company		20,099	-2,575	-880.6%
attributable to the non-controlling interests		886	4,334	-79.6%
Profit attributable to the owners of the parent company, per share	A28	€2.39	-€0.31	-880.5%
Profit attributable to the owners of the parent company, diluted per share	A28	€2.39	-€0.31	-880.5%

¹ In order to provide a clearer picture of its economic performance, the Group has, since 2015, isolated the impact of the depreciation of intangible assets resulting from acquisition transactions. This turned out to have a material effect considering the latest external growth that took place through acquisitions. Therefore, the income statement shows a current operating profit, before depreciation of assets arising from acquisitions.

² Since 2017, the Group discloses a "Net result from ordinary activities" that equates to net profit restated for the following items:

- the line "Other non-current income and expenses";
- non-current tax, which includes the tax impact of "Other non-current income and expenses", as well as all non-recurring tax income and expenses.

Comprehensive income statement

in € thousand	2018	2017	Change
Result for the period	20,985	1,759	1093.1%
Conversion gains and losses	3,455	-34,149	
Effective portion of gains and losses on hedging instruments	-562	454	
Items subsequently reclassifiable to profit and loss (before tax)	2,892	-33,695	-108.6%
Actuarial gains and losses	-459	-165	
Items not subsequently reclassifiable to profit and loss (before tax)	-459	-165	177.7%
Other items of comprehensive income (before tax)	2,433	-33,860	-107.2%
Tax on items subsequently reclassifiable to profit and loss	194	-160	
Tax on items not subsequently reclassifiable to profit and loss	-17	-262	
Comprehensive income	23,595	-32,523	-172.5%
attributable to the owners of the parent company	25,277	-34,708	-172.8%
attributable to the non-controlling interests	-1,682	2,184	-177.0%

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 12/31/2016	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	-	-	-789	-	-	-789	-	-789
Changes in scope	-	-	-22	-	-	-22	-	-22
Other variations	-	-	-1,763	-	-	-1,763	-	-1,763
Comprehensive income	-	-	-133	-32,000	-2,575	-34,708	2,184	-32,524
Restated equity as at 12/31/2017 *	10,573	6,534	444,366	-22,571	-2,575	436,327	42,496	478,824
2017 allocation of net income	-	-	-2,575	-	2,575	-	-	-
Distribution of dividends	-	-	-	-	-	-	-5,247	-5,247
Treasury shares	-	-	52	-	-	52	-	52
Changes in scope	-	-	-	-	-	-	-	-
Other variations	-	-	-1,349	-	-	-1,349	-	-1,349
Comprehensive income	-	-	-844	6,023	20,099	25,278	-1,682	23,596
Equity as at 12/31/2018	10,573	6,534	439,650	-16,548	20,099	460,307	35,567	495,875

* The first application of IFRS 9 generated a non-material adjustment on opening balance (see note A9).

The ordinary shareholders' meeting of June 20, 2018 decided not to pay a dividend for the financial year 2017.

The other changes relate to equity entries recorded in accordance with IAS 8. These changes are due partly to an error in the parameters used to calculate the defined benefit pension commitment in France (amounting to €780 thousand net of tax), and partly to a change in the accounting method used for the employer's contribution owing on payments to fund this plan (amounting to €598 thousand net of tax).

Cash position statement

in € thousand	Notes	2018	2017
Result for the period		20,985	1,759
Elimination of share from companies' profit accounted for by the equity method	A6	-462	-765
Elimination of depreciations and provisions	A14-A22	56,110	43,455
Elimination of deferred tax change	A7	-2,331	14,350
Elimination of gains and losses on disposals	A23	-1,887	208
Other income and expenses with no cash impact		-2,378	3,460
Cash flow		70,036	62,467
Effect of net change in inventories	A8	-12,639	1,041
Effect of net change in trade receivables	A9	9,633	9,986
Effect of net change in trade payables	A18	-11,163	8,416
Effect of net change in other receivables and payables	A10-A17	11,077	5,960
Effect of change in working capital requirements		-3,092	25,403
Net financial interests paid	A25	16,678	19,936
Net cash flow generated by operating activities		83,623	107,806
Acquisitions of intangible assets	A2-A18	-8,047	-6,705
Acquisitions of tangible assets	A4-A18	-25,822	-31,537
Disposals of intangible and tangible assets	A23	5,862	283
Change in financial assets	A5	1,511	-4,282
Change in debts relative to acquisitions		-1,282	-
Acquisitions of subsidiaries or activities		-	-
Disposals of subsidiaries or activities		-	-
Withholding tax on distributions		-	-
Dividends received	A6	617	-
Net cash flow allocated to investing activities		-27,161	-42,241
Dividends paid to the owners of the parent company		-	-
Dividends paid to the non-controlling interests		-4,820	-5,159
Change in treasury shares		314	-1,041
Increase/decrease of capital		-	-
Cash investments		-	-
Debt issuance	A16	67,118	239,008
Repayments of debt	A16	-90,387	-281,815
Net financial interests paid	A25	-16,678	-19,936
Net cash flow from financing activities		-44,453	-68,943
Change in cash position		12,009	-3,378

Statement of change in cash position

in € thousand	2018	2017
Cash and cash equivalents	48,378	48,454
Bank overdraft	-16,689	-9,158
Accrued interests not yet matured	-40	-36
Opening net cash position	31,649	39,260
Cash and cash equivalents	62,810	48,378
Bank overdraft	-19,173	-16,689
Accrued interests not yet matured	-49	-40
Closing net cash position	43,588	31,649
Impact of currency conversion adjustments	-68	-4,233
Impact of changes in scope	-	-
Net change in cash position	12,009	-3,378

NOTES TO THE CONSOLIDATED ACCOUNTS

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.

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

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 joint ordinary and extraordinary shareholders' meeting held on June 17, 2014, which adopted the resolution on revamping the articles of association, the company's lifetime was extended to 99 years, *i.e.* until June 17, 2113.

The head office is located at 1^{ère} avenue 2065m LID, 06516 Carros. The company is registered in the Grasse Trade and companies register under the number 417350311 RCS Grasse.

The 2018 consolidated accounts were approved by the executive board on March 8, 2019. They will be submitted for approval to the shareholders' general meeting on June 18, 2019; the meeting has the power to have the statements amended.

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

Significant events over the period

Restructuring exercise involving the Virbac Distribution subsidiary

At the end of April 2018, the Virbac Distribution company, based in Wissous, Ile de France, sold its business goodwill to its historical provider of logistical services. This restructuring led to the closure of the site. The costs associated with this exercise, as well as proceeds from the sale of the building that housed this business, were recorded under "Other non-current income and expenses", amounting to a total of €2.5 million (see note A24).

Decision to outsource production of intramammarys

Virbac decided to close the intramammary production facility in Carros and to transfer production to an external supplier (CDMO -Contract Development and Manufacturing Organization-). This decision and the repercussions of this restructuring were presented to employee representative bodies in September 2018.

The actual site closure will take effect as soon as the regulatory transactions related to the change of production site (change in marketing authorization) are completed. This work was subcontracted to the CDMO and a Transfer Services contract was signed by Virbac in this regard. In accordance with IAS 37, Virbac set aside in its 2018 accounts a provision for all expenses the company has incurred under this restructuring exercise.

Virbac shall classify "Other non-current income and expenses" as non-recurring expenses, which result from one-time decisions or operations for an unusual amount. The costs associated with this restructuring exercise were included on this line, amounting to €4.1 million (including a provision of €3.9 million).

Extended syndicated loan

A syndicated loan of €420 million, drawn in euros and dollars, contracted with a pool of banks and repayable at maturity, with an initial maturity of April 2020, had its term extended until April 9, 2022, once the extension agreement was received by all of the lenders on March 23, 2018 (see note A16).

Developments in the dispute over trademark infringement and unfair competition

In the dispute over trademark infringement and unfair competition between Virbac and a competitor in France, a decision was rendered by the Court of Cassation on January 31, 2018, partially quashing the ruling of the Court of Appeal of Lyon dating back to May 13, 2015. In keeping with this decision, Virbac was granted in 2018 a reimbursement of the compensation the Group had paid in the amount €1,950 thousand following the ruling of the Court of Appeal of Lyon. Given the uncertainty remaining in the wake of these proceedings, in particular over the decision that may be rendered by the Court of Appeal to which the competitor referred the matter, in addition to another court action before the Tribunal de Grande Instance de Paris (Paris High Court) concerning similar facts, albeit on a European-wide basis, a provision has been recognized (see note A15).

Significant events after the closing date

There is no significant event after the closing date.

Scope

The consolidated financial statements as of December 31, 2018 include the financial statements of the companies that Virbac controls indirectly or directly in law or in fact. The list of consolidated companies is provided in note A38. On April 1, 2018, Virbac opened a distribution subsidiary in Turkey in order to boost sales in this particular market.

Accounting principles and methods applied**Compliance and basis for preparing the consolidated financial statements**

The Virbac group's consolidated accounts were drawn up in line with the international accounting standards as adopted by the European Union (regulation 1606/2002 dated July 19, 2002). 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).

New standards and interpretations**Mandatory standards and interpretations effective January 1, 2018**

For the presentation of the consolidated accounts for the 2018 financial year, the Group applied all standards and interpretations in force Europe-wide, applicable to financial years beginning on or after January 1, 2018. These standards and interpretations are as follows:

■ IFRS 15. Revenue from contracts with customers

This standard replaces IAS 18 "Revenue" and IAS 11 "Construction contracts".

IFRS 15 includes new income recognition principles, in particular for identification of performance obligations or transaction price allocation for multiple-element arrangements. It changes the analyses on revenue generated by licensing contracts or the inclusion of variable income. It also includes new reporting requirements in the notes to the consolidated accounts.

The Group began its IFRS 15 implementation project with a diagnostic phase during which the various categories of contracts entered into with customers, representative of Virbac's business, were analyzed in the main countries. Once the diagnostic was completed, Virbac implemented this new standard, which did not have a significant impact on the previous revenue recording practice.

■ IFRS 9. Financial instruments

This standard replaces IAS 39 "Financial instruments: recognition and measurement".

IFRS 9 was structured around three main themes: classification and valuation, impairment and hedge accounting. The adoption of IFRS 9 prompted the introduction of a new credit-risk recognition model when it comes to trade receivables. This model is built on an impairment matrix for receivables that are outstanding and not yet due, based on historical default rate losses.

The Group applied the standard as of January 1, 2018 and restated the opening statement of financial position. Considering the very low default rate on Virbac's trade receivables, the implementation of the new matrix had no significant impact on the consolidated accounts as at December 31, 2018 and on the opening balance sheet, with the net impact on opening equity amounting to -€19 thousand.

■ Amendments to IFRS 2. Share-based payment

These amendments provided the following clarifications:

- clarification on the impact of the attendance and performance conditions in the valuation and recognition of the debt incurred from the cash-settled plans;
- clarification on the treatment of a cash-settled source deduction due on an equity-settled plan;
- clarification on the recognition of a cash-settled plan converted to an equity-settled plan.

The Group took into account these details in the treatment of these share plans. These did not have any impact on the consolidated accounts as at December 31, 2018.

■ **Amendments to IFRS 4. Insurance contracts**

These amendments clarified the interaction between IFRS 4 "Insurance contracts" and IFRS 9 "Financial instruments". The Group has no activity that falls within the scope of this standard.

■ **Amendments to IAS 40. Investment property**

These amendments provided clarification on the transfer conditions between the various share classes. The Group has no activity that falls within the scope of this standard.

■ **IFRIC 22. Foreign currency transactions and advance consideration**

The purpose of this interpretation is to define the exchange rates to be used when an early payment has been made prior to completion of the transaction.

The Group shall implement this interpretation when a situation involving an early foreign currency payment arises.

Standards and interpretations available for early adoption as of January 1, 2018, as adopted by the EU (European Union)

On the reporting date of these consolidated accounts, the following standards and interpretations were submitted by both the IASB (International accounting standards board) and the IFRS IC (IFRS Interpretations committee) and adopted by the European Union. These standards and interpretations went into effect after the fiscal years beginning on or after January 1, 2018, but were available for early adoption.

■ **IFRS 16. Leases**

On January 13, 2016, the IASB (International Accounting Standards Board) published IFRS 16 to redefine how lease contracts are recognized, measured and presented. IFRS 16 will replace IAS 17, as well as related IFRIC and SIC interpretations and will remove, for lessees, the distinction previously made between "operating leases" and "finance leases". Lessees will be required to record all lease contracts with a term of more than one year by recording an asset and a liability for rights and obligations created by a lease contract. This new standard, adopted by the European Union on October 31, 2017, shall be applicable for financial years beginning on or after January 1, 2019.

The Group chose not to adopt this standard early, choosing instead to assess the implications involved in adopting the standard and anticipated its implementation. For the transition, the Group shall use the simplified retrospective method. The estimated impacts of adopting IFRS 16 on the 2018 financial statements are detailed in a dedicated note, at the end of the "Accounting principles and methods".

■ **Amendment to IFRS 9. Prepayment features with negative compensation**

This amendment includes an exception to allow instruments with symmetrical prepayment options to be eligible for cost amortization or to be recorded at fair value in OCI (Other comprehensive income).

The Group did not identify any cases affected by this amendment.

■ **IFRIC 23. Uncertainty over income tax treatments**

This interpretation clarifies rules for recognizing and measuring the fiscal implications of tax uncertainty, pursuant to IAS 12 ("Uncertainty over tax treatments").

The Group chose not to adopt this interpretation early and deemed that the impact of adopting this interpretation as at January 1, 2019 is not material.

Standards and interpretations available for early adoption as at January 1, 2018, not yet adopted by the EU

On the reporting date of these consolidated accounts, the standards and interpretations listed below were submitted by the IASB and IFRS IC respectively, but were still not adopted by the EU.

The Group chose not to adopt these standards and interpretations early, choosing instead to conduct an analysis of the implications involved in adopting them. Where necessary, the Group will apply these standards in its statements once they are adopted by the European Union.

■ **Amendment to IAS 19. Plan amendment, curtailment or settlement**

This amendment provides clarification on how such occurrences are taken into account in determining the cost of services rendered and the net interest expense for the period, both of which must be revalued from the date of the occurrence by using the actuarial assumptions available on that date.

■ **Amendment to IAS 28. Long-term interests in associates and joint ventures**

This amendment specifies how the IFRS 9 is applied to long-term investments, including as it pertains to any impairment thereof, in an associated company or a joint venture that is part of the latter's net investment.

Consolidation rules

Consolidation methods

Pursuant to IFRS 10, the Group's consolidated financial statements include the accounts of all the entities controlled by Virbac. The notion of control is now based on the fulfillment of all three of the following criteria:

- the parent company has power over the subsidiary whereby it has actual rights that give it the capacity to direct the relevant activities;
- the parent company is exposed to or has rights to variable returns because of its connections to that entity;
- the parent company has the capacity to exercise its power over this entity so as to affect the amount of returns that it receives.

The entities over which Virbac exercises this control are fully consolidated. As applicable, any non-controlling (minority) interests are valued on the date of acquisition in the amount of the fair value of the identified net assets and liabilities.

Those companies over which Virbac exercises joint control or significant influence are accounted for by the equity method.

All companies have been consolidated based on the financial statements as of December 31, 2018.

Conversion of the financial statements

The functional currency in the Group's foreign subsidiaries is the current local currency, with the exception of Virbac Uruguay SA whose functional currency is the 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 for opening equity is shown as equity on 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 transactions between Group companies, as well as inter-company profits, are eliminated from the consolidated accounts.

Accounting principles applied

Goodwill

Goodwill recognized as an asset in the statement of financial position represents the excess from the acquisition of the cost of the shares in companies acquired at the fair value of the assets and liabilities identifiable on the acquisition date. It also includes the value of the acquired business goodwill.

In line with the provisions of IAS 36 "Impairment of assets", goodwill is at the very least tested once annually, in the second half of the year, regardless of whether there is an indication of an impairment loss, and consistently whenever events or new circumstances indicate an impairment loss.

For the purposes of these tests, the asset values are grouped by CGU (Cash generating unit). In the case of goodwill, the related assets held by the legal entity are typically the smallest identifiable group of cash-flow-generating assets. The legal entity is therefore used as a CGU. In the implementation of goodwill impairment tests, the Group uses an approach based on estimated future cash flow (estimation of value in use). This approach consists of calculating the value in use of the CGU by discounting estimated future cash flows. When the value in use of the CGU is less than its net carrying amount, an impairment loss in respect of goodwill is recognized to reduce the net carrying amount of the assets of the CGU to their recoverable amount, which is defined as the higher of the net fair value and the value in use.

The future cash flows used for the impairment tests are calculated based on estimates (business plans) projected over a five-year horizon. This horizon was extended to twelve years as part of Virbac USA's asset impairment test in order to be aligned with the tax depreciation period for intangible assets acquired in 2015.

All of the business plans are validated by the subsidiaries' general management as well as by the Group's Finance Affairs department. The executive board formally validates the business plans and the main assumptions of the impairment test for the most significant CGUs.

For cash flow forecasts, the perpetual growth rates used, which depend on products and market growth expectations, and the discount rates based on the weighted average cost of capital after tax method, are presented in note A3.

Valuations carried out during the goodwill impairment tests are sensitive to the assumptions used in regards not only to the selling price and future costs, but also to the discount and infinite growth rates. Sensitivity calculations for measuring the Group's exposure to significant variations in these assumptions are performed.

Intangible assets

IAS 38 sets out the six criteria required to account for an intangible asset:

- technical feasibility needed to complete the development project;
- intent to complete the project;
- ability to use this intangible asset;
- demonstration of the likelihood the asset will generate future economic benefits;
- availability of technical, financial and other resources in order to complete the project and;
- reliable valuation of the development expenditures.

■ Internal development costs

They are only recorded under intangible assets if all six IAS 38 criteria have been met.

Intangible assets are valued at their historical acquisition cost, including acquisition fees, plus, if applicable, the internal costs of employees who have played a role in the realization of the intangible asset.

■ Research and development acquired separately

Payments made to acquire research and development activities separately are recorded as intangible assets when they meet the definition of an intangible asset, that is to say when it involves a controlled resource, from which Virbac expects to derive future economic benefits and which is identifiable, in other words separable or stemming from contractual or legal rights.

Pursuant to paragraph 25 of IAS 38, the first accounting criterion, which relates to the likelihood the intangible asset will generate future economic benefits, is deemed to be met for research and development activities when they are acquired separately. In this respect, amounts paid to third parties in the form of deposits or instalments on generic products that have not yet been granted a marketing authorization are recognized as an asset.

The amount of intangible assets is reduced by accumulated depreciation and, if applicable, accumulated impairment losses.

The intangible assets with finite useful lives are subject to a linear depreciation, from which time the asset is ready to be used:

- concessions, patents, licenses and marketing authorizations (MA): depreciated over their useful lives;
- standard software (office tools, etc.): depreciated over a period of three or four years;
- ERP: depreciated over a period of five to ten years.

Intangible assets with indefinite useful lives are reviewed annually to ensure that their useful lives have not become finite.

During the useful life of an intangible asset, it may seem that the estimation of its useful life has become inadequate. In addition to what is stated in IAS 38, the duration and method of depreciation of this asset is re-examined and if the expected useful life of the asset is different from previous estimations, the amortization period is consequently modified.

In accordance with the provisions set forth in IAS 36 "Impairment of assets", the potential impairment loss of intangible assets is examined each year. In the case of assets with indefinite useful lives, the tests are carried out during the second half of the year, regardless of whether there is any indication of impairment, and consistently whenever events or new circumstances indicate an impairment loss for assets with defined useful lives.

For the purposes of this testing, the Group takes account of sales generated by the intangible asset acquired. When carrying out intangible asset impairment tests, the Group takes an approach based on estimated future cash flows (estimate of value in use). The future cash flows used for the impairment tests are calculated based on estimates (business plans) projected over a five-year horizon. All of the business plans are validated by the subsidiaries' general management as well as by the Group's Finance Affairs department. The executive board formally validates the business plans and the main assumptions of the impairment test for the most significant CGUs.

For cash flow forecasts, the perpetual growth rates used, which depend on the products and market growth expectations, and the discount rates based on the weighted average cost of capital after tax method, are presented in note A3.

Valuations carried out during the goodwill impairment tests are sensitive to the assumptions used in regards not only to the selling price and future costs, but also to the discount and infinite growth rates. Sensitivity calculations for measuring the Group's exposure to significant variations in these assumptions are performed.

Tangible assets

In accordance with IAS 16, tangible assets are valued at their historical acquisition cost, including acquisition fees, or at their initial manufacturing cost, plus, if applicable, the internal costs of contributing staff directly resulting in the construction of a tangible asset.

In accordance with IAS 23 revised, loan costs are incorporated into the acquisition costs of eligible assets. In accordance with IAS 17, the goods acquired through capital leases are tangible when the lease contracts have transferred to the Group almost all risks and advantages inherent to the ownership of these goods.

The amount of the tangible assets is reduced by any accumulated depreciation and, if applicable, accumulated impairment losses.

If applicable, assets are broken down by component, each component having its own specific depreciation period, in line with the depreciation period of similar assets.

Tangible assets are depreciated over their estimated useful lives, namely:

- buildings:
 - structure: 40 years;
 - components: ten to 20 years;
- materials and industrial equipment:
 - structure: 20 years;
 - components: five to ten years;
 - computer equipment: three or four years;
- other tangible assets: five to ten years.

Financial assets

The Group's other financial assets include mainly loans (especially loans to personnel), other fixed asset receivables and other operating receivables.

They are recognized and posted at the initial loan amount. A provision is recorded, if applicable, where there is a risk of non-recovery.

Other financial assets at fair value

Observable data is used in the calculation of the Group's financial assets where these are measured at fair value. The only financial assets that come under this category are hedging instruments and marketable securities.

Inventories and work in progress

Inventories and work in progress are accounted for at the lowest value of the cost and the net realizable value.

The cost of inventories includes all acquisition costs, transformation costs and other costs incurred to bring the inventories to their current location and condition. The acquisition costs of inventories include the purchase price, customs fees and other non-retrievable taxes, as well as transport and handling costs and other costs directly attributable to their acquisition. The rebates and other similar items are deducted from this cost.

Inventories in raw materials and supplies are evaluated in accordance with the "weighted average cost method".

Inventories in trading goods are also evaluated in accordance with the "weighted average cost method". The acquisition cost of raw material inventories includes all additional purchase costs.

The manufacturing work in progress and the finished products are valued at their actual manufacturing cost including direct and indirect production costs.

Finished products are valued in each subsidiary at the price invoiced by the Group's selling company, plus distribution costs; the margin included in these inventories is cancelled in the consolidated accounts taking into account the complete average production cost stated for the Group's selling company.

Spare parts inventories are valued based on the last purchase price.

An impairment loss is recorded in order to return the inventories to their net realizable value, when the products become out-of-date or unusable or even, according to sales forecasts for these products, assessed according to the market.

Trade receivables

Trade receivables are classified as current assets to the extent that they form part of the Group's normal operating cycle.

Trade receivables are recognized and recorded at the initial invoice total, minus provisions for depreciation. An estimation of the total bad debt is made when it becomes unlikely that the full amount will be recovered. Bad debts are written off when identified as such.

In accordance with the new IFRS 9 effective as of January 1, 2018, an additional provision is recorded under expected loan losses. Provision rates used, as set by the Group's Financial Affairs department for all subsidiaries, remain very low in light of the small amount of losses from bad debts historically recognized by the Group. They are periodically reviewed.

Receivables assigned as part of a factoring contract without recourse are subject to a substantial factoring contract analysis based on the criteria set out in IAS 39. These receivables are deconsolidated, if applicable.

Cash and cash equivalents

The cash position is made up of bank balances, securities and cash equivalents providing good liquidity. The bank accounts subject to restrictions (frozen accounts) are excluded from the cash flow and reclassified as other financial assets.

Treasury shares

Shares in the parent company held by the parent company or its consolidated subsidiaries (whether classified in the statutory accounts as non-current financial assets or marketable securities), are recognized as a deduction from shareholders' equity at their purchase cost. Any gain or loss on disposal of these shares is directly recognized (net of tax) in shareholders' equity and not recognized in income for the year.

Conversion reserves

This item represents the conversion difference of net opening positions for foreign companies, arising from the differences between the conversion rate at the date of entry into the consolidation and the closing rate of the period, and also other conversion differences recorded on the profit for the period arising from differences between the conversion rate of the income statement (average rate) and the closing rate for the period.

Reserves

This item represents the share attributable to the owners of the parent company in the reserves accumulated by the consolidated companies, since their entry into the scope of consolidation.

Non-controlling interests

This item represents the share of the shareholders outside the Group in the equity and the income of the consolidated companies.

Derivative instruments and hedge accounting

The Group holds derivative financial instruments solely for the purpose of reducing its exposure to rate or exchange risks on balance sheet items and its firm or highly probable commitments.

Virbac uses hedge accounting to offset the impact of the hedged item and of the hedging instrument in the income statement, on a quasi-systematic basis, when the following conditions are met:

- the impact on the income statement is significant;
- the hedging links and effectiveness of the hedging can be properly demonstrated.

Other financial liabilities

The other financial liabilities mainly represent loans from credit institutions and debts related to capital lease contracts. These loans and payables are accounted for at amortized cost.

Retirement plans, severance pay and other post-employment benefits

■ Defined-contribution retirement plans

The advantages associated with defined contribution retirement plans are expensed as incurred.

■ Defined-benefit retirement plans

The Group's obligations resulting from defined-benefit retirement plans are determined by using the actuarial method for projected unit credits. These commitments are measured on each balance sheet date. The commitment calculation model is based on a number of actuarial assumptions. The discount rate is determined in relation to the yield on investment grade corporate bonds (issuers rated "AA"). The Group's obligations are subject to a provision for their net amount of the fair value of the hedging assets. In accordance with IAS 19 revised, actuarial differences are recognized in other comprehensive income.

Other provisions

A provision is recognized when the Group has a present obligation resulting from a past event which will probably lead to an outflow of economic benefits that can be reasonably estimated. The amount recorded under provisions is the best estimate of the expenditure required to settle the present obligation on the balance sheet date and is discounted if the effect is material.

Taxation

The Group's subsidiaries record their tax impact depending on the fiscal regulations applicable locally. The parent company and its main French subsidiaries are part of a fiscally integrated group. Under the terms of the tax consolidation agreement, each consolidated company is required to account for tax as if it were taxed separately. The income or expense of tax consolidation is recognized in the parent company's accounts.

The Group recognizes deferred taxes on temporary differences between the carrying amount and the tax base of an asset or liability. Tax assets and liabilities are not discounted.

In accordance with IAS 12, which under certain conditions authorizes the offsetting of debts and tax loans, the deferred tax assets and liabilities have been offset by fiscal entity. In situations where a net deferred tax asset is recognizable, it is recognized in accordance with IAS 12 only if there are strong indications that it may be charged against future taxable profits.

Non-current assets held with a view to sale and abandoned activities

IFRS 5 states that an activity is considered abandoned when the classification criteria of an asset being held with a view to sale have been fulfilled or when the Group ceases the activity. An asset is classified as held for sale if its carrying amount will be mainly recovered through sale rather than through continued use.

As of December 31, 2018, no asset was classified as held for sale.

Revenue from ordinary activities

Virbac's revenue from ordinary operations reflects the sale of veterinary health and nutrition products. Revenue comprises the fair value before tax of the goods and services sold by the integrated companies as part of their normal operations, after elimination of intra-group sales.

Returns, discounts and rebates are recorded over the accounting period for underlying sales and are deducted from revenue. These amounts are calculated as follows:

- provisions for rebates related to the achievement of objectives are measured and recognized at the time of the corresponding sales;
- provisions for product returns are calculated based on management's best estimate of the amount of products that will eventually be returned by customers. Provisions for returns are estimated based on past experience with returns. Furthermore, Virbac takes into account factors, among others, such as inventory levels in the various distribution channels, product expiry dates, and information on the potential discontinuation of products. In each case, provisions are continually reviewed and updated based on the most recent information at management's disposal.

Following the entry into force of IFRS 15, the notions “performance obligations” and “transfer of control” did not significantly alter the way Virbac records revenue. When it comes to accounting for product sales, the transfer of risks and rewards is an indicator of transfer of control, even if this is not always the discerning criterion.

Accordingly, IFRS 15 did not result in any significant change with respect to the date on which the revenue is recognized or its amount.

Virbac's other revenue relates mainly to licensing royalties. Each contract is subject to specific analysis in order to identify the performance obligations and determine the progress of each one of them towards achievement at the closing date of Virbac's consolidated accounts; and revenue is recognized accordingly.

Personnel costs

Personnel costs especially include the cost of retirement plans. In accordance with IAS 19 revised, actuarial differences are posted as other comprehensive income.

They also include optional and compulsory profit-sharing.

Taxes and duties

The Group has opted for a classification of the business added value assessment (CVAE) in the “taxes and duties” item of the operating profit.

Operating profit

Operating profit corresponds to income from ordinary activities, minus operating expenses.

Operating expenses include:

- purchases consumed and external costs;
- personnel costs;
- taxes and duties;
- depreciations and provisions;
- other operating income and expenses.

Operating items also include tax credits that may be characterized as public subsidies and that meet the IAS 20 criteria (apply primarily to the research tax credit and business competitiveness tax credit).

■ Current operating profit, before depreciation of assets arising from acquisitions

In order to provide a clearer picture of its economic performance, the Group uses the operating profit from ordinary activities before depreciation of assets arising from acquisitions as the main indicator of performance. To this end, it isolates the impact of the amortization of intangible assets resulting from acquisition transactions. This turned out to have a material effect considering the latest external growth that took place through acquisitions.

■ Operating profit from ordinary activities

Operating profit from ordinary activities corresponds to operating profit, excluding the impact of other non-current income and expenses.

■ Other non-current income and expenses

Other non-current income and expenses are non-recurring income and expenses, or income and expenses resulting from one-time decisions or operations for an unusual amount. They are presented on a separate line in the income statement in order to make it easier to read and understand current operational performance.

This mainly includes the following items which, where appropriate, are described in a note to the consolidated financial statements (note A24):

- restructuring costs linked to plans of a significant size;
- impairment of assets of a considerable size;
- the effect of revaluing inventories acquired as part of a business combination at fair value;
- and any revaluation of the interest previously held, in the event of a change in control.

Net result from ordinary activities

The net result from activities corresponds to the net result restated of the following items:

- the line “Other non-current income and expenses”;
- non-current tax, which includes the tax impact of “Other non-current income and expenses”, as well as non-recurring tax income and expenses.

Financial income and expenses

This mainly includes interest and other assimilated income and expenses.

These also include exchange rate gains and losses.

Earnings per share

The net earnings per share is calculated by dividing the net earnings attributable to the shareholders of the parent company by the total number of shares issued and outstanding at the close of the period (that is net of treasury shares). Diluted earnings per share are calculated by dividing the net earnings attributable to the shareholders of the parent company by the total number of shares outstanding, plus, in the event of the issue of dilutive instruments, the maximum number of shares that could be issued (upon conversion into ordinary shares of Virbac equity instruments, thereby giving deferred access to Virbac capital).

Main sources of uncertainty relating to 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 obtaining of marketing authorization, or results of efficacy testing.

In this case, the Group should estimate the acquisition price at the close of the fiscal year, based on the most realistic assumptions as regards for achieving these objectives.

Goodwill and other intangible assets

The Group has intangible assets that were purchased or acquired through business combinations, in addition to the resulting goodwill. As indicated in the "Accounting principles and methods" section, the Group performs at least one test annually on impairment of goodwill and intangible assets based on a valuation of future cash flows.

The evaluations made at the time of these tests are sensitive to assumptions relating to the sale price and future costs, but also in terms of discount rates and growth rates. These sensitivity calculations making it possible to measure the Group's exposure to significant variations in growth rates into infinity have been performed.

The Group may be prompted in the future to write down certain fixed assets in the event of deteriorating earning prospects for these assets or if there is an impairment loss for one of these assets.

As of December 31, 2018, the net total goodwill was €309,711 thousand and the value of the intangible assets was €295,016 thousand.

Deferred taxes

Deferred tax assets are recognized on deductible temporary differences between tax and accounting values of assets and liabilities. Deferred tax assets, in particular those relating to carried forward tax losses, are recognized only if it is likely that the Group will have sufficient future taxable income, which is based on a significant assumption.

At each balance sheet date, the Group has to analyze the origin of losses for each of the tax entities in question and re-measure the amount of deferred tax assets based on the likelihood of making sufficient taxable profits in the future within the meaning of IAS 12.

Provisions for pension schemes and other post-employment benefits

As indicated in note A14, the Group has established retirement plans as well as other post-employment benefits.

The corresponding commitments were calculated using actuarial methods that take account of assumptions such as the benchmark salary for scheme beneficiaries and the likelihood of the persons in question being able to benefit from the scheme, and the discount rate. These assumptions are updated at each year-end. Actuarial differences are immediately recognized in other comprehensive income.

The net amount of commitment relating to employee benefits was €20,294 thousand as of December 31, 2018.

Other provisions

The other provisions deal essentially with miscellaneous commercial and social liabilities and disputes.

No provisions are established if the company considers that the liability is contingent (as defined by IAS 37).

As of December 31, 2018, the amount of other provisions was €12,310 thousand.

Impact of the IFRS 16 transition

IFRS 16 will become effective as of January 1, 2019. As such, the Group's first financial statements that include the impact of the Group's new standard will be the ones dated June 30, 2019.

This note describes the effects that the application of IFRS 16 would have on the Group's financial statements, as well as the main performance indicators for the 2018 financial year.

The Group opted for the simplified retrospective transition method that involves restating the amount of the residual lease liability on the transition date. It was also decided to use the simplification measures set out in the standard and not to take into consideration lease contracts with a term of less than twelve months, nor those on low-value assets.

Applying IFRS 16 to lease contracts for intangible assets is one standard-specific option the Group chose to use for information technology contracts (software).

Lease terms correspond to the elapsed non-cancellable periods for, if applicable, renewal options the Group may exercise with reasonable certainty.

When it comes to accounting for contracts, the Group, with the assistance of an external provider, had developed a questionnaire to gather contract-related information, as required by the standard. The Group also acquired a solution dedicated to tracking contracts and managing financial calculations on the impact of the standard.

The impact on the statement of financial position as at December 31, 2018 presented below relates primarily to the recognition of a right of use and a lease obligation. The impact on profit for the period relates basically to reclassifications between operating profit and financial result. The residual impact on net profit stems from the time lag between depreciations and the repayment of the lease obligation and interest.

The right of use generated by the application of IFRS 16 is represented below as an underlying asset category:

in million €	Gross value	Cumulated amortization	Net value
Lands and buildings	29.3	-11.6	17.7
Transportation equipment	17.0	-10.1	6.9
Information system (hardware)	3.4	-1.4	2.0
Industrial installations, machinery and equipment	3.0	-1.5	1.5
Office equipment and others	1.3	-0.6	0.7
Information system (software)	0.7	-0.4	0.3
Assets	54.7	-25.6	29.1

Statement of financial position - restated

in million €	2018	Impact of IFRS 16	2018 restated
Goodwill	309.7		309.7
Intangible assets	295.0	-1.6	293.4
Tangible assets	236.7	-0.4	236.3
Right of use	-	29.1	29.1
Other financial assets	10.8		10.8
Share in companies accounted for by the equity method	3.1		3.1
Deferred tax assets	9.9		9.9
Non-current assets	865.3	27.1	892.4
Inventories and work in progress	195.8		195.8
Trade receivables	101.5		101.5
Other financial assets	0.8		0.8
Other receivables	46.7		46.7
Cash and cash equivalents	62.8		62.8
Assets classified as held for sale	-		-
Current assets	407.5	-	407.5
Assets	1,272.8	27.1	1,299.9
Share capital	10.6		10.6
Reserves attributable to the owners of the parent company	449.7	-1.4	448.3
Equity attributable to the owners of the parent company <input type="checkbox"/>	460.3	-1.4	458.9
Non-controlling interests	35.6		35.6
Equity	495.9	-1.4	494.5
Deferred tax liabilities	36.4		36.4
Provisions for employee benefits	20.3		20.3
Other provisions	10.5		10.5
Other financial liabilities	375.9		375.9
Lease liability	-	21.1	21.1
Other payables	2.5		2.5
Non-current liabilities	445.7	21.1	466.8
Other provisions	1.8		1.8
Trade payables	89.6		89.6
Other financial liabilities	113.0		113.0
Lease liability	-	7.4	7.4
Other payables	126.9		126.9
Current liabilities	331.3	7.4	338.7
Liabilities	1,272.8	27.1	1,299.9

Income statement - restated

in million €	2018	Impact of IFRS 16	2018 restated
Revenue from ordinary activities	868.9		868.9
Purchases consumed	-294.3		-294.3
External costs	-179.1	9.7	-169.4
Personnel costs	-267.3		-267.3
Taxes and duties	-11.9		-11.9
Depreciations and provisions	-28.7	-8.6	-37.3
Other operating income and expenses	0.4		0.4
Current operating profit before depreciation of assets arising from acquisitions	88.1	1.1	89.2
Depreciations of intangible assets arising from acquisitions	-15.0		-15.0
Operating profit from ordinary activities	73.0	1.1	74.1
Other non-current income and expenses	-8.0		-8.0
Operating result	65.0	1.1	66.1
Financial income and expenses	-24.1	-1.4	-25.5
Profit before tax	40.9	-0.3	40.6
Income tax	-20.4		-20.4
<i>Including non-current tax expense</i>	-2.4		-2.4
Share from companies' result accounted for by the equity method	0.5		0.5
Net result from ordinary activities □	31.5	-0.3	31.2
Result for the period	21.0	-0.3	20.7
attributable to the owners of the parent company	20.1	-0.3	19.8
attributable to the non-controlling interests	0.9	-	0.9

A1. Goodwill

Change in goodwill by CGU

	Gross value as at 12/31/2017	Impairment value as at 12/31/2017	Book value as at 12/31/2017	Increases	Sales	Impair- ment of value	Conversion gains and losses	Book value as at 12/31/2018
in € thousand								
Italy	1,585	-	1,585	-	-	-	-	1,585
Denmark	4,643	-	4,643	-	-	-	0	4,643
Leishmaniosis vaccine	5,421	-5,000	421	-	-	-421	-	-
Greece	1,358	-	1,358	-	-	-	-	1,358
Colombia	1,781	-	1,781	-	-	-	-52	1,729
India	14,838	-	14,838	-	-	-	-547	14,291
United States	214,897	-3,419	211,477	-	-	-	9,952	221,429
Australia	3,326	-325	3,001	-	-	-	-94	2,907
Peptech	3,571	-	3,571	-	-	-	-192	3,379
New Zealand	15,087	-161	14,926	-	-	-	-186	14,740
Chile	31,886	-	31,886	-	-	-	-2,231	29,655
Uruguay	3,967	-	3,967	-	-	-	187	4,154
SBC	7,083	-	7,083	-	-	-	247	7,329
Other CGUs	4,244	-1,733	2,511	-	-	-	1	2,512
Goodwill	313,686	-10,638	303,048	-	-	-421	7,084	309,711

The change in this item is, by and large, related to an exchange rate effect, generating an increase of €7.1 million. Furthermore, the goodwill impairment recognized in the amount of €0.4 million on the Leishmaniosis vaccine CGU follows the completion of the impairment tests shown in note A3.

A2. Intangible assets

Changes in intangible assets

in € thousand	Concessions, patents, licenses and brands		Other intangible assets	Intangible assets in progress	Intangible assets
	Indefinite life	Finite life			
Gross value as at 12/31/2017	164,363	225,358	55,419	10,673	455,813
Acquisitions and other increases	9	118	1,808	4,585	6,519
Disposals and other decreases	-	-563	-612	-395	-1,569
Changes in scope	-	-	-	-	-
Transfers	-20	-147	5,373	-5,200	6
Conversion gains and losses	-2,059	3,013	52	83	1,089
Gross value as at 12/31/2018	162,293	227,779	62,041	9,745	461,858
Depreciation as at 12/31/2017	-166	-95,219	-45,727	-404	-141,516
Depreciation expense	-	-15,934	-3,659	-	-19,593
Impairment losses (net of reversals)	-6,174	-140	-	-	-6,314
Disposals and other decreases	-	563	591	-	1,154
Changes in scope	-	-	-	-	-
Transfers	16	276	-62	-	231
Conversion gains and losses	-0	-839	7	29	-804
Depreciation as at 12/31/2018	-6,324	-111,293	-48,849	-375	-166,841
Net value as at 12/31/2017	164,197	130,139	9,692	10,269	314,297
Net value as at 12/31/2018	155,969	116,486	13,192	9,369	295,016

The other intangible assets relate essentially to computer projects, in many of the Group's subsidiaries. They all have definite useful lives. The increase in the item "Other intangible assets" is primarily due to computer investments at Virbac SA (for €1.3 million).

Changes in the item "Intangible assets in progress" relate primarily to computer projects as well as an investment in a licensing agreement with a CRO (Contract research organization).

The "Transfers" line indicates the commissioning of these projects.

Depreciations and impairments amounted to €25.9 million. Furthermore, the impairment recognized in the amount of €6.2 million on assets with indefinite life relates to the Leishmaniosis vaccine CGU marketing authorizations and follows the completion of the impairment tests shown in note A3.

Concessions, patents, licenses and brands

The item "Concessions, patents, licenses and brands" includes:

- rights relating to the patents, know-how and MA necessary for the Group's production activities and commercialization procedures;
- trademarks;
- distribution rights, customer files and other rights to intangible assets.

It is made up primarily of intangible assets from acquisitions, which are treated in accordance with IAS 38, as well as assets acquired as part of external growth transactions, as defined by IFRS 3.

As of December 31, 2018, this item comprised the following:

	Acquisition date	Brands	Patents and know-how	Marketing authorizations and registration rights	Customers lists and others	Total
in € thousand						
United States: Sentinel	2015	43,755	24,412	42,899	11,214	122,280
SBC	2015	-	3,878	1,950	-	5,828
Uruguay: Santa Elena	2013	3,424	9,352	-	-	12,776
Australia: Axon	2013	888	1,183	-	-	2,071
Australia: Fort Dodge	2010	1,491	443	-	-	1,935
New Zealand	2012	3,108	810	-	2,584	6,502
Centroviet	2012	20,161	35,457	-	8,599	64,216
Multimin	2011-2012	3,233	4,866	-	-	8,099
Peptech	2011	955	-	-	-	955
Colombia: Synthesis	2011	1,662	-	730	-	2,392
Schering-Plough Europe	2008	4,879	186	4,291	-	9,356
India: GSK	2006	11,299	-	-	-	11,299
Leishmaniosis vaccine	2003	-	1,735	9,653	-	11,388
Others		6,972	1,860	3,471	1,054	13,358
Total intangible assets		101,827	84,183	62,994	23,451	272,455

The classification of intangible assets according to useful life results from the analysis of all relevant economic and legal factors, making it possible to conclude whether or not there is a foreseeable limit to the period over which the asset is expected to generate net cash inflows for the entity.

Innovative or differentiated products in general, and vaccines and other assets from biotechnologies in particular, are generally classified as intangible assets with indefinite useful lives, once a detailed analysis has been conducted and experts have given their opinions on their potential. This approach is founded on Virbac's past experience.

As at December 31, 2018

	Intangible assets with indefinite life	Intangible assets with finite life	Total
in € thousand			
Brands	101,827	-	101,827
Patents and know-how	41,367	42,816	84,183
Marketing authorizations and registration rights	12,765	50,229	62,994
Customers lists and others	11	23,440	23,451
Total intangible assets	155,969	116,486	272,455

As at December 31, 2017

	Intangible assets with indefinite life	Intangible assets with finite life	Total
in € thousand			
Brands	102,310	-	102,310
Patents and know-how	43,013	49,146	92,159
Marketing authorizations and registration rights	18,863	53,888	72,751
Customers lists and others	12	27,104	27,116
Total intangible assets	164,197	130,139	294,336

No brands are classified as intangible assets with finite useful lives. Therefore, no trademarks are depreciated.

A3. Impairment of assets

At the 2018 year-end, Virbac conducted intangible asset impairment tests. These involve comparing their net carrying amount, including acquisition goodwill, to the recoverable amount of each CGU (cash generating unit).

A fair value assessment of assets acquired during the financial year is conducted on the date of acquisition. Accordingly, unless there is an indication of an impairment loss between this acquisition date and the reporting date of the annual financial statements, the assets in question are not tested for impairment loss at year-end.

The CGUs are homogeneous groups of assets whose continued use generates cash inflows that are substantially independent of cash inflows generated by other groups of assets.

The net carrying amount of the CGUs includes acquisition goodwill, tangible and intangible assets as well as other assets and liabilities that can be directly assigned to the CGUs and that contribute directly to the generation of future cash flows.

The recoverable amount of the CGUs is determined using the value in use. This is based on estimates of future discounted cash flows, commonly known as the DCF method.

Future cash flows are cash flows net of tax, and are valued based on cash flow forecasts consistent with the budget and the latest mid-term estimates (business plans).

All of the business plans are validated by the subsidiaries' general management as well as by the Group's Finance Affairs department. The executive board formally validates the business plans and the main assumptions of the impairment test of the most significant CGUs.

Beyond the future cash flow forecasting horizon set at five years for all CGUs tested with the exception of the United States (twelve years, so as to be aligned with the tax depreciation period for intangible assets acquired in 2015), an infinite growth rate is applied to the terminal value.

Virbac assumed a zero infinite growth rate for MA and patents. The infinite growth rate was calculated at 2% for companies located in mature markets like Europe, North America, Japan and Australia, at 3% for Chile and at 5% for emerging markets like India.

The discount rates used for these calculations are based on the Group's weighted average cost of capital. These discount rates are post-tax rates applied to post-tax cash flows.

For the 2018 financial year, the discount rates used are the following:

- 7.7% for CGUs located in mature markets, with the exception of the United States;
- 8.9% for American CGUs, up 1.4 points compared with 2017, due mainly to the rise in long-term rates in this market;
- 9.7% for CGUs located in less mature markets, in order to account for risks inherent to these markets.

As at December 31, 2018, the tests resulted in the recognition of an impairment of goodwill and part of the intangible assets in the Leishmaniosis vaccine CGU, amounting to €5 million. This amount of €5 million breaks down as follows: €0.4 million of goodwill; €6.2 million of intangible assets (marketing authorization) and €1.6 million of deferred taxes.

Sensitivity tests

The Group performed tests for sensitivity to key value in use assumptions as they pertain to all of the tested CGU's. Changes in assumptions are as follows:

- increase of 2.0 points in the discount rate;
- decrease of 2.0 points in the infinite growth rate.

Both changes in key assumptions would not involve any impairment of tested assets, except in the American and Chilean CGUs, for which an impairment would need to be recognized, taking into account the following assumptions:

- a 2.0-point increase in the discount rate would lead to an impairment of the American and Chilean CGUs in the amounts of €45.2 million and €30.1 million respectively;
- a 2.0-point decrease in the infinite growth rate would result in an impairment of the Chilean CGU only, amounting to €15.2 million.

Moreover, for the five most significant CGUs (which accounted for 83% of the gross value of intangible assets and goodwill as at December 31, 2018), Virbac conducted sensitivity tests relating to a change in the EBIT revenue ratio after taxes. In the event this ratio drops by 4.0 points, the American CGU would require an impairment of €41.7 million. A 2.0-point decrease in this ratio would also result in an impairment of the Chilean CGU, amounting to €10.9 million.

Moreover, the Group conducts additional sensitivity testing based on the break-even point for all of the tested CGUs. The break-even point refers to the discount rate, combined with a zero perpetual growth rate, on the basis of which Virbac would have to record an impairment.

For the major CGU's, the results of the break-even point are presented below.

in € thousand	Net book value of CGU as at 12/31/2018	Discount rate, combined into a zero perpetual growth rate, from which impairment is established
United States	435,538	9.4%
Chile	158,081	8.1%
India	43,063	40.5%
Australia	31,710	40.9%
Uruguay	29,896	23.6%
New Zealand	26,970	19.3%
Leishmaniosis vaccine *	20,284	6.1%
SBC	18,104	15.5%
Antigenics	16,241	53.4%
Schering-Plough Europe	10,654	21.5%
Multimin	10,451	55.9%
Peptech	7,272	166.1%

* The net carrying amount of the Leishmaniosis vaccine CGU presented here equates to the value before the recognition of the impairment amounting to €5 million after tax.

Finally, for some significant CGUs, additional sensitivity testing on the level of business activity is carried out by Virbac. This testing involves lowering significantly sales and operating margins expectations (crash tests).

A4. Tangible assets

Tangible assets are goods that have been bought or acquired through capital-leasing contracts.

As at December 31, 2018, goods acquired through finance leases and restated as tangible assets, in accordance with IAS 17, relate mainly to computer equipment in France (in the amount of €3.6 million gross) as well as vehicles in several Group subsidiaries (in the amount of €2.4 million gross). Furthermore, the purchase option on Centrovet's productive assets in Chile was exercised in 2018.

The main assets constituting the Group's tangible assets are:

- the land;
- the constructions, which include:
 - the buildings;
 - the development of buildings;
- technical facilities, materials and industrial equipment;
- other tangible assets, which notably include:
 - IT equipment;
 - office furniture;
 - vehicles.

	Land	Buildings	Technical facilities, materials and industrial equipment	Other tangible assets	Tangible assets in progress	Tangible assets
in € thousand						
Gross value as at 12/31/2017	19,600	177,245	183,598	31,973	37,909	450,326
Acquisitions and other increases	-	3,671	5,465	2,320	10,885	22,341
Disposals and other decreases	-456	-5,494	-4,449	-2,354	-906	-13,660
Changes in scope	-	-	-	-	-	-
Transfers	-	12,024	10,574	499	-22,411	686
Conversion gains and losses	-272	249	485	-242	326	546
Gross value as at 12/31/2018	18,872	187,695	195,674	32,195	25,803	460,238
Depreciation as at 12/31/2017	-	-88,956	-101,353	-21,120	-49	-211,478
Depreciation expense	-	-7,627	-11,916	-3,600	-	-23,143
Impairment losses (net of reversals)	-	-	82	-4	-	78
Disposals and other decreases	-	4,174	3,868	2,058	-	10,100
Changes in scope	-	-	-	-	-	-
Transfers	-	59	16	1,072	-835	312
Conversion gains and losses	-	54	355	189	-20	577
Impairment as at 12/31/2018	-	-92,296	-108,948	-21,404	-905	-223,554
Net value as at 12/31/2017	19,600	88,288	82,246	10,854	37,859	238,848
Net value as at 12/31/2018	18,872	95,399	86,726	10,790	24,898	236,685

The main investments made during the financial year involve:

- Virbac (mother company), which invested €8.1 million in building fixtures and various industrial equipment throughout different production units;
- Virbac US, which invested €4.8 million, primarily in the Sentinel Tabs production chain and in the new Iverhart Max Soft Chews production chain that went into operation during the first half of 2018;
- Centrovet, which furthered its investments by €2.2 million, directed mainly toward redevelopment of a vaccine production line that went into operation in the course of the financial year;
- other industrial projects in other subsidiaries, in particular Virbac Australia.

The main decreases are linked to the divestment of the Wissous site, as well as the disposal of various pieces of industrial equipment.

Commissioning of these various investments are shown on the line "Transfers".

A5. Other financial assets

Change in other financial assets

	2017	Increases	Decreases	Changes in scope	Transfers	Conversion gains and losses	2018
in € thousand							
Loans and other financial receivables	8,451	426	-1,843	-	-	-43	6,990
Currency and interest rate derivatives	1,329	2,370	-	-	-	-	3,699
Restricted cash	40	-	-	-	-	-2	39
Other	5	13	-	-	25	-0	43
Other financial assets, non-current	9,825	2,809	-1,843	-	25	-45	10,771
Loans and other financial receivables	97	4	-69	-	-	-4	29
Currency and interest rate derivatives	1,344	-	-604	-	-	-	740
Restricted cash	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Other financial assets, current	1,441	4	-673	-	-	-4	768
Other financial assets	11,266	2,813	-2,516	-	25	-49	11,539

Changes in the line "Loans and other long-term receivables" are related to entries recorded as factoring contract holdbacks. The change in value of €2.4 million related to currency and interest rate derivatives is primarily related to the increase in the CLP hedge market value, with this currency declining substantially since the introduction of hedging.

Other financial assets classified according to their maturity

As at December 31, 2018

in € thousand	Payments			Total
	less than 1 year	from 1 to 5 years	more than 5 years	
Loans and other financial receivables	29	6,990	-	7,019
Currency and interest rate derivatives	740	3,699	-	4,439
Restricted cash	-	39	-	39
Other	-	-	43	43
Other financial assets	768	10,728	43	11,539

As at December 31, 2017

in € thousand	Payments			Total
	less than 1 year	from 1 to 5 years	more than 5 years	
Loans and other financial receivables	97	8,451	-	8,548
Currency and interest rate derivatives	1,344	1,329	-	2,673
Restricted cash	-	40	-	40
Other	-	-	5	5
Other financial assets	1,441	9,820	5	11,266

A6. Information about IFRS 12

Information about non-controlling interests

The information below concerns non-controlling interests in the company Holding Salud Animal (HSA) deemed to be significant with respect to the information required by IFRS 12. This group comprises the following entities:

- Holding Salud Animal SA;
- Centro Veterinario y Agrícola Limitada;
- Farquímica SpA;
- Bioanimal Corp SpA;
- Productos Químicos Ehlinger;
- Centrovét Inc.;
- Centrovét Argentina;
- Inversiones HSA Limitada;
- Rentista de Capitales Takumi Limitada.

The share of non-controlling interests in the group stands at 49%. Equity allocated to minority interests amounted to €35,353 thousand, including €867 thousand in profit for the period.

The table below provides a summary of the financial position of the HSA sub-group as of December 31, 2018.

	in CLP thousand	in € thousand
Goodwill	23,563,558	29,655
Intangible assets	51,666,976	65,023
Tangible assets	21,357,175	26,878
Non-current assets	96,587,709	121,555
Inventories and work in progress	14,535,406	18,293
Trade receivables	14,778,197	18,598
Other financial assets	3,855,955	4,853
Cash and cash equivalents	392,649	494
Current assets	33,562,208	42,238
Assets	130,149,917	163,793
Equity	80,895,515	101,807
Non-current financial liabilities	-	-
Other non-current liabilities	15,899,209	20,009
Non-current liabilities	15,899,209	20,009
Current financial liabilities	23,621,381	29,727
Other current liabilities	9,733,812	12,250
Current liabilities	33,355,193	41,977
Liabilities	130,149,917	163,793

The net decrease in cash position during the financial year amounted to €2,382 thousand.

The dividends paid out by the HSA Group in 2018 totaled €10,705 thousand (including €5,247 thousand paid out to owners of non-controlling interests).

The table below provides a summarized income statement of the HSA sub-group for 2018.

	in CLP thousand	in € thousand
Revenue from ordinary activities	44,048,097	58,186
Other income and expenses	-39,090,253	-51,637
Operating result	4,957,844	6,549
Financial income and expenses	-2,707,669	-3,577
Profit before tax	2,250,175	2,972
Income tax	-909,505	-1,201
Result for the period	1,340,670	1,771

Information about equity-accounted companies

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	NA	NA	-	-	2,926	469
GPM Virbac	NA	NA	-	-	214	-7
Share in companies accounted for by the equity method					3,140	462

Because the impact of equity accounted companies was not deemed to be significant to the Virbac group's accounts, the information required by IFRS 12 is limited to the above.

Throughout 2018, the AVF company paid out dividends totalling 1.4 million USD, with half of the amount paid benefitting Virbac.

A7. Deferred taxes

In accordance with IAS 12, which under certain conditions authorizes the offsetting of debts and tax receivables, the deferred tax assets and liabilities have been offset by fiscal entity.

The impact of future changes in tax rates in France (gradually dropping to 25% in 2022) was taken into consideration when calculating the deferred tax expense.

Variation in deferred taxes

in € thousand	2017	Variations	Changes in scope	Transfers	Conversion gains and losses	2018
Deferred tax assets	20,752	3,665	-	-907	-379	23,130
Deferred tax liabilities	52,211	1,140	-	-1,618	-2,116	49,617
Deferred tax offset	-31,459	2,525	-	711	1,737	-26,487

The variation in deferred taxes shown above includes deferred taxes on the effective share of the profits and losses on hedging instruments, which totaled €194 thousand over the 2018 year.

Deferred taxes broken down by type

As at December 31, 2018

Deferred tax assets		Deferred tax liabilities	
in € thousand		in € thousand	
Internal margin on inventories	9,075	Adjustments on intangible assets	36,336
Retirement and end of career severance commitments	5,697	Adjustments on tangible assets	3,686
Sales adjustments (IFRS 15)	1,115	Adjustments on fiscal provisions	8,786
Inventory adjustments (IAS 2)	364	Activation of expenses linked to acquisitions	799
Other non-deductible provisions	2,264	Other income taxed in advance	8
Other charges with deferred deduction	4,616		
Tax loss carryforwards	-		
Total by type	23,130	Total by type	49,617
Impact of compensation by fiscal entity	-13,194	Impact of compensation by fiscal entity	-13,194
Deferred net tax assets	9,936	Deferred net tax liabilities	36,423

Deferred tax asset use horizon

The table below indicates the horizon specific to the use of other charges with deferred deduction:

in € thousand	Deferred tax assets as at 12/31/2018	less than 1 year	from 1 to 5 years	more than 5 years
Deferred tax on other charges with deferred deduction in Chile	745	745	-	-
Deferred tax on retirement and end of career severance commitments	5,697	1,555	-71	4,213
Deferred tax on other bases	16,688	15,972	664	52
Total deferred tax assets	23,130	18,272	593	4,265

The net deferred tax assets on loss carryforwards of Virbac US as at December 31, 2018 have been impaired in full in keeping with the position adopted by the Group as at December 31, 2017. Hence, it does not contribute to the total deferred tax asset balance sheet (see note A27). As at December 31, 2018, this fully impaired receivable amounted to 29.4 million USD, including 5.2 million USD generated in the course of the period.

A8. Inventories 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 12/31/2017	74,695	13,282	111,862	199,839
Variations	-4,273	1,861	17,598	15,186
Changes in scope	-	-	-	-
Transfers	-400	-	215	-185
Conversion gains and losses	-108	-8	-763	-879
Gross value as at 12/31/2018	69,914	15,135	128,911	213,961
Depreciation as at 12/31/2017	-5,900	-539	-8,642	-15,081
Allowances	-1,413	-1,192	-6,514	-9,119
Reversals	2,750	539	3,284	6,573
Changes in scope	-	-	-	-
Transfers	-	-	-215	-215
Conversion gains and losses	-158	-	-184	-342
Depreciation as at 12/31/2018	-4,722	-1,192	-12,271	-18,184
Net value as at 12/31/2017	68,795	12,743	103,220	184,758
Net value as at 12/31/2018	65,192	13,944	116,640	195,777

Excluding the exchange rate effect, inventories increased by €12 million, mainly in France, Brazil and Chile. These increased inventories involve strategic raw materials in Chile's case, as well as finished and semi-finished products in France and Brazil. These inventories were built up in anticipation of sales forecasted in the months to come or to ensure sufficient availability of certain strategic products.

A9. Trade receivables

in € thousand	Trade receivables
Gross value as at 12/31/2017	116,475
Variations	-9,871
Changes in scope	-
Transfers	7
Conversion gains and losses	-1,857
Gross value as at 12/31/2018	104,754
Depreciation as at 12/31/2017	-3,528
Allowances	-513
Reversals	751
Changes in scope	-
Transfers	-6
Conversion gains and losses	49
Depreciation as at 12/31/2018	-3,247
Net value as at 12/31/2017	112,947
Net value as at 12/31/2018	101,507

Since January 1, 2018, the entry into force of IFRS 9 has resulted in a new approach to the impairment of trade receivables. Virbac used the simplified impairment method based on expected credit losses over the life of the receivables. The opening balance sheet was adjusted to account for this new approach to trade receivables as at December 31, 2017. Adjustment of the provision on the opening balance sheet amounts to €28 thousand before tax.

Receivables assigned as part of factoring contracts were deconsolidated. Total deconsolidated receivables as at December 31, 2018 in the Group's various entities, amounted to €46.9 million (compared with €47.8 million as at December 31, 2017).

The decrease in the trade item was predominantly from the Chilean subsidiary, in line with the level of business activity, as well as from the American subsidiary due to a drop in sales volume in December 2018 compared with those in December 2017.

Foreign currency translation adjustments also contributed to a decrease in this item, in the amount of €1.8 million.

The credit risk from trade receivables and other receivables is presented in note A31.

A10. Other receivables

in € thousand	2017	Variations	Changes in scope	Transfers	Conversion gains and losses	2018
Income tax receivables	1,815	1,013	-	-	-10	2,818
Social receivables	532	93	-	-	-21	605
Other receivables to the State	27,730	-3,082	-	-	-161	24,487
Advances and prepayments on orders	2,395	-219	-	-	-87	2,090
Depreciation on various other receivables	-	-	-	-	-	-
Prepaid expenses	5,593	-384	-	-	50	5,258
Other various receivables	15,013	-3,788	-	-25	228	11,429
Other receivables	53,078	-6,366	-	-25	-1	46,686

The main events in 2018 that account for the change in this item are:

- the repayment by French tax authorities of the 3% contribution to dividends paid out from 2013 to 2015 (€1,309 thousand) following a claim filed by the company in December 2015;
- the transfer of research tax credit (RTC) receivables in 2017 (€7,821 thousand) offset by RTC receivables in 2018 (€6,853 thousand);
- the payment obtained by a Group subsidiary from other operating receivables in the amount of €3.4 million.

The research tax credit receivables are presented in "Other receivables to the State".

The amount of the competitiveness and employment tax credit recorded in France over the 2018 financial year totaled €1,357 thousand.

A11. Cash and cash equivalents

in € thousand	2017	Variations	Changes in scope	Transfers	Conversion gains and losses	2018
Available funds	33,399	1,950	-	-	275	35,624
Marketable securities	14,979	12,557	-	-	-348	27,187
Cash and cash equivalents	48,378	14,506	-	-	-73	62,811
Bank overdraft	-16,689	-2,489	-	-	5	-19,173
Accrued interests not yet matured	-40	-9	-	-	0	-49
Overdraft	-16,729	-2,498	-	-	5	-19,222
Net cash position	31,649	12,009	-	-	-68	43,588

The increase in marketable securities related mainly to a Group subsidiary, which invested €25,988 thousand at the 2018 year-end.

A12. Assets classified as held for sale

During the 2018 financial year, as in 2017, no asset was classified as held for sale.

A13. Equity

in € thousand	2018	2017
Capital	10,573	10,573
Premiums linked to capital	6,534	6,534
Legal reserve	1,089	1,089
Other reserves and retained earnings *	379,381	344,827
Consolidation reserves	64,268	102,265
Conversion reserves	-16,548	-22,571
Actuarial gains and losses	-5,088	-3,814
Result for the period	20,099	-2,575
Equity attributable to the owners of the parent company	460,307	436,327
Other reserves and retained earnings	44,658	45,572
Conversion reserves	-9,977	-7,410
Result for the period	886	4,334
Non-controlling interests	35,567	42,496
Equity	495,875	478,824

* Adjustments related to IFRS 9 application.

Capital management policy

Within the framework of capital management, the Group aims to preserve the continuity of operations, to serve as a return to shareholders, to procure the advantages from other partners and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group can:

- adjust the amount of dividends paid to shareholders;
- return capital to shareholders;
- issue new shares; or
- sell assets to reduce the total debts.

The Group uses various indicators, one of which is financial leverage (net debt/equity), which provides investors with a vision of debt for the Group comparative to the total equity. In particular, this equity includes the reserve for variations in the value of hedged cash flows and the reserve for variations in the value of financial assets available for sale.

Treasury shares

Virbac holds treasury shares with no voting rights which are intended primarily to supply the allocation of performance-related stock grants. The amount of these treasury shares is posted as a reduction in equity.

Shares with double voting rights

Double voting rights are granted to all shareholders whose shares have been registered in their name for at least two years. Of the 8,458,000 shares making up the share capital, 4,341,261 have double voting rights.

Share buyback program

The ordinary shareholders' meeting of June 20, 2018 granted the Virbac parent company authorization to buy back shares in accordance with Articles L225-209 *et seq.* of the French commercial code and in line with the terms of the buyback plan set out in the prospectus released to Virbac's professional distributor and published on the company's website on May 19, 2017, in accordance with the provisions of the transparency directive that came into force on January 20, 2007.

As of December 31, 2018, Virbac held 35,950 treasury shares acquired on the market for a total of €4,577,106 excluding fees, for an average price of €127.39 per share.

During the financial year, the company bought 65,030 treasury shares (at an average price of €126.53) and sold 66,341 treasury shares (at an average price of €129.19) as part of the market-making contract. In 2018, no share was purchased or sold as part of performance-related stock grants.

As of December 31, 2018, treasury shares accounted for 0.425% of Virbac's capital. They are earmarked for market-making and performance-related stock grants, in accordance with the twenty-fifth resolution adopted by the shareholders' meeting of June 20, 2018.

A resolution will be submitted for the approval of the shareholders' meeting authorizing the company to buy back up to 10% of the capital. Shares may be acquired for the purpose of:

- ensuring liquidity or supporting the market price via an independent investment services provider pursuant to a liquidity agreement in accordance with the French Financial Markets Authority (AMF) regulations;
- allocating performance-related stock grants;
- reducing the company's share capital by cancelling all or part of the shares purchased, subject to the adoption by the ordinary shareholder's meeting of the resolution for authorizing a reduction in the share capital by cancelling repurchased shares.

The maximum purchase price may not exceed €350 per share. When calculating the maximum number of shares, shares already purchased under the aforementioned prior authorizations will be included, together with those that could be purchased under the liquidity agreement.

A14. Employee benefits

The commitments related to employee benefit schemes are calculated using the projected unit credit method. Future commitments are subject to a provision for expenses.

Where a commitment is pre-financed by payments into a fund, the provision corresponds to the difference between the total commitment at the closing date and the amount of the hedging asset. The hedging asset is made up of the amount of the fund plus the investment income and any contributions paid during the year.

The Group has been applying the revised IAS 19 standard since January 1, 2012.

Change in provisions by country

	2017	Allowances	Reversals	Transfers	Equity	Conversion	2018
in € thousand						gains and losses	
France	7,531	465	-559	-	425	-	7,862
Italy	857	120	-16	-	-57	-	904
Germany	554	2	-	-	-	-	556
Greece	155	9	-	-	-	-	164
Mexico	86	14	-17	-	-	4	87
Korea	121	128	-145	-	60	1	165
Taiwan	676	56	-4	-	107	13	849
Thailand	203	24	-23	-	-	11	216
Uruguay	420	161	-	-	-	-29	552
Retirement and severance pay allowances	10,603	979	-764	-	535	-	11,354
France	2,382	271	-	1,146	-43	-	3,755
Japan	1,748	232	-98	-	89	134	2,105
Defined benefit retirement plans	4,131	503	-98	1,146	46	134	5,861
South Africa	1,024	107	-40	-	-43	-104	944
Medical cover	1,024	107	-40	-	-43	-104	944
India	393	444	-194	-	-80	-13	550
Allowances for absence	393	444	-194	-	-80	-13	550
Australia	1,436	137	-122	-	-	-78	1,373
Austria	147	12	-	-	-	-	159
Spain	48	4	-	-	-	-	52
Other long term benefits	1,631	153	-122	-	-	-78	1,584
Provisions for employee benefits	17,782	2,186	-1,218	1,146	458	-61	20,294

The amount listed in the "Transfers" column reflects the impact on the debt (recognized in equity) of the correction made to an error in the parameters used to calculate the defined benefit pension commitment, representing an amount net of tax of €780 thousand.

Main commitments

The main employee benefit plans are in France, Australia, Japan and South Africa. As of December 31, 2018, they contributed 57%, 7%, 10% and 5% of provisions for employee benefit plans respectively.

Retirement and severance pay allowances

■ France

In accordance with the collective agreement, the Group's French companies pay their employees an allowance on their retirement based on their salary and seniority.

The rights vested are as follows:

- executive personnel: 12% per year of service;
- non-executive personnel: 10% per year of service.

Defined-benefit retirement plans

■ France

The scheme results in the payment of an income to the individual covered, payable at 60% to the spouse (or ex-spouse) calculated in accordance with:

- an eligibility criterion: being a member of the executive board and being at least 60 years of age on the date of retirement;
- an allowance rate which differs according to two criteria:
 - if the recipient has been employed by the Group for less than ten years or if the recipient has been a member of the executive board for less than nine years, the allowance rate is 0%;
 - if the recipient has been employed by the Group for between ten and 30 years and if the recipient has been a member of the executive board for between nine and fifteen years, the allowance rate is 12.5%;
 - if the recipient has been employed by the Group for more than 30 years or if the recipient has been a member of the executive board for more than fifteen years, the allowance rate is 22%.

■ Japan

The scheme results in payments in the form of capital.

The eligibility conditions are as follows:

- must have been employed by the company for at least two years at the closing date;
- must be at least 60 years old.

The amount of capital is calculated from the base salary multiplied by a coefficient varying between five and 35 depending on years of service.

Medical coverage

■ South Africa

The program implemented by Virbac South Africa stipulates that the company is responsible for handling the contributions paid by retired employees who wish to enroll in voluntary medical insurance.

The eligibility condition is that the employee must have joined the company before April 30, 1995.

The insurance contribution paid by Virbac South Africa is between 50% and 100%, depending on the level of coverage chosen by the beneficiary. In the event that the beneficiary should die, his or her legal successors continue to benefit from the Virbac South Africa holding under certain conditions.

Because the scheme is not restricted only to Virbac South Africa employees, it has been valued based on contributions paid by Virbac South Africa, restated to reflect the inflation rate for medical costs.

Long-service leave

■ Australia

In accordance with regulations in Australia, Virbac grants employees long-service leave in line with their compensation and years of service. Each employee is entitled to three months' leave after fifteen years' service, which is acquired as follows:

- if the employee is dismissed after five to ten years' service, he/she is entitled to his/her proportionate share of the acquired rights;
- if the employee leaves the company for any other reason after five to ten years of service, they have no entitlements;
- if the employee leaves the company, for whatever reason, after ten years of service, he/she is entitled to his/her proportionate share of the acquired rights.

The provision is calculated as the sum of the individual rights, calculated pro rata for the ratio of the employee's years of service at the closing date to the years of service for full rights.

Calculation parameters of the main personnel benefits schemes in the Group

Assumptions as at December 31, 2018

	Discount rate	Future salary growth
France	1.50%	2.20%
South Africa	9.91%	N/A
Japan	0.30%	3.00%
India	7.40%	7.00%

Assumptions as at December 31, 2017

	Discount rate	Future salary growth
France	1.30%	2.0%
South Africa	9.70%	NA
Japan	0.30%	3.00%
India	7.80%	7.00%

Discount rates are based on high-quality corporate bond yields with a maturity similar to that of the bond in question. In accordance with IAS 19 revised, the expected return on assets is set equal to the discount rate.

A 0.5 point increase or decrease in the discount rate would entail, respectively, a reduction in the provision for employee benefits of around €803 thousand or an increase of approximately €860 thousand recognized with a balancing entry in other comprehensive income.

Also, a 0.5 point increase or decrease in the future growth rate of salaries would entail, respectively, an increase in the provision for employee benefits of around €618 thousand or a reduction of approximately €584 thousand recognized with a balancing entry in other comprehensive income.

Allowance for the year

in € thousand	2018 allowance
Cost of services rendered	1,811
Financial cost	358
Expected return on assets	-122
Change of scheme	137
Immediate recognition of actuarial (gains)/losses in the year	-
Administrative costs recognized in expenses	2
Net cost/(net gain) recognized in income	2,186

Employer contributions (including benefits paid directly by the employer) in 2018 totaled €511 thousand and are estimated to reach €982 thousand for 2019.

Movements of amounts recognized in the statement of financial position

The tables below reconcile the movements in the amounts recognized in the statement of financial position (actuarial debt, hedging assets, provision for employee benefits).

in € thousand	Actuarial liability
Present value as at January 1, 2018	20,162
Benefits paid by employer	-1,026
Benefits paid by funds	-192
Cost of services rendered and financial cost	2,307
Termination/end of contract	-
Actuarial (gains)/losses due to demographic assumptions	-57
Actuarial (gains)/losses due to financial assumptions	-50
Actuarial experience (gains)/losses	1,684
Change of scheme	137
Other variations	-
Transfers	-
Conversion gains and losses	-111
Present value as at December 31, 2018	22,855

Actuarial liabilities are pre-financed in India and South Korea through hedging assets (insurance policies) covering annual financial interest.

in € thousand	Hedging assets
Fair value as at January 1, 2018	2,380
Contributions paid	511
Benefits paid by funds	-363
Interest income	122
Actuarial gains/(losses)	-36
Tax on premiums paid	-2
Conversion gains and losses	-51
Fair value as at December 31, 2018	2,561

in € thousand	Employee benefits
Fair value of hedging assets	-2,561
Present value of actuarial liability	22,855
(Assets)/Liabilities recognized in provisions as at December 31, 2018	20,294

in € thousand	Employee benefits
Provision to liabilities as at January 1, 2018	17,782
Charge/(gain) recognised in income - allowance	2,185
Amount recognized in equity	459
Employer contributions/Benefits paid - reversal	-1,219
Other events	-
Transfers	1,146
Conversion gains and losses	-60
Provision to liabilities as at December 31, 2018	20,294

A15. Other provisions

	2017	Allowances	Reversals	Changes in scope	Transfers	Conversion gains and losses	2018
in € thousand							
Trade disputes and industrial tribunals	1,601	3,061	-487	-	-	-17	4,157
Fiscal disputes	964	882	-624	-	-	-25	1,196
Various risks and charges	446	5,043	-311	-	-	-	5,178
Other non-current provisions	3,011	8,985	-1,422	-	-	-42	10,532
Trade disputes and industrial tribunals	1,213	30	-752	-	-	20	510
Fiscal disputes	-	-	-	-	-	-	-
Various risks and charges	1,027	-	-670	-	880	30	1,268
Other current provisions	2,240	30	-1,422	-	880	50	1,778
Other provisions	5,251	9,015	-2,843	-	880	8	12,310

As part of the dispute with a competitor and both trademark infringement and unfair competition proceedings currently in progress on a national and European scale, the risk stemming from remaining uncertainty was analyzed and a provision was made accordingly in the accounts dated December 31, 2018.

Tax-related provisions are intended to deal with the financial consequences of the Group's tax audits.

Provisions for miscellaneous risks and charges include the provision made for costs generated by the outsourcing of production of intramammaries (€3.9 million) referred to in the significant events for the period.

The amount in the "Transfers" column (€880 thousand) reflects the employer's contribution owing on payments to fund the French defined benefit pension commitment, for which the change in accounting method was recognized under equity (representing an amount net of tax of €598 thousand).

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

A16. Other financial liabilities

Change in other financial liabilities

	2017	Increase	Decrease	Changes in scope	Transfers	Conversion gains and losses	2018
in € thousand							
Loans	407,406	20,000	-36,361	-	-18,988	1,259	373,317
Bank overdrafts	-	-	-	-	-	-	-
Accrued interests not yet matured	-	-	-	-	-	-	-
Debt relating to leasing contracts	1,371	443	-38	-	-159	-	1,618
Employee profit sharing	3	1	-1	-	-	-	2
Currency and interest rate derivatives	854	-	109	-	-	-	963
Other	-	-	-	-	-	-	-
Other non-current financial liabilities	409,634	20,444	-36,291	-	-19,146	1,259	375,900
Loans	78,330	46,128	-51,381	-	18,988	-630	91,435
Bank overdrafts	16,689	-	2,489	-	-	-5	19,173
Accrued interests not yet matured	40	-	9	-	-	-	49
Debt relating to leasing contracts	2,481	64	-2,376	-	1,016	-17	1,167
Employee profit sharing	267	482	-231	-	-	14	532
Currency and interest rate derivatives	949	-	-311	-	-	-	639
Other	-	-	-	-	-	-	-
Other current financial liabilities	98,757	46,674	-51,800	-	20,004	-639	112,995
Other financial liabilities	508,390	67,118	-88,091	-	857	620	488,895

The main features of Virbac's three funding instruments are as follows:

- a syndicated loan of €420 million, drawn in euros and dollars, contracted with a pool of banks repayable at maturity, with an initial maturity of April 2020, extended until April 9, 2022, once the extension agreement was received by all of the lenders on March 23, 2018;
- market-based contracts (*Schuldschein*) consisting of four installments, with maturities of five, seven and ten years, at variable and fixed rates;
- a \$90 million financing contract with the European investment bank (EIB), for a seven-year term, of which one half is repayable in full and the other half is payable over eleven years.

Virbac also received bilateral loans and BPI financing.

As of December 31, 2018, the position of the funding instruments was as follows:

- the syndicated loan was drawn for amounts of €77 million and \$152 million;
- the market-based contracts amounted to €15 million and \$15.5 million;
- the bilateral loans and BPI and EIB financing amounted to €80.5 million and \$90 million.

These funding instruments include a financial covenant compliance clause that requires the borrower to adhere to the following financial ratio based on the consolidated accounts and reflecting net consolidated debt⁽¹⁾ for the period considered on the consolidated Ebitda (Earnings before interest, taxes, depreciation and amortization)⁽²⁾ for the same test period.

In the first quarter of 2018, Virbac applied for a waiver to have the financial covenant compliance clause relaxed for 2018. This request was granted by all of Schuldschein's bank partners and investors.

As such, the ratio of net debt to EBITDA was expected to be below 5.0 at the end of June 2018 and below 4.25 at the end of December 2018.

As at December 31, 2018, the ratio was at 3.46, still under this waiver and under the 3.75 threshold of the initial financial covenant of the contract (initial contract whose covenant clause and related financial conditions will apply again in 2019).

⁽¹⁾ Consolidated net debt refers, as defined in the contract, to the sum of other current and non-current financial liabilities, namely the following items: loans, bank loans, accrued interest liabilities, debts related to finance leases, profit sharing, interest rate and foreign exchange derivatives, and others; less the amount of the following items: cash and cash equivalents, term deposits, and foreign exchange and interest rate derivatives as shown in the consolidated accounts.

⁽²⁾ Consolidated Ebitda refers, as defined in the contract, to net operating income for the period under review, plus depreciations and provisions, net of reversals and dividends received from non-consolidated subsidiaries.

The company's financing capacity is sufficient to fund its cash requirements.

Other financial liabilities classified according to their maturity

As at December 31, 2018

in € thousand	Payments			Total
	less than 1 year	from 1 to 5 years	more than 5 years	
Loans	91,435	288,740	84,577	464,752
Bank overdrafts	19,173	-	-	19,173
Accrued interests not yet matured	49	-	-	49
Debt relating to leasing contracts	1,167	1,618	-	2,785
Employee profit sharing	532	2	-	534
Currency and interest rate derivatives	639	963	-	1,601
Other	-	-	-	-
Other financial liabilities	112,995	291,323	84,577	488,895

The generation of operating cash flow as well as negotiated overdrafts and factoring cover short-term financial liabilities.

As at December 31, 2017

in € thousand	Payments			Total
	less than 1 year	from 1 to 5 years	more than 5 years	
Loans	78,330	320,846	86,560	485,736
Bank overdrafts	16,689	-	-	16,689
Accrued interests not yet matured	40	-	-	40
Debt relating to leasing contracts	2,481	1,371	-	3,851
Employee profit sharing	267	3	-	270
Currency and interest rate derivatives	949	854	-	1,803
Other	-	-	-	-
Other financial liabilities	98,757	323,074	86,560	508,390

Information related to financial activities

in € thousand	2017	Cash flows			Other flows		2018
		Debt issuance	Repayments of debt	Fair Value	Transfers	Conversion gains and losses	
Non-current financial liabilities	407,406	20,000	-36,361	-	-18,988	1,259	373,317
Current financial liabilities	78,330	46,128	-51,381	-	18,988	-630	91,435
Debt relating to leasing contracts	3,851	507	-2,414	-	857	-17	2,785
Employee profit sharing	270	483	-232	-	-	14	534
Currency and interest rate derivatives	1,803	-	-	-202	-	-	1,601
Other financial liabilities	491,661	67,118	-90,387	-202	857	626	469,673

A17. Other payables

	2017	Variations	Changes in scope	Transfers	Conversion gains and losses	2018
in € thousand						
Income tax payables	-	-	-	-	-	-
Social payables	-	-	-	-	-	-
Other fiscal payables	-	-	-	-	-	-
Advances and prepayments on orders	-	-	-	-	-	-
Prepaid income	335	587	-	-	20	943
Various other payables	237	1,351	-	-6	-4	1,578
Other non-current payables	572	1,939	-	-6	16	2,520
Income tax payables	8,032	-1,111	-	-	-178	6,744
Social payables	41,081	2,247	-	-	-76	43,252
Other fiscal payables	10,944	218	-	20	-21	11,160
Advances and prepayments on orders	152	131	-	-	-6	276
Prepaid income	705	27	-	-	13	746
Various other payables	57,858	4,711	-	2,178	-6	64,742
Other current payables	118,772	6,223	-	2,198	-273	126,920
Other payables	119,343	8,161	-	2,192	-256	129,440

Transfers represent reclassifications emerging the item "Trade payables" (see note A18).
The line "Other payables" largely comprises liabilities for contracts entered into with customers.
The table below details the type of contract-related liabilities in question:

	2017	Variations	Changes in scope	Transfers	Conversion gains and losses	2018
in € thousand						
Advances and prepayments on orders	152	131	-	-	-6	276
Accounts receivable - Credits and accruals	50,052	6,333	-	-	-38	56,347
Other payables	50,203	6,464	-	-	-45	56,623

Credits and accruals stem primarily from changes in transaction pricing, as the majority of the Group's subsidiaries grant customers year-end discounts, the amount of which is contingent on the achievement of sales objectives.

A18. Trade payables

	2017	Variations	Changes in scope	Transfers	Conversion gains and losses	2018
in € thousand						
Current trade payables	105,670	-11,832	-	-6,852	-183	86,803
Payables of intangible assets	1,428	-1,527	-	1,718	21	1,640
Payables of tangible assets	1,635	-3,481	-	2,939	37	1,129
Trade payables	108,733	-16,841	-	-2,195	-125	89,572

The "Transfers" column indicates reclassifications from the item "Other liabilities" (see note A17 above).

The drop in this item was particularly noticeable in France and the United States. This was due to a decrease in purchase volumes over the last quarter in 2018, compared with the same period in the previous financial year, as well as a decrease in the days of sales outstanding.

A19. Revenue from ordinary activities

in € thousand	2018	2017	Change
Sales of finished goods and merchandise	986,599	963,983	2.3%
Services	30	188	-84.0%
Additional income from activity	3,463	4,211	-17.8%
Royalties paid	350	342	2.4%
Gross sales	990,442	968,724	2.2%
Discounts, rebates and refunds on sales	-95,979	-87,707	9.4%
Expenses deducted from sales	-17,727	-15,240	16.3%
Financial discounts	-7,741	-3,871	100.0%
Provision for returns	-62	-24	160.1%
Expenses deducted from sales	-121,510	-106,843	13.7%
Revenue from ordinary activities	868,932	861,882	0.8%

In 2018, the Group registered consolidated revenue of €868.9 million, up 0.8% and 4.5% at actual and constant exchange rates respectively.

Geographically, in the United States, overall sales for the year increased by 2.4% and 5.7% at actual and constant exchange rates respectively.

Europe saw growth of 2.7% at constant exchange rates, driven by strong performance, especially in the United Kingdom, France, Northern Europe, Scandinavia and Poland, despite an overall business slowdown in Southern Europe due to the non-renewal of tenders for anti-rabies baits in Greece and a decline in the external parasiticide and swine antibiotic ranges.

Sales in the Africa-Middle East region were up 5.2%, an increase of 9.5% at constant exchange rates, owing mainly to South Africa.

In the rest of the world, organic growth continues to be strong in many emerging countries, in particular Brazil, Mexico, China, and Japan, as well as India.

Despite a decline of -3.0% at actual rates, the Pacific region recorded growth of 3.9% at constant exchange rates, owing mainly to strong results in New Zealand.

Chile showed a decline of -11.5% and -8.6% at actual and constant exchange rates respectively, due to weaker antibiotic and oral vaccine sales compared with the same period in 2017.

The expenses presented within the revenue are mainly made up of the following elements:

- amounts paid under commercial cooperation contracts (commercial communication actions, provision of statistics, *etc.*);
- cost of business operations (including loyalty programs), the amount of which is directly related to the revenue generated.

Provisions for returns are calculated using a statistical method, based on historical returns.

A20. Purchases consumed

in € thousand	2018	2017	Change
Inventoried purchases	-280,509	-273,464	2.6%
Non-inventoried purchases	-22,616	-24,871	-9.1%
Supplementary charges on purchases	-4,211	-4,248	-0.9%
Discounts, rebates and refunds obtained	407	185	120.1%
Purchases	-306,928	-302,397	1.5%
Change in gross inventories	15,185	-378	-4118.6%
Allowances for depreciation of inventories	-9,119	-8,567	6.4%
Reversals of depreciation of inventories	6,573	7,904	-16.8%
Net variation in inventories	12,639	-1,041	-1314.1%
Purchases consumed	-294,289	-303,438	-3.0%

A21. External costs

Within this item, external research and development costs recognized during the 2018 financial year totaled €13,102 thousand compared to €14,318 thousand in 2017.

Operating lease contracts as of December 31, 2018

in € thousand	Rents for the period	Minimum future lease payments as per contracts			
		less than 1 year	from 1 to 3 years	from 3 to 5 years	more than 5 years
Lands and buildings	-4,930	-4,226	-7,219	-4,437	-3,411
Industrial equipment	-1,215	-526	-694	-293	-63
IT equipment	-570	-21	-115	-	-
Office equipment and furniture	-1,128	-215	-169	-42	-46
Transport equipment	-5,171	-2,255	-2,138	-735	-275
Lease payments	-13,013	-7,244	-10,335	-5,507	-3,796

A22. Depreciation, impairment and provisions

in € thousand	2018	2017	Change
Allowances for depreciation of intangible assets *	-4,549	-4,073	11.7%
Allowances for impairment of intangible assets	-140	-292	-52.1%
Allowances for depreciation of tangible assets	-23,143	-22,406	3.3%
Allowances for impairment of tangible assets	-542	-687	-21.1%
Reversals of depreciation of intangible assets	-	-	-
Reversals of impairment of intangible assets	-	69	-100.0%
Reversals of depreciation of tangible assets	-	-	-
Reversals of impairment of tangible assets	620	584	-100.0%
Depreciation and impairment	-27,754	-26,806	3.5%
Allowances of provisions for risks and charges	-3,165	-2,525	25.4%
Reversals of provisions for risks and charges	2,174	2,816	-22.8%
Provisions	-991	292	-440.0%
Impairment and provisions	-28,745	-26,514	8.4%

* Excluding allowances for depreciation of intangible assets resulting from acquisitions.

Allowances for depreciation of assets arising from acquisitions break down as follows:

in € thousand	2018	2017
United States: Sentinel	-9,765	-10,073
SBC	-63	-72
Uruguay: Santa Elena	-138	-143
Australia: Axon	-125	-134
New Zealand	-484	-632
Centrovet	-2,467	-2,551
Multimin	-542	-575
Peptech	-69	-169
Colombia: Synthesis	-110	-115
Schering-Plough Europe	-1,279	-1,481
Total depreciations of intangible assets arising from acquisitions	-15,043	-15,946

A23. Other operating income and expenses

in € thousand	2018	2017	Change
Royalties paid	-3,745	-3,999	-6.4%
Grants received (including research tax credit)	7,478	7,984	-6.3%
Allowances for depreciation of receivables	-513	-664	-22.8%
Reversals of depreciation of receivables	751	1,803	-58.4%
Bad debts	-995	-1,474	-32.5%
Net book value on disposed assets	-2,324	-491	373.1%
Income from disposals of assets	387	283	36.9%
Other operating income and expenses	-608	-893	-31.9%
Other current income and expenses	432	2,549	-83.0%

The amount of research tax credits posted as subsidies for the financial year ending December 31, 2018 was €7,460 thousand.

A24. Other non-current income and expenses

As of December 31, 2018, this item breaks down as follows:

in € thousand	2018
Impairment of goodwill and MA held by BVT on Leishmaniosis vaccine	-6,595
Restructuring costs related to the logistics center in Wissous	2,470
Costs related to the outsourcing of intramammary production	-4,093
Restructuring costs of Virbac Corporation	178
Other non-current income and expenses	-8,040

Following the emergence of a new player on the Leishmaniosis vaccine market in 2017, tests conducted as at December 31, 2018 resulted in the recognition of a goodwill impairment supplement of €0.4 million on the Leishmaniosis vaccine CGU, as well as an intangible asset impairment in the amount of €6.2 million (see note A3).

The item "Other non-current income and expenses" also includes the impact of the restructuring exercise that took place at the Virbac Distribution subsidiary in the amount of €2.5 million, including both the net proceeds of the sale

of the building in the amount of €4.1 million and the restructuring costs and fees associated with the sale of the building, totalling €1.6 million.

Also recorded in this item were costs associated with outsourcing the production of intramammaries, amounting to €3.9 million in provisions and €0.2 million in costs already incurred.

A25. Financial income and expenses

in € thousand	2018	2017	Change
Gross cost of financial debt	-17,793	-20,313	-12.4%
Income from cash and cash equivalents	1,114	377	195.8%
Net cost of financial debt	-16,678	-19,936	-16.3%
Foreign exchange gains and losses	-10,011	4,155	-340.9%
Changes in foreign currency derivatives and interest rate	2,523	-2,029	-224.3%
Other financial charges	-245	-134	82.3%
Other financial income	307	134	129.1%
Other financial income and expenses	-7,425	2,126	-449.3%
Financial income and expenses	-24,103	-17,811	35.3%

The cost of net debt in 2018 decreased by €3.3 million compared with 2017, partly because of the drop in interest expense in line with the shrinking debt, and partly because of the increased income from cash resulting from marketable securities referred to in note A11.

Foreign exchange losses, amounting to €10.0 million, were heavily impacted by the negative changes in CLP vis-à-vis the revaluation of the Chilean subsidiary's loans, both in relation to the Euro and the US Dollar.

This loss was partially offset by the impact of the revaluation of financial instruments in accordance with IFRS 9, which generated an overall gain of €2.5 million in 2018, including income of €3.1 million on interest rate instruments (almost exclusively on CLP) and an expense of €0.6 million on currency instruments.

A26. Income tax

in € thousand	2018		2017	
	Base	Tax	Base	Tax
Profit before tax	40,889		40,237	
Adjustment for tax credits	-8,815		-9,563	
Adjustment of non-recurring items	30,195		44,684	
Profit before tax, after adjustments	62,269		75,358	
Tax currently payable for French companies		-1,160		-661
Tax currently payable for foreign companies		-21,537		-24,232
Tax currently payable		-22,697		-24,893
Deferred tax for French companies		1,854		3,119
Deferred tax for foreign companies		477		-17,470
Deferred tax		2,331		-14,350
Tax accounted for		-20,366		-39,243
Restatement of adjustments on tax currently payable		-304		226
Restatement of adjustments on deferred tax		-75		-1,517
Depreciation of deferred tax assets		-		15,167
Tax after restatements		-20,745		-25,367
<i>Effective tax rate</i>		<i>33.32%</i>		<i>33.66%</i>
<i>Theoretical tax rate</i>		<i>34.43%</i>		<i>34.43%</i>
Theoretical tax		-21,439		-25,946
Difference between theoretical tax and recorded tax		-1,073		13,297

The theoretical tax rate considered by the Group is the corporate tax rate in effect in France (including the additional contribution of 3.3%).

Taxes for the financial year were impacted by the failure to record in the Virbac US subsidiary's accounts deferred tax assets on tax losses carried forward for the 2018 financial year (€4.6 million), in accordance with IAS 12, which covers the existence of a history of recent and unused tax losses as a strong indication that future taxable profits may not be useable.

Restated profit before tax

The adjusted pre-tax profit is arrived at based on the pre-tax profit, to which items that contribute to the tax base were added or from which said items were subtracted, albeit without any impact on the tax expense, so as to determine what the actual tax rate is for the 2018 financial year. These restatements are as follows:

Adjustment for tax credits

These are the main tax credits factored into the operating profit from ordinary activities in accordance with IAS 20. The amount represents the research tax credit and the competitiveness and employment tax credit for French entities as well as a tax credits in Chile and Brazil.

Adjustment for tax bases related to non-recurring items

This amount includes:

- accounting expenses or income without any tax impact, including goodwill impairment (€0.4 million), permanent differences between entities in France and those abroad (€2.6 million);
- as well as Virbac USA's tax deficit for the 2018 financial year, given that the tax saving related to tax losses to carry forward is cancelled by the impairment of the deferred tax asset.

Tax after restatements

Adjustments for the tax expense are as follows:

Neutralizing the adjustments for the deferred tax expense

This amount represents tax expenses or income without any accounting basis. It is:

- the effect of tax reforms in France and other countries on the deferred tax bases at the beginning of the financial year;
- the change in the bases or rates of deferred tax assets and liabilities at the beginning of the financial year (change in estimates).

Impairment of deferred tax assets at the beginning of the financial year

In 2017, the Group's accounts were impacted by the impairment of Virbac US's deferred tax asset at the beginning of the financial year (\$17.2 million USD).

A27. Bridge from net result to net result from ordinary activities

As at December 31, 2018

	Net result IFRS 2018	Impairment of assets	Restructuring costs	Other items	Non-current tax expense	Net result from ordinary activities 2018
in € thousand						
Revenue from ordinary activities	868,932					868,932
Current operating profit before depreciation of assets arising from acquisitions	88,076					88,076
Depreciations of intangible assets arising from acquisitions	-15,043					-15,043
Operating profit from ordinary activities	73,033					73,033
Other non-current income and expenses	-8,040	6,595	1,445			-
Operating result	64,993					73,033
Financial income and expenses	-24,104					-24,104
Profit before tax	40,889					48,929
Income tax	-20,366	-1,595	-521		4,554	-17,928
Share from companies' result accounted for by the equity method	462					462
Result for the period	20,985					31,463

Net profit from ordinary activities equates to net profit restated for the following items:

- the line "Other non-current income and expenses" disclosed in more detail in note A24;
- non-current tax, which includes the tax impact of "Other non-current income and expenses", as well as all non-recurring tax income and expenses (here the impairment of the deferred tax asset on tax losses carried forward from Virbac US's financial year).

For the record, the net profit from ordinary activities for the 2017 financial year was as follows:

As at December 31, 2017

	Net result IFRS 2017	Impairment of assets	Restructuring costs	Other items	Non-current tax expense	Net result from ordinary activities 2017
in € thousand						
Revenue from ordinary activities	861,882					861,882
Current operating profit before depreciation of assets arising from acquisitions	80,341					80,341
Depreciations of intangible assets arising from acquisitions	-15,946					-15,946
Operating profit from ordinary activities	64,396					64,396
Other non-current income and expenses	-6,348	5,000	1,348			-
Operating result	58,048					64,396
Financial income and expenses	-17,811					-17,811
Profit before tax	40,237					46,585
Income tax	-39,243				21,379	-17,864
Share from companies' result accounted for by the equity method	765					765
Result for the period	1,759					29,485

In 2017, the non-recurring charge reflected the impairment of the deferred tax asset on losses carried forward in the Virbac US subsidiary, amounting to 24.2 million USD.

A28. Earnings per share

	2018	2017
Profit attributable to the owners of the parent company	20,099,108 €	-2,574,782 €
Total number of shares	8,458,000	8,458,000
Impact of dilutive instruments	-	-
Number of treasury shares	35,950	37,261
Outstanding shares	8,422,050	8,420,739
Profit attributable to the owners of the parent company, per share	€2.39	-€0.31
Profit attributable to the owners of the parent company, diluted per share	€2.39	-€0.31

A29. Operating segments

In accordance with IFRS 8, the Group provides industry information as used internally by the chief operating officer. The level of the Group's segment information is the geographic sector. The breakdown by geographic area covers seven sectors, according to the place of establishment of Group assets:

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

The Group's operating activities are organized and managed separately, according to the nature of the markets. The two market segments are companion animals and food producing animals but the latter is not considered an industry information level for the reasons listed below:

- nature of the products: the majority of the therapeutic segments are common to companion and food producing animals (antibiotics, parasiticides, etc.);
- manufacturing procedures: the production chains are common to both segments and there is no significant difference in sources of supply;
- client type or category: the distinction is made between the ethical (veterinary) and OTC (Over the counter) sectors;
- internal organization: the management structures in the Virbac group are organized by geographic zone. Throughout the Group, there is no management structure based on market segments;
- distribution methods: the main distribution channels depend more on the country than the market segment. In certain cases, the sales forces may be the same for both market segments;
- nature of the regulatory environment: the regulatory bodies governing market authorizations are identical regardless of the segment.

In the information presented below, the sectors therefore correspond to geographic zones (areas where the Group's assets are located). The results for France include the Group's head office expenses and a substantial proportion of its research and development expenses.

As at December 31, 2018

in € thousand	France	Europe (excluding France)	Latin America	North America	Asia	Pacific	Africa & Middle East	Total
Revenue from ordinary activities	133,422	222,326	142,787	120,029	142,260	82,387	25,721	868,932
Current operating profit before depreciations of assets arising from acquisitions	15,047	12,777	17,765	-1,794	21,044	18,586	4,651	88,076
Profit attributable to the owners of the parent company	1,618	9,029	2,462	-21,126	12,920	11,966	3,229	20,099
Non-controlling interests	1	-	885	-	-	-	-	886
Consolidated profit	1,619	9,029	3,347	-21,126	12,920	11,966	3,229	20,985
in € thousand	France	Europe (excluding France)	Latin America	North America	Asia	Pacific	Africa & Middle East	Total
Assets by geographic area	674,523	39,871	217,727	147,953	111,261	75,598	5,876	1,272,807
Intangible investment	4,129	214	503	1,635	21	-	18	6,519
Tangible investment	8,366	322	4,399	6,200	1,064	1,871	118	22,341

No customer achieved more than 10% of revenue.

Non-controlling interests mainly reflect the contribution from the Chilean entities (HSA group), in which Virbac holds a 51% interest.

The French net profit includes an impairment of goodwill and intangible assets in the amount of €5 million net of taxes.

As at December 31, 2017

	France	Europe (excluding France)	Latin America	North America	Asia	Pacific	Africa & Middle East	Total
in € thousand								
Revenue from ordinary activities	130,900	215,914	146,547	117,381	142,140	84,750	24,250	861,882
Current operating profit before depreciations of assets arising from acquisitions	11,092	14,338	21,780	-14,470	24,865	18,350	4,386	80,341
Profit attributable to the owners of the parent company	6,141	10,476	6,939	-56,255	16,581	10,507	3,036	-2,575
Non-controlling interests	2	-	4,332	-	-	-	-	4,334
Consolidated profit	6,143	10,476	11,271	-56,255	16,581	10,507	3,036	1,759
in € thousand								
Assets by geographic area	249,814	69,612	266,251	469,491	110,832	98,959	12,352	1,277,311
Intangible investment	3,891	154	328	1,260	88	904	14	6,639
Tangible investment	10,817	155	4,155	10,481	2,217	1,141	74	29,040

A30. Financial assets and liabilities

Breakdown of assets and liabilities measured at fair value

In accordance with IFRS 7 "Financial instruments - Disclosures", measurements at fair value of financial assets and liabilities must be classified according to a hierarchy which comprises the following levels:

- level 1, the fair value is based on (unadjusted) quoted prices in active markets for identical assets or liabilities;
- level 2, the fair value is based on data other than the quoted prices mentioned in level 1, which are directly or indirectly observable for the asset or liability in question;
- level 3, the fair value is based on inputs relating to the asset or liability which are not based on observable market data, but on internal data.

For financial asset and liability derivatives recognized at fair value, the Group uses measurement techniques involving observable market data (level 2), particularly for interest rate *swaps*, forward purchases and sales, or foreign currency options. The model incorporates various inputs such as the spot and forward exchange rates or the interest rate curve.

Financial assets

The different asset classes are as follows:

As at December 31, 2018

	Loans and receivables	Financial assets at fair value through income	Financial assets at fair value through equity	Total	Fair value hierarchy
in € thousand					
Non-current derivative financial instruments	-	-	3,699	3,699	2
Other non-current financial assets	7,072	-	-	7,072	-
Trade receivables	101,507	-	-	101,507	-
Other receivables*	38,610	-	-	38,610	-
Current derivative financial instruments	-	120	620	740	2
Other current financial assets	29	-	-	29	-
Cash and cash equivalents	35,624	27,187	-	62,811	1
Financial assets	182,842	27,307	4,319	214,468	

* excluding prepaid expenses and income tax receivables.

As at December 31, 2017

	Assets available for sale	Loans and receivables	Financial assets at fair value through income	Financial assets at fair value through equity	Total	Fair value hierarchy
in € thousand						
Non-current derivative financial instruments	-	-	0	1,329	1,329	2
Other non-current financial assets	-	8,496	-	-	8,496	-
Trade receivables*	-	112,947	-	-	112,947	-
Other receivables**	-	45,671	-	-	45,671	-
Current derivative financial instruments	-	-	969	375	1,344	2
Other current financial assets	-	97	-	-	97	-
Cash and cash equivalents	-	33,399	14,979	-	48,378	1
Financial assets	-	200,610	15,948	1,704	218,262	

* restated from the impact of IFRS 9

** excluding prepaid expenses and income tax receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets, of determined or determinable payments, which are not listed. The elements in this category are described below.

■ Loans and other long-term financial receivables

These are mainly security deposits, other advance rental payments and escrow accounts, as well as loans granted (notably to personnel).

■ Trade receivables

These are recognized at the initial amount of the invoice, minus provisions for impairment.

■ Current receivables

These are mainly receivables vis-à-vis tax (excluding corporation tax) and social security authorities, as well as advances and prepayments on orders.

■ Cash and cash equivalents

These are mainly bank account deposits and cash on hand.

Financial assets at fair value through income statement

Interest or exchange rate derivative instruments designated as fair value hedges and financial derivatives not designated as hedges are classified as financial assets at fair value through the income statement.

This category also includes marketable securities acquired by Virbac for sale or redemption in the short term. They are measured at fair value at the balance sheet date, and any fair value changes are recognized in income. The fair values of marketable securities are mainly determined with reference to the market price (buying or selling price as applicable).

Assets held to maturity

These are financial assets, other than loans and receivables, having a fixed maturity and for which payments are determined or determinable. Virbac does not hold any securities that meet the definition of held-to-maturity investments.

Financial liabilities

The different classes of liabilities are as follows:

As at December 31, 2018

in € thousand	Loans and debts	Financial liabilities at fair value through income	Financial liabilities at fair value through equity	Total	Fair value hierarchy
Non-current derivative financial instruments	-	23	940	963	2
Other non-current financial liabilities	374,937	-	-	374,937	-
Trade payables	89,572	-	-	89,572	-
Other payables*	121,008	-	-	121,008	-
Current derivative financial instruments	-	514	125	639	2
Bank overdrafts and accrued interests not yet matured	19,173	49	-	19,222	2
Other current financial liabilities	93,134	-	-	93,134	-
Financial liabilities	697,824	586	1,065	699,474	

* excluding prepaid income and income tax debt.

As at December 31, 2017

in € thousand	Loans and debts	Financial liabilities at fair value through income	Financial liabilities at fair value through equity	Total	Fair value hierarchy
Non-current derivative financial instruments	-	-	854	854	2
Other non-current financial liabilities	408,780	-	-	408,780	-
Trade payables	108,733	-	-	108,733	-
Other payables*	110,271	-	-	110,271	-
Current derivative financial instruments	-	744	205	949	2
Bank overdrafts and accrued interests not yet matured	16,689	40	-	16,731	2
Other current financial liabilities	81,078	-	-	81,078	-
Financial liabilities	725,550	784	1,059	727,394	

* excluding prepaid income and income tax debt.

As of December 31, 2018, the gross cost of financial debt amounted to €17,793 thousand. As of December 31, 2017, it was €20,313 thousand.

A31. Risk management associated with financial assets and liabilities

Policy management of financial risk is controlled centrally by the Group's Financial Affairs department and in particular its Treasury and Financing department.

Strategies for financing, investment, and interest and exchange rate risk hedging are also systematically reviewed and monitored by the Financial Affairs department. The operations carried out by local teams are also managed and monitored by the Group's Treasury and Financing department.

The holding of financial instruments is conducted with the sole purpose of reducing exposure to exchange rate and interest rate risks and has no speculation purpose.

The Group holds derivative financial instruments solely for the purpose of reducing its exposure to interest rate and exchange rate risks on balance sheet items and its firm or highly probable commitments.

When it comes to cash flow hedging, based on backing and maturities, these hedges can occur and affect profit in the current-year or that in subsequent years.

Credit risk

■ Risk factors

The credit risk may arise when the Group grants credit to customers on payment terms. The risk of insolvency, or even default by some of them, may result in non-payment and thus negatively impact the Group's income statement and net cash position. The impact may be felt from a payment standpoint (non-payment for services or deliveries made, customer risk) or delivery (undelivered services or supplies paid for, supplier risk).

As of December 31, 2018, the Group's maximum exposure to credit risk was €101,507 thousand, which represents the amount of trade receivables as presented in the Group's consolidated accounts.

The risk on sales between Group companies is not material, to the extent that Virbac ensures that its subsidiaries have the necessary financial structure to honor their debts.

■ Risk management mechanisms

The Group limits the negative consequences of this type of risk thanks to the very high fragmentation and dispersal of its customers throughout all of the countries in which it operates. The Treasury department recommends, in accordance with the applicable regulations, the credit-insurance-imposed practices, ratings, and limits, and the maximum settlement deadlines, in addition to setting the credit limits for customers to be applied by the Group's operational entities. The Treasury and Financing department manages and controls these credit aspects for the French entities for which it is directly responsible and recommends the same practices via guidelines and best practices for the Group. In addition, there is a master credit group insurance contract that benefits or can benefit any subsidiary for which this type of risk has been identified.

As regards cash flow hedging, it is anticipated that cash flows will occur and affect profit in the current year and profit in subsequent years.

The following statements provide a breakdown of trade receivables:

As at December 31, 2018

	Receivables due	Receivables overdue for				Impaired	Total
		< 3 months	3-6 months	6-12 months	> 12 months		
in € thousand							
France	19,860	1,212	317	272	3	80	21,743
Europe (excluding France)	18,845	803	87	52	2	2,096	21,885
Latin America	27,499	3,825	293	163	-	916	32,695
North America	4,431	-	-	-	-	1	4,432
Asia	14,000	1,207	61	11	-	149	15,428
Pacific	5,743	152	-	-	-	3	5,899
Africa & Middle East	2,461	209	-	-	-	2	2,672
Trade receivables	92,840	7,408	757	497	5	3,247	104,753

As at December 31, 2017

	Receivables due	Receivables overdue for				Impaired *	Total
		< 3 months	3-6 months	6-12 months	> 12 months		
in € thousand							
France	20,047	227	4	-	-	503	20,781
Europe (excluding France)	20,620	1,898	185	5	-	2,078	24,786
Latin America	27,931	7,070	153	112	16	829	36,111
North America	9,976	-	-	-	23	3	10,002
Asia	13,857	936	527	29	-	112	15,460
Pacific	6,702	129	7	-	-	-	6,838
Africa & Middle East	2,322	173	-	-	-	2	2,497
Trade receivables	101,455	10,432	877	145	39	3,528	116,476

* Restated from the impact of IFRS 9

Receivables due and not settled are periodically analyzed and classified as bad debts, whenever the risk that the receivable will not be fully recovered appears. The amount of the provision recognized at the balance sheet date is defined based on the age of the receivable and, as the case may be, criteria regarding the debtors. Bad debts are recognized as losses when identified as such.

Counter-party risk

■ Risk factors

The Group is exposed to counterparty risk within its contracts and financial instruments which it buys, in the event that the debtor refuses to honor all or part of its commitment or finds itself *in fine* unable to do so.

■ Risk management mechanisms

The Group pays particular attention to the choice of banking entities it uses, and is even more critical when it comes to investing available cash.

However, Virbac considers that it has low exposure to counter-party risk given the quality of its major counterparties. In fact, investments are only made with first-class banking entities.

As regards other financial assets and particularly liquid assets, the cash surpluses of Group subsidiaries are pooled by the parent company, which is in charge of managing them centrally, in the form of short-term interest-bearing deposits. The Group only works with leading banking counterparties.

Liquidity risk

■ Risk factors

Liquidity is defined as the Group's capacity to meet its financial payment deadlines as part of its current business and to find new funding sources as needed, so as to maintain a continual balance between its income and expenditures. As part of its operations, its program of recurring investments and active policy of external growth, the Group is also exposed to the risk of not being sufficiently liquid to fund its growth and development.

■ Risk management mechanisms

The policy of centralizing cash surpluses and financing needs of all the zones makes it possible to refine the Group's net positions and to optimize the management of investments or financings, thus ensuring Virbac's ability to cope with its financial commitments and to maintain an optimal level of availability compatible with its size and needs.

As part of its specific review of liquidity risk, the Group regularly conducts a detailed review of its outstanding loans, thus ensuring compliance with its financial ratio (debt covenant).

For 2018 and to give itself more flexibility, Virbac applied for and obtained flexibility in the financial covenant compliance clause from its banking partners. It should be below 5.0 at the end of June 2018 and below 4.25 at the end of December 2018.

The financial ratio calculated as at December 31, 2018 was 3.46, and thereby in compliance with the waiver covenant. As this application only covers 2018, the contract will revert back to the initial conditions after this period.

In respect of the outlook, the cash and the financing resources of the company are covering its cash requirements.

Risk of fraud

■ Risk factors

The Group may experience cases of internal or external fraud that could lead to financial losses and affect the Group's reputation.

■ Risk management devices

Virbac strives to strengthen internal control and attaches particular importance to raising the awareness of its teams on these issues. The Group and in particular the central functions regularly issue strong guidelines and indications in this area. Segregation of duties and a central, regional and local management control mechanism and the appointment of regional supervisors help to reinforce control and reduce the likelihood of such practices occurring. As soon as new companies are acquired, they are integrated into these systems for preventing unethical practices.

Virbac is part of a process of training and deployment of good practices that are intended, among other things, to prevent the risk of fraud.

The Virbac code of conduct notably marks the Group's commitment to carrying out its activities in compliance with the law and ethics and also defines the nature of the relationships that Virbac wishes to have with its partners.

Market risks

Exchange rate risk

■ Risk factors

The exchange rate risk arises from the impact of fluctuations in exchange rates on the Group's financial flows when carrying out its activities. Due to its strong international presence, the Group is exposed to the foreign exchange risk on transactions, and the foreign exchange risk on the conversion of the financial statements of its foreign subsidiaries.

Virbac carries out transactions in currencies other than the euro (its reference currency). The exchange rate risk is monitored using a client risk summary generated by the IT system (ERP). The items are updated based on *ad hoc* reports.

The majority of the Group's exchange rate risk is centralized on the parent company, which invoices its subsidiaries in their local currency. In the case of sales to countries with exotic currencies, the invoices are denominated in euros or American dollars.

Taking into account the purchases and sales in other currencies, the Group is exposed to exchange rate risks mainly for the following currencies: American dollar, pound sterling, Swiss franc and various currencies in Asia, the Pacific and Latin America.

Given the Group's exchange rate risk exposure, currency fluctuations have a significant impact on its income statement both in terms of conversion risk and transaction risk.

■ Risk management mechanisms

In order to protect against unfavorable variations in the various currencies in which sales, purchases or specific transactions are denominated, the Group's policy is to hedge the currency risk on transactions when the magnitude of the exposure and the currency fluctuations are high.

The Group hedges most of its significant and certain foreign exchange positions (receivables, debts, dividends, loans within the Group), a portion of position estimates, as well as future sales and purchases.

Accordingly, it uses various instruments available on the market and generally employs foreign exchange forwards or options.

Derivative financial exchange instruments are presented below, at market value:

in € thousand	2018	2017
Fair value hedges	-361	217
Cash flow hedges	204	80
Net investment hedges	-	-
Derivatives not qualifying for hedges	-57	7
Derivative financial exchange instruments	-214	304

The derivative instruments held at closure do not all qualify for hedging in the consolidated accounts. In such a case, value variations directly impact the profit for the period.

Interest rate risk

■ Risk factors

The Group's income statement may be impacted by the interest rate risk. In fact, unfavorable rate changes can also have a negative impact on the Group's financing costs and future cash flows.

The exposure of the Group to the interest rate risk arises from the fact that the Group's debt consists mainly of credit lines and variable rate loans; the cost of debt can therefore increase if interest rates rise.

The exposure to rate risks for the Virbac group is primarily the result of variable rate credit lines established up to a maximum of €482 million. These lines are indexed to the Euribor and USD Libor rates.

Borrowing in the United States is indexed to the USD Libor rate.

The local loan in Colombia to finance the acquisition of the Synthesis assets is indexed on the DTF (*Depositos termino fijo*).

The local loan in Mexico to finance the construction of new facilities is indexed on the TIIE (*Tasa de interes interbancaria de equilibrio*).

The current amount on the credit lines is the following:

in € thousand	2018		2017	
	Average real interest rate	Book value	Average real interest rate	Book value
Vietnam			3.600%	73
Chile	3.724%	29,720	2.223%	25,114
Mexico	9.440%	2,001	8.886%	2,675
Uruguay	5.698%	2,764	5.050%	2,915
France	2.291%	49,900	2.239%	51,398
Fixed rate debt		84,385		82,176
Vietnam	2.170%	430	2.170%	481
France	2.920%	347,731	2.084%	373,637
United States	4.070%	30,568	2.538%	21,679
Mexico	-	-	9.135%	1,681
Colombia	-	-	8.245%	493
New Zealand	4.443%	1,466	4.580%	3,633
Australia	-	-	2.810%	1,955
Philippines	7.840%	150	-	-
Other		23	-	-
Variable rate debt		380,369		403,560
Bank overdrafts	-	19,173	-	16,689
Loans and bank overdrafts*		483,927		502,426

* excluding debt relating to the capital leasing contracts.

Interest rate derivatives are shown below, at market value:

in € thousand	2018	2017
Fair value hedges	-	-
Cash flow hedges	3,050	565
Net investment hedges	-	-
Derivatives not qualifying for hedges	-	-
Derivative financial rate instruments	3,050	565

■ Risk management mechanisms

To manage these risks and optimize the cost of its debt, the Group monitors developments and market rate expectations and limits its exposure by establishing interest rate hedges, with instruments available on the market such as caps or swaps of interest rates (fixed rate) not exceeding the length and value of its actual commitments.

Specific impacts from hedging exchange rate and interest rate risks

■ Risk factors

The purpose of hedge accounting is to offset the impact of the hedged item and of the hedging instrument in the income statement. In order to qualify for hedge accounting, all hedging relationships must satisfy a series of stringent conditions in terms of documentation, likelihood of occurrence, effectiveness of the hedge and measurement reliability.

■ Risk management mechanisms

The Group only engages in hedging transactions designed to hedge actual or certain exposure; it does not create speculative risk.

Financial derivatives are designated as hedges when the hedging relationship can be demonstrated and documented. The exchange rate derivatives used for cash flow hedging generally mature within no more than a year.

The interest rate derivatives are intended to hedge credit lines and loans. Their maturities are backed by the hedged item.

As of December 31, 2018, the unrealized gains and losses in equity for the period accounted for a net profit of €151 thousand. The ineffective share recorded as profit for this cash flow hedging reflected a profit of €3,102 thousand.

in € thousand	Nominal		Positive fair value		Negative fair value	
	2018	2017	2018	2017	2018	2017
Forward exchange contract	39,494	63,200	295	1,169	525	847
OTC options exchange	21,693	22,301	137	76	121	92
Exchange instruments	61,187	85,501	432	1,245	646	939
Swap rate	145,175	133,073	1,212	1,002	581	138
Interest rate options	179,336	91,720	528	110	-	392
Cross currency swap	44,423	44,423	2,267	314	375	333
Interest rate instruments	368,934	269,216	4,007	1,426	956	863
Derivative financial instruments	430,121	354,717	4,439	2,671	1,602	1,802

Supply risks

All the raw materials and certain active ingredients used to manufacture Virbac's products are supplied by third parties. In certain cases, the Group also uses finishers or industrial partners who have expertise in or are masters in particular technologies.

As far as possible, Virbac diversifies its sources of supply by approving several suppliers, while ensuring that these various sources embody the characteristics of sufficient quality and reliability.

Nevertheless, there are certain supplies or certain technology situations where diversification is practically impossible, which can result in a disruption to the supply or pressure on prices.

To limit these risks, the Group takes a broad approach to identifying as many diversified suppliers as possible, and may in certain cases secure its supply chain by acquiring the technologies and capacities it lacks and that create too high a dependency. An example of this was the acquisition of the intellectual property and industrial facilities to produce the protein used to make the leading cat vaccine.

A32. Composition of Virbac share capital

	2017	Increase	Decrease	2018
Number of authorised shares	8,458,000	-	-	8,458,000
Number of shares issued and fully paid	8,458,000	-	-	8,458,000
Number of shares issued and not fully paid	-	-	-	-
Outstanding shares	8,420,739	66,341	-65,030	8,422,050
Treasury shares	37,261	65,030	-66,341	35,950
Nominal value of shares	€1.25	-	-	€1.25
Virbac share capital	€10,572,500	-	-	€10,572,500

A33. Performance-related stock grant plans

The executive board, in accordance with authorization from the shareholders' general meeting, grants allocations of company shares for certain employees and directors at Virbac and at its subsidiaries.

Fair value of performance-related stock grant plans

In accordance with IFRS 2, these plans were valued in Virbac's consolidated accounts based on the allocated shares' fair value on their allocation date.

In regards to the 2016 performance-related stock grants plan, the executive board deemed during 2018 that the performance indicator objectives, which had been extended to December 31, 2019, would not be attainable, given the financial projections for this new horizon. The Group has taken this observation under advisement, and the expense recognized for the 2016 plan over the past few financial years now appears in the 2018 financial year, generating income of €600 thousand.

The 2018 performance-related stock grants plan, allocated on July 20, 2018, was valued at €1,788 thousand, which translates into 15,000 shares amounting to €119.20 each. This amount was initially deferred over the vesting period of 41 months.

A34. Dividends

In 2018, the company did not distribute any dividends.

A proposal will be submitted at the general shareholders' meeting to the effect that no dividend should be paid out for the 2018 financial year.

A35. Workforce

Evolution of workforce by geographic area

	2018	2017	Change
France	1,340	1,391	-3.7%
Europe (excluding France)	349	331	5.4%
Latin America	968	952	1.7%
North America	476	483	-1.4%
Asia	1,317	1,232	6.9%
Pacific	313	301	4.0%
Africa & Middle East	130	134	-3.0%
Workforce	4,893	4,824	1.4%

Distribution of workforce by position

	2018		2017	
Production	1,748	35.7%	1,772	36.7%
Administration	582	11.9%	584	12.1%
Commercial	2,047	41.8%	2,019	41.9%
Research & Development	516	10.5%	449	9.3%
Workforce	4,893	100.0%	4,824	100.0%

A36. Information on related parties

Compensation of supervisory board members

	2018		2017	
	Compensation	Directors' fees	Compensation	Directors' fees
Marie-Hélène Dick	€95,000	€21,000	€95,000	€21,000
Jeanine Dick	-	-	-	€4,000
Pierre Madelpuech	-	€21,000	-	€6,000
Philippe Capron	-	€24,000	-	€24,000
Olivier Bohuon	-	€21,000	-	€21,000
Company Asergi	-	-	-	€6,000
Company Galix Conseils represented by Grita Loebsack	-	€21,000	-	€21,000
Solène Madelpuech	-	€21,000	-	€17,000
Non-voting advisor Company XYZ represented by Xavier Yon	-	€21,000	-	€21,000
Total	€95,000	€150,000	€95,000	€141,000

Compensation of executive board members

As at December 31, 2018 - Gross amount due

	Fixed compensation (including benefits in kind)	Compensation linked to terms of office for administrators in Group companies	Variable compensation	Total compensation
Christian Karst	€267,832	€45,000	€147,250	€460,082
Habib Ramdani	€203,888	-	€77,140	€281,028
Sébastien Huron	€336,781	€25,000	€166,250	€528,031
Jean-Pierre Dick	€18,840	-	-	€18,840
Total	€827,341	€70,000	€390,640	€1,287,981

As at December 31, 2017 - Gross amount due

	Fixed compensation (including benefits in kind)	Compensation linked to terms of office for administrators in Group companies	Variable compensation	Total compensation
Éric Marée	€371,596	€45,000	€26,964	€443,560
Christian Karst	€267,832	€45,000	€19,375	€332,207
Habib Ramdani	€203,888	-	€7,613	€211,501
Sébastien Huron	€267,580	€25,000	€18,125	€310,705
Jean-Pierre Dick	€41,840	-	-	€41,840
Total	€1,152,736	€115,000	€72,077	€1,339,813

Compensation paid for the 2018 financial year represents fixed compensation paid in 2018, compensation paid in 2018 in relation to terms of office for directors in Group companies, variable compensation paid in 2019 in relation to 2018 and benefits in kind granted in 2018 (company car).

Calculation criteria for the variable portion

Each executive board member has a variable compensation target, which is a percentage of his/her fixed compensation.

The variable compensation for members of the executive board is essentially based on the following objectives:

- growth of revenue from ordinary activities;
- growth in operating profit from ordinary activities;
- inventory control;
- the Group's cash and debt management;
- significant acquisitions, for the Group, of companies or products (in terms of size, financial contribution, strategic importance);
- brand recognition and customer relationships program compliance.

Other benefits

In addition to the various compensation items, executive board members enjoy the benefits described below.

■ Company vehicle

Executive board members receive a company vehicle, in accordance with the policy defined by the compensation committee.

■ Health insurance plan, maternity benefits, pension and retirement

Executive board members and the chairman of the executive board have the same health insurance, maternity benefits and pension and retirement plans as those provided to the company's executives, under the same contribution and benefit conditions as those defined for the other company executives.

■ Unemployment insurance plan

The chairman of the executive board is covered by the private Unemployment insurance for corporate directors' (GSC) plan, which is based on the 70-for-one-year formula, in accordance with this organization's general conditions, and whose contributions will be entirely paid by the company, but will be claimed as a benefit in kind for the chairman of the executive board. The amount of the annual contributions over time shall not exceed €15,000.

The other executive board members have the same unemployment insurance plan as that provided to the company's employees.

■ Additional pension plan

All executive board members have a supplementary defined benefit pension plan (12.5% of the reference salary and 22% in the event of service with the company exceeding 30 years), the allocation of which is contingent on the following criteria:

- over ten years service in the Group (including nine years as a member of the executive board or 15 years for a benefit equaling 22% of the reference salary);
- at least 60 years old;
- finished his/her career in the Group.

The provision related to defined contribution pension plans amounted to €3,755 thousand as of December 31, 2018 compared to €2,382 thousand at the 2017 year-end. A change of -€271 thousand was recognized in the income statement, and a change of -€1,103 thousand was recorded under other comprehensive income.

■ Forced retirement severance pay

- The chairman of the executive board, Sébastien Huron, shall benefit from commitments made by the company in the event of the termination of his office by virtue of a decision made by the supervisory board on December 20, 2017. In the event of the forced termination of the office of the chairman of the executive board, the chairman of the executive board shall receive severance pay, the amount of which will be subject to the achievement of the Group's operating profit from ordinary activities to net revenue from ordinary activities ratio over the last two and/or last four half-year ends and may range from between 0 and €700,000;
- The commitments made by the company in the event of the termination of the office held by Christian Karst, member of the executive board and general manager, were renewed by the supervisory board on March 13, 2018. The severance would amount to €326,000. The fulfillment of the severance pay performance criteria may be assessed against the two half-year periods that precede the director's departure, and not a minimum of two years, as stipulated in the Code. However, the amount of this severance pay is substantially lower than the limit of two years of compensation provided under the Code and the performance criteria are demanding (operating profit from ordinary activities to revenue from ordinary activities ratio higher than or equal to 7%).

Severance pay shall not be paid out in the event of a forced departure initiated by the company. It will not be owed in the event of resignation, full pension retirement, retirement once the age limit for being a member of the executive board is reached or in the event of dismissal for gross negligence.

These commitments will be subject to the approval of the next shareholders' meeting on June 20, 2019.

■ Non-competition payments

Sébastien Huron agreed to a non-competition commitment in the event he leaves office, in consideration of which a non-competition payment is scheduled.

In consideration of the non-competition obligation, Sébastien Huron will receive each month, during the entire competition ban period, a payment in an amount equal to 80% of his gross fixed monthly compensation received for the company's last year-end (including attendance fees and any other compensation related to his functions with the Virbac group). This payment will be limited, for this 18-month period, to a maximum gross amount of €500,000.

■ Performance-related stock grant plans

Since 2006, the Virbac executive board, in accordance with authorization from the shareholders' meeting, has allocated performance-related stock grants to certain Virbac executives and its subsidiaries. These allocations are subject to meeting a performance target linked to the profitability and net debt of the Group.

The performance-related stock grant plans granted to members of the executive board for the past five financial years are as follows:

	Number of shares 2016 plan	Number of shares 2018 plan
Christian Karst	1,000	1,200
Sébastien Huron	1,000	1,600
Habib Ramdani	400	1,000
Total	2,400	3,800

Throughout the 2013, 2014 and 2015 financial years, no performance-related stock grants were allocated. In the final analysis, the 2016 plan shares were not issued (see note A33).

A37. Off-balance sheet commitments

■ Bonds or guarantees granted by Virbac or some of its subsidiaries.

The status of the major bonds and guarantees granted is presented below:

in € thousand	Guarantee provided with	Validity limit date	2018	2017
PP Manufacturing Corporation	NDNE 9/90 Corporate Center LLC	30/09/2026	6,695	4,646
Virbac Uruguay	Banco de la Republica Oriental del Uruguay	-	3,493	4,858
Guarantees given			10,188	9,503

■ Contingent liabilities

No provisions are established if the company considers that the liability is contingent (as defined by IAS 37).

This was particularly the case in 2014 when a competitor of the Group made a request to seek compensation for alleged damages relating to a use patent. Since management considered the risk of resource outflows to be very low, no provision was recognized.

A38. Scope of consolidation

Company name	Locality	Country	2018		2017	
			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 Vêto 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 Handelsgesellschaft 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
Virbac Hayvan Sağlığı Limited Şirketi	Istanbul	Turkey	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	2018		2017	
			Control	Consolidation	Control	Consolidation
<u>Latin America</u>						
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 Agrícola Limitada	Santiago	Chile	51.00%	Full	51.00%	Full
Farquímica SpA	Santiago	Chile	51.00%	Full	51.00%	Full
Bioanimal Corp SpA	Santiago	Chile	51.00%	Full	51.00%	Full
Productos Químico Ehlinger	Santiago	Chile	51.00%	Full	51.00%	Full
Centrovét Inc	Allegheny	United States	51.00%	Full	51.00%	Full
Centrovét 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
<u>Asia</u>						
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	Thailand	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 China	Jinan (Shandong)	China	50.00%	Equity method	50.00%	Equity method
<u>Pacific</u>						
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
<u>Africa & Middle East</u>						
Virbac RSA (Proprietary) Ltd *	Centurion	South Africa	100.00%	Full	100.00%	Full
GPM Algeria	Constantine	Algeria	42.85%	Equity method	42.85%	Equity method

* Pre-consolidated levels

Statutory auditors' report on the consolidated financial statements

Year ended December 31, 2018

The accounts were audited; the statutory auditor's report is in the process of being issued.