Virbac

Half-yearly financial report

As of June 30, 2018

Shaping the future of animal health

HALF YEARLY MANAGEMENT REPORT

FIRST HALF 2018 SIGNIFICANT EVENTS

The Group carried out a restructuring operation involving its subsidiary Virbac Distribution, based in Ile-de-France (Wissous), which served as the Group's logistics center in France. This restructuring led to the closure of the site. Costs directly related to the restructuring were classified as "Other non-current income and expenses", for an amount of €1,167 thousand (see Note A14).

In the dispute between Virbac and a competitor, in counterfeiting and unfair competition at the national level, a decision of the Court of Cassation intervened on January 31, 2018, partially breaking the judgment of the Court of Appeal of Lyon dating from May 13, 2015. In connection with this decision, Virbac obtained a half-year reimbursement of the compensation paid by Virbac, following the judgment of the Lyon Court of Appeal, *i.e.* €1,950 thousand.
The risk resulting from the remaining uncertainty regarding the referral decision that could be made by the Court of Appeal entered by the competitor, as well as in the context of the other ongoing action at European level, was analyzed and a provision has been made accordingly (see Note A10).

The syndicated loan of €420 million, drawn in euros and dollars from a pool of banks, repayable in fine and maturity April 2020, has been extended until April 9, 2022, following the March 23, 2018 of the extension agreement by all lenders.

SIGNIFICANT EVENTS SUBSEQUENT TO JUNE CLOSING

On July 20, Virbac accepted a purchase offer for the site of the Wissous property complex, in which it operated its subsidiary Virbac Distribution before the restructuring operation.

SALES PERFORMANCE

By segment

Consolidated number in million Euros	S1 2018	S1 2017	Change at actual rates	Change at constant rates and scope [1]
Companion animals	243.2	241.9	+0.5%	+5.0%
Food producing animals	181.8	188.3	-3.5%	+3.7%
Other activities	5.1	7.3	-31.2%	-27.3%
Total	**430.0**	**437.5**	**-1.7%**	**+3.9%**

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

Companion animals

Revenue in the companion animal segment is rising overall by +0.5%, including +5.0% at constant exchange rates. The ranges showing the most significant growth are the specialty ranges (especially Zoletil and Suprelorin), Petfood, and the dental range, which offset the decline in parasiticide ranges, which was due in part to the effects of inventory reductions at distributors. Please note that outside of the United States, organic growth reached +8.5% in this segment.

Food producing animals

In the food producing animal segment, overall growth declined by -3.5%, including +3.7% at constant exchange rates. The negative effect of exchange rates primarily concerns Asia-Pacific and Latin America. At constant rates, performance varies, with the bovine sector growing at +10.2%, driven by nutritional products and ruminant vaccines, while industrial (pigs and poultry) and aquaculture show respective declines of -5.7% and -14.1%, related to weaker sales of antibiotics and oral vaccines for salmon.

Other businesses

These activities, which represent just over 1% of sales for the half-year, correspond to markets of lesser strategic importance for the Group, and mainly include manufacturing done for third parties in the United States and Australia. This line shows a decrease due to the US$3.15 million licensing revenue that was recognized in the accounts as of June 30, 2017.

By region

Chiffres consolidés en millions d'euros	S1 2018	S1 2017	Évolution à taux réels	Évolution à taux & périmètre constants [1]
France	51.4	50.6	+1.6%	+2.2%
Europe hors France	125.4	119.5	+4.9%	+5.5%
Amérique du Nord	57.2	64.7	-11.6%	-3.8%
Amérique latine	69.2	73.5	-5.9%	+4.2%
Afrique & Moyen-Orient	16.1	16.0	+0.6%	+3.8%
Asie	68.5	69.6	-1.6%	+8.0%
Pacifique	42.2	43.6	-3.2%	+5.8%
Total	**430.0**	**437.5**	**-1.7%**	**+3.9%**

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

In the United States, first half-year activity shows a decline of -11.6% at real rates, including -3.8% at comparable exchange rates, a clear improvement, however, when compared to the first quarter, which showed a decline of -20% at constant exchange rates. This decrease in the first half-year is the result of inventory reductions by distributors of parasiticide ranges that mask strong growth, especially in ex-Virbac sales in the dental ranges and specialty products. The Iverhart range benefited from the introduction of the Iverhart Max Soft Chew at the end of the quarter. Note that the sales ex-distributors to veterinary clinics, in the United States, of Virbac products are showing overall growth of +2% for the half-year. While Sentinel made up for a large part of its losses by the end of March and now shows only a slight decline when compared to 2017, all other ranges are showing significant growth of +18% on average for the first half-year of 2018 compared to the first half-year of 2017.

Outside of the United States, the Group is stable at real rates for the first half-year, however, organic growth remains strong at +5.3%. Europe shows growth of +3.9% at real rates, including +4.5% at constant rates, due to a good contribution by the United Kingdom, France and Germany, offsetting difficulties encountered in Southern Europe, such as those noted above. In the rest of the world, the Asia-Pacific area shows a change of -2.2%, including +7.1% at constant exchange rates (+10.0% excluding an unfavorable comparison related to licensing revenue recognized in 2017), mainly due to the dynamism of India, Australia and New Zealand. Latin America, excluding Chile, shows an evolution of -1.4% at real rates and growing at +11.9% at constant rates fueled by the activity in Brazil and Mexico. Lastly, Chile shows a decline of -11.4% at real rates, including -5.2% at constant rates in particular, as anticipated, due to weaker antibiotic sales compared to the same period in 2017.

REVIEW IF THE FINANCIAL SITUATION AND RESULTS

The condensed consolidated financial statements of Virbac for the period from January 1 to June 30, 2018 have been reviewed by the auditors and are available on corporate.virbac.com website.

Results

Consolidated number in million Euros	S1 2018	S1 2017	Change 2018 / 2017
Revenue from ordinary activities	**430.0**	**437.5**	**-1.7%**
Growth at constant exchange rates [1]			+3.9%
Pro-forma growth at constant exchange rates [1]			+3.9%
Current operating profit before depreciation of assets arising from acquisitions	**45.2**	**40.7**	**+10.9%**
Operating profit from ordinary activities	**37.6**	**32.5**	**+15.5%**
As a % of revenue	*8.7%*	*7.4%*	
Operating result	**36.4**	**32.5**	**+11.9%**
Result for the period	**12.6**	**16.0**	**-21.2%**
attributable to the owners of the parent company	12.3	13.9	-11.9%
attributable to the non-controlling interests	0.4	2.1	-83.0 %

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

Throughout the first half-year, revenue decreased to €430.0 million versus €437.5 million over the same period in 2017, for an overall change of -1.7%. Excluding the negative effect of exchange rates, notably the American and Australian dollar, the Indian rupee and the Brazilian real, revenue is growing at +3.9%.

Current operating income is up. It amounted to €37.6 million compared to €32.5 million last year, an increase of +15.5%. This result includes €7.6 million depreciation of intangible assets arising from acquisitions, compared to €8.2 million at June 30, 2017. Adjusted current operating income from these items amounted to €45.2 million at June 30, 2018, up +10.9% compared to June 30, 2017. This positive trend in current operating income before amortization of acquired assets is partly due to good performance in many countries, particularly in Latin America, as well as cost control especially on the support functions.

Operating profit amounted to €36.4 million, including a non-current charge of €1.2 million related to the restructuring of the subsidiary Virbac Distribution.

The result for the period attributable to the owners of the parent company amounts to €12.3 million after deduction of financial expenses and taxes, down 11.9% compared to last year.

The result for the period attributable to the non-controlling interests, which represents mainly the share of non-controlling interests in Centrovet, amounted to €0.4 million.

Financial situation

At June 30, 2018, the Group's net debt amounted to €487.1 million, compared to €460.0 million as at December 31, 2017. This increase in financing requirements in the first half of the year is due to the seasonal increase in the Group's working capital requirement.

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 and repayable in full upon maturity in April 2020, with the option to extend the term to April 2022;
- market-based contracts (*Schuldschein*) consisting of four installments, with maturities of five, seven and ten years, at variable and fixed rates;
- a US$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 June 30, 2018, the position of the funding instruments was as follows:

- the syndicated loan was drawn for amounts of €152 million and US$123 million;
- the market-based contracts amounted to €15 million and US$15.5 million;
- the bilateral loans and BPI and EIB financing amounted to €96.4 million and US$90 million.

These funding instruments include a financial covenant compliance clause that requires the borrower to adhere to the following financial ratios 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 twelve previous months period for half-year statements.

In the first quarter of 2018, Virbac applied for a waiver to relax the financial ratio compliance clause for the year 2018. This request was accepted by all *Schuldschein* banking and investment partners. Thus, the ratio of net debt to Ebitda should not exceed 5 at June 30, 2018 and 4.25 at December 31, 2018.

At June 30, 2018, the ratio of net debt to Ebitda is below the maximum amount set by the covenant clause at 4.39.

[1] Consolidated net debt refers 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 to net operating income for the period under review, plus depreciations and provisions, net of reversals and dividends received from non-consolidated subsidiaries.

Annual outlook

The Group anticipates growth in revenue at constant rates that should show a "low single-digit" increase in 2018 compared to 2017, and a current operating profit before depreciation of assets arising from acquisitions ratio on revenue growing at around 1 point at constant exchange rates compared to 2017. Debt relief should be around €30 million for the year at constant exchange rates. Furthermore, the Group obtained a relaxation of its financial covenant (net debt/Ebitda) with its bankers for 2018. Thus, it is at 5.0 at the end of June, 2018, and at 4.25 at the end of December, 2018. The Group's financing is ensured primarily through an RCF (Revolving credit facility) of €420 million, maturing in 2022, as well as bilateral bank loans, European Investment Bank (EIB) and *Schuldschein* disintermediated contracts, whose terms are between four and ten years.

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

The risk factors to which the Group is exposed, are mentioned in the 2017 Annual report of Virbac, available on the website corporate.virbac.com. The nature of these risks has not changed significantly in the first half of 2018. These risks are likely to occur in the second half of 2018 or during subsequent years.

OPERATIONS WITH RELATED PARTIES

Information on related parties is detailed in Note A20 of condensed half yearly financial statements. No changes or significant impact have appeared in the first half of 2018.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

HALF YEARLY CONSOLIDATED FINANCIAL STATEMENTS

Statement of financial position

in € thousand	Notes	06/30/2018	12/31/2017 *
Goodwill	A1	307,288	303,048
Intangible assets	A2	307,564	314,297
Tangible assets	A4	240,553	238,848
Other financial assets		11,574	9,825
Share in companies accounted for by the equity method	A5	3,474	3,161
Deferred tax assets		8,055	7,530
Non-current assets		**878,507**	**876,709**
Inventories and work in progress	A6	197,203	184,758
Trade receivables	A7	121,353	112,947
Other financial assets		485	1,441
Other receivables	A8	51,465	53,079
Cash and cash equivalents		55,453	48,378
Assets classified as held for sale		-	-
Current assets		**425,958**	**400,603**
Assets		**1,304,465**	**1,277,311**
Share capital		10,573	10,573
Reserves attributable to the owners of the parent company		439,597	425,753
Equity attributable to the owners of the parent company	**A13**	**450,170**	**436,326**
Non-controlling interests		36,461	42,497
Equity		**486,631**	**478,823**
Deferred tax liabilities		37,345	38,990
Provisions for employee benefits		19,590	17,782
Other provisions	A10	4,751	3,010
Other financial liabilities	A11	437,309	409,634
Other payables		924	571
Non-current liabilities		**499,919**	**469,988**
Other provisions	A10	1,170	2,240
Trade payables	A9	99,433	108,733
Other financial liabilities	A11	105,200	98,756
Other payables		112,113	118,771
Current liabilities		**317,916**	**328,501**
Liabilities		**1,304,465**	**1,277,311**

* The entry into force of IFRS 9 resulted in an adjustment on certain lines of the opening balance sheet (see Note A7).

Income statement

in € thousand	Notes	06/30/2018	06/30/2017	Change
Revenue from ordinary activities	**A12**	**429,960**	**437,536**	***-1.7%***
Purchases consumed		-144,983	-150,966	
External costs		-87,777	-89,385	
Personnel costs		-133,549	-136,426	
Taxes and duties		-6,618	-6,568	
Depreciations and provisions		-12,756	-14,108	
Other operating income and expenses	**A13**	911	647	
Current operating profit before depreciation of assets arising from acquisitions (1)		**45,189**	**40,730**	***10.9%***
Depreciations of intangible assets arising from acquisitions		-7,634	-8,209	
Operating profit from ordinary activities		**37,556**	**32,521**	***15.5%***
Other non-current income and expenses	**A14**	-1,167	0	
Operating result		**36,389**	**32,521**	***11.9%***
Financial income and expenses	**A15**	-11,954	-11,633	
Profit before tax		**24,434**	**20,888**	***17.0%***
Income tax	**A16**	-12,042	-5,332	
Including non-current tax expense	**A17**	*-2,970*	*0*	
Share from companies' result accounted for by the equity method	**A5**	235	473	
Net result from ordinary activities (2)		**16,764**	**16,029**	***4.6%***
Result for the period		**12,627**	**16,029**	***-21.2%***
attributable to the owners of the parent company		12,269	13,921	*-11.9%*
attributable to the non-controlling interests		358	2,108	*-83.0%*
Profit attributable to the owners of the parent company, per share	**A18**	€1.46	€1.65	*-107.4%*
Profit attributable to the owners of the parent company, diluted per share	**A18**	€1.46	€1.65	*-107.4%*

(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.

The "Other non-current income and expenses" corresponds to the costs incurred as part of a restructuring of a Group subsidiary (see note A17).

At 30 June 2018, the line "Including non-recurrent tax expense" applies to:

- the impact in income tax of the expense recognized in "Other non-current income and expenses";
- the impairment to the deferred tax asset (€3,374 thousand), recognized under tax losses for the period in the Virbac USA subsidiary (see note A16).

Comprehensive income statement

in € thousand	06/30/2018	06/30/2017	*Change*
Result for the period	**12,627**	**16,029**	***-21.2%***
Conversion gains and losses	1,292	-18,604	
Effective portion of gains and losses on hedging instruments	559	165	
Items subsequently reclassifiable to profit and loss (before tax)	**1,851**	**-18,439**	***-110.0%***
Actuarial gains and losses	186	431	
Items not subsequently reclassifiable to profit and loss (before tax)	**186**	**431**	***-56.9%***
Other items of comprehensive income (before tax)	**2,037**	**-18,007**	***-111.3%***
Tax on items subsequently reclassifiable to profit and loss	-193	-60	
Tax on items not subsequently reclassifiable to profit and loss	-153	-124	
Withholding tax on distributions *	-	0	
Comprehensive income	**14,319**	**-2,163**	***-761.9%***
attributable to the owners of the parent company	15,108	-1,116	*-1453.7%*
attributable to the non-controlling interests	-789	-1,047	*-24.6%*

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**
Equity restated as at 12/31/2017 *	**10,573**	**6,534**	**444,365**	**-22,571**	**-2,575**	**436,326**	**42,497**	**478,823**
2017 allocation of net income	-	-	-2,575	-	2,575	**-**	-	**-**
Distribution of dividends	-	-	-	-	-	**-**	-5,247	**-5,247**
Treasury shares	-	-	441	-	-	**441**	-	**441**
Changes in scope	-	-	-	-	-	**-**	-	**-**
Other variations	-	-	-1,705	-	-	**-1,705**	-	**-1,705**
Comprehensive income	-	-	400	2,439	12,269	**15,108**	-789	**14,319**
Equity as at 06/30/2018	**10,573**	**6,534**	**440,926**	**-20,132**	**12,269**	**450,170**	**36,461**	**486,631**

* 2017 Equity was restated, given the impact of the entry into force of IFRS 9 (see Note A7).

The ordinary shareholders' meeting of June 20, 2018 decided to pay no dividend on the result of fiscal year 2017.

The caption "Other variations" corresponds to entries recognized in equity in accordance with IAS 8. These entries result in part from an error in the calculation parameters of the commitment related to defined-benefit retirement plan in France and a change in the method of accounting for the employer's contribution due on payments made under this defined-benefit retirement plan.

For information, changes in equity of the first half of 2017 were as follows:

Equity restated 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	-	-	-258	-	-	**-258**	-	**-258**
Changes in scope	-	-	-	-	-	**-**	-	**-**
Other variations	-	-	-370	-	-	**-370**	-	**-370**
Comprehensive income	-	-	412	-15,449	13,921	**-1,116**	-1,047	**-2,163**
Equity as at 06/30/2017	**10,573**	**6,534**	**446,876**	**-6,020**	**13,921**	**471,884**	**39,267**	**511,151**

Cash flow statement

in € thousand	Notes	06/30/2018	06/30/2017
Result for the period		**12,627**	**16,029**
Elimination of share from companies' profit accounted for by the equity method	**A5**	-235	-473
Elimination of depreciations and provisions		23,085	23,437
Elimination of deferred tax change		-1,032	-7,310
Elimination of gains and losses on disposals	**A13**	-34	-18
Other income and expenses with no cash impact		-1,439	-204
Cash flow		**32,973**	**31,461**
Effect of net change in inventories	**A6**	-13,259	-3,643
Effect of net change in trade receivables	**A7**	-9,646	-12,926
Effect of net change in trade payables	**A9**	-3,925	-4,975
Effect of net change in other receivables and payables		-12,704	-13,451
Effect of change in working capital requirements		**-39,534**	**-34,995**
Net financial interests paid	**A15**	8,093	10,226
Net cash flow generated by operating activities		**1,532**	**6,692**
Acquisitions of intangible assets	**A2-A9**	-3,479	-3,413
Acquisitions of tangible assets	**A4-A9**	-13,152	-14,554
Disposals of intangible and tangible assets		112	87
Change in financial assets		178	-1,420
Change in debts relative to acquisitions		-824	-
Acquisitions of subsidiaries or activities		-	-
Disposals of subsidiaries or activities		-	-
Withholding tax on distributions		-	-
Dividends received		-	-
Net cash flow allocated to investing activities		**-17,165**	**-19,300**
Dividends paid to the owners of the parent company		-	-
Dividends paid to the non-controlling interests		-1,728	-1,655
Change in treasury shares		390	-352
Increase/decrease of capital		-	-
Cash investments		-	-
Debt issuance	**A11**	71,529	102,732
Repayments of debt	**A11**	-33,570	-90,489
Net financial interests paid	**A15**	-8,093	-10,226
Net cash flow from financing activities		**28,527**	**10**
Change in cash position		**12,893**	**-12,598**

Statement of change in cash position

in € thousand	06/30/2018	06/30/2017
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	55,453	46,946
Bank overdraft	-11,659	-23,096
Accrued interests not yet matured	-43	-56
Closing net cash position	**43,751**	**23,794**
Impact of currency conversion adjustments	-791	-2,868
Impact of changes in scope	-	-
Net change in cash position	**12,893**	**-12,598**

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

General information note

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

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

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

The 2018 condensed half-year consolidated financial statements were approved by the executive board on August 31, 2018.

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

Significant events for the period

The Group carried out a restructuring operation involving its subsidiary Virbac Distribution, based in Ile-de-France (Wissous), which served as the Group's logistics center in France. This restructuring led to the closure of the site. Costs directly related to the restructuring were classified as "Other non-current income and expenses", for an amount of €1,167 thousand (see Note A14).

In the dispute between Virbac and a competitor, in counterfeiting and unfair competition at the national level, a decision of the Court of Cassation intervened on January 31, 2018, partially breaking the judgment of the Court of Appeal of Lyon dating from May 13, 2015. In connection with this decision, Virbac obtained a half-year reimbursement of the compensation paid by Virbac, following the judgment of the Lyon Court of Appeal, *i.e.* €1,950 thousand.
The risk resulting from the remaining uncertainty regarding the referral decision that could be made by the Court of Appeal entered by the competitor, as well as in the context of the other ongoing action at European level, was analyzed and a provision has been made accordingly (see Note A10).

The syndicated loan of €420 million, drawn in euros and dollars from a pool of banks, repayable in fine and maturity April 2020, has been extended until April 9, 2022, following the March 23, 2018 of the extension agreement by all lenders.

Significant events after the closing date

On July 20, Virbac accepted a purchase offer for the site of the Wissous property complex, in which it operated its subsidiary Virbac Distribution before the restructuring operation.
The corresponding fixed assets have not been reclassified in accordance with IFRS 5 as at June 30, 2018, as their net value on the balance sheet was considered insignificant.

Scope of consolidation

The condensed consolidated financial statements as at June 30, 2018 include the financial statements of the companies that Virbac controls indirectly or directly, in law and in fact. The list of consolidated companies is provided in note A21.

Main accounting principles applied

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

The half-year condensed financial statements as of June 30, 2018, are presented and have been prepared in accordance with standard IAS 34 "Interim financial reporting". The condensed interim financial statements do not include the whole information required by the IFRS reference system. They should be analysed with the consolidated statements of the previous year's balance sheet date, as of December 31, 2017.
The accounting principles applied to the condensed consolidated financial statements are identical to those applied to the preparation of the consolidated statements of the previous year's balance sheet date, as of December 31, 2017.

For the presentation of the condensed half-year consolidated financial statements, which ended on June 30, 2018, the Group applied all the standards and interpretations that came into force at European level, applicable to financial years beginning on or after January 1, 2018. These standards and interpretations are the following:

- In late May 2014, the IASB released the IFRS (International financial reporting standards) standard 15 "Revenue from contracts with customers". This standard replaces, as of January 1, 2018, standards IAS 18 "Revenue from ordinary activities", 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, and it changes the analyses on revenue generated by licensing contracts or the inclusion of variable income. It also includes new disclosures requirements. Virbac began its IFRS 15 standard 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 continued with an implementation phase of IFRS 15, which had no significant impact compared to the previous income recognition practice.

- In July 2014, the IASB published the IFRS 9 standard "Financial Instruments". This standard, applicable from 1st January 2018, replaces the standards IFRS 9 "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 led to the introduction of a new credit risk recognition model for trade receivables. This model is based on a depreciation matrix of non matured receivables based on historically observed credit losses. Given a very low default rate of commercial receivables at Virbac, the implementation of the new matrix did not have a significant impact on the condensed half-year consolidated financial statements as of June 30, 2018 or on the trade receivables in the opening balance sheet.

- amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurances contracts";
- amendments to IFRS 2, "Classification and measurement of Share-based Payment Transactions";
- amendments to IAS 40 "Transfers of investment properties";
- annual improvements (2014-2016 cycle), "Annual improvements to IFRS standards published in December 2016" adopted by European Union on February 2018;
- IFRIC 22 "Foreign Currency Transactions and Advance Consideration".

On the reporting date at June 30, 2018 of these condensed half-year consolidated financial statements, the IASB has released the standard IFRS 16 "Leases", and it was adopted by European Union. In January 2016, the IASB published standard IFRS 16 "Leases", which replaces IAS 17 and aligns lease contracts accounting with that of finance leases (i.e. recording future lease payments as a liability and the right of use as an asset on the balance sheet). Implementation of this standard will also result in a change in how the expense for lease payments is recognized in the income statement (i.e. allowance for depreciation and interest expense) and in the statement of cash position (the amount used for debt repayment will be recorded as cash flow from financing activities and the amount allocated to the asset side of the balance sheet will be recorded as cash flow from investment activities). This standard has an effective date of January 1, 2019 and has not been adopted earlier. The Group has hired an IFRS consultant to assist in the implementation of IFRS 16 conversion and the impact analysis of this standard. An inventory of eligible contracts has been carried out in all entities of the group. Information on eligible contracts is reported through a questionnaire prepared by the consultants for this purpose and a first impact assessment will be carried out before the end of the year. In parallel, the Group is in discussion with an editor for the implementation of a solution dedicated to the management of contracts and the return of information required by IFRS 16. This solution will be deployed in the second half of the year. At this stage, analysis of the impacts of this standard is ongoing.

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

- IFRS 17 "Insurance Contracts";
- amendments to IFRS 9 "Prepayment features with negative compensation";
- amendments to IAS 19 "Plan amendment, curtailment or settlement";
- amendments to IAS 28 "Long-term interests in Associates and Joint Ventures";
- IFRIC 23 "Uncertainty over income tax treatments";
- annual improvements (2015-2017 cycle), "Annual improvements to IFRS standards published in December 2017" adopted by European Union on February 2018;
- revised "Conceptual Framework for Financial Reporting" replacing the 2010 framework.

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

Consolidation rules

Consolidation methods

The accounts of companies under exclusive control are consolidated by global integration. Those companies over which Virbac exercises joint control or significant influence are accounted for by the equity method.
All companies have been consolidated on the basis of financial statements using 30 June, 2018 as their balance sheet date.

Conversion of financial statements

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

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

Elimination of inter-company transactions

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

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

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

Estimations

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

Acquisition prices

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

Tax charge

The Group tax charge is calculated on the basis of the effective tax rate estimated for the fiscal year 2018, and applied to the result before tax as at June 30, 2018. This annual effective tax rate was estimated based on the tax rates (and tax regulations) in force or substantially adopted at the end of June 2018.

A1. Goodwill

Change in goodwill by CGU

in € thousand	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 06/30/2018
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**	-	-	-	67	**1,848**
India	14,838	-	**14,838**	-	-	-	-561	**14,277**
United States	214,897	-3,419	**211,477**	-	-	-	6,030	**217,508**
Australia	3,326	-325	**3,001**	-	-	-	-49	**2,952**
Peptech	3,571	-	**3,571**	-	-	-	-100	**3,472**
New Zealand	15,087	-161	**14,926**	-	-	-	-344	**14,582**
Chile	31,886	-	**31,886**	-	-	-	-1,028	**30,858**
Uruguay	3,967	-	**3,967**	-	-	-	114	**4,081**
SBC	7,083	-	**7,083**	-	-	-	120	**7,203**
Other CGUs	4,244	-1,733	**2,511**	-	-	-	-9	**2,501**
Goodwill	**313,686**	**-10,638**	**303,048**	**0**	**0**	**0**	**4,240**	**307,288**

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

A2. Intangible assets

in € thousand	Concessions, patents, 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	58	270	2,251	**2,588**
Disposals and other decreases	-	-	-21	-	**-21**
Changes in scope	-	-	-	-	**-**
Transfers	-20	-145	2,063	-2,037	**-138**
Conversion gains and losses	-979	2,103	-37	13	**1,099**
Gross value as at 06/30/2018	**163,373**	**227,374**	**57,695**	**10,899**	**459,341**
Depreciation and impairment as at 12/31/2017	**-166**	**-95,219**	**-45,727**	**-404**	**-141,516**
Depreciation expense	0	-8,072	-1,813	0	**-9,885**
Impairment losses (net of reversals)	-	-	-	-	**0**
Disposals and other decreases	-	-	21	-	**21**
Changes in scope	-	-	-	-	**-**
Transfers	16	148	3	-	**167**
Conversion gains and losses	-0	-643	58	22	**-564**
Depreciation and impairment as at 06/30/2018	**-150**	**-103,786**	**-47,459**	**-382**	**-151,777**
Net value as at 12/31/2017	**164,197**	**130,139**	**9,692**	**10,269**	**314,297**
Net value as at 06/30/2018	**163,223**	**123,588**	**10,236**	**10,517**	**307,564**

In the intangible assets in progress investments recognized in the first half of the year, €1.3 million relates to IT projects and €0.5 million to R&D projects at Virbac SA.

Net book value of "concessions, patents and brands" by date and operation of external growth

As at June 30, 2018

in € thousand	Acquisition date	Brands	Patents and know-how	Marketing authorizations and registration rights	Customers lists and others	Total
United States: Sentinel	2015	42,975	26,083	44,008	11,932	**124,998**
SBC	2015	-	3,835	1,936	-	**5,771**
Uruguay: Santa Elena	2013	3,363	9,254	-	-	**12,617**
Australia: Axon	2013	912	1,278	-	-	**2,190**
Australia: Fort Dodge	2010	1,532	455	-	-	**1,988**
New Zealand	2012	3,074	831	-	2,728	**6,633**
Centrovet	2012	20,978	37,471	-	9,595	**68,044**
Multimin	2011-2012	3,301	5,233	-	-	**8,533**
Peptech	2011	981	-	-	-	**981**
Colombia: Synthesis	2011	1,810	-	851	-	**2,661**
Schering-Plough Europe	2008	4,879	249	4,767	-	**9,895**
India: GSK	2006	11,287	-	-	-	**11,287**
Leishmaniosis vaccine	2003	-	1,818	15,827	-	**17,645**
Others		6,899	1,861	3,846	962	**13,569**
Total intangible assets		**101,990**	**88,368**	**71,235**	**25,217**	**286,810**

Net book value of "concessions, patents and brands" by nature

As at June 30, 2018

in € thousand	Intangible assets with indefinite life	Intangible assets with finite life	Total
Brands	101,990	-	**101,990**
Patents and know-how	42,326	46,042	**88,368**
Marketing authorizations and registration rights	18,896	52,340	**71,235**
Customers lists and others	11	25,206	**25,217**
Total intangible assets	**163,222**	**123,588**	**286,810**

A3. Impairment test of assets

The Group performs impairment tests on the net book value of fixed assets at least once a year at the end of the year. At the half-year closing, the Group conducts a loss in value analysis based on qualitative and quantitative criteria and, if necessary, performs impairment tests when indicators of impairment occur.

At June 30, 2018, the Group reviewed the recoverable value of two CGUs for which the net book value is not material, due to less favorable end-of-year projections than those used for the December 31, 2017 tests.
The conclusions of these tests did not lead the Group to notice any depreciation.

A4. Tangible assets

in € thousand	Land	Buildings	Technical facilities, materials and industrial equipment	Other tangible assets	Tangible assets in progress	Tangible assets
Gross value as at 12/31/2017	**19,600**	**177,245**	**183,598**	**31,973**	**37,909**	**450,326**
Acquisitions and other increases	-	1,964	2,121	1,488	6,263	**11,837**
Disposals and other decreases	-32	-5	-702	-446	-	**-1,186**
Changes in scope	-	-	-	-	-	**-**
Transfers	-	3,218	9,508	-194	-13,150	**-618**
Conversion gains and losses	-113	470	493	-185	3	**667**
Gross value as at 06/30/2018	**19,455**	**182,892**	**195,019**	**32,636**	**31,024**	**461,026**
Depreciation and impairment as at 12/31/2017	**-**	**-88,956**	**-101,353**	**-21,120**	**-49**	**-211,479**
Depreciation expense	0	-3,747	-5,846	-1,856	-	**-11,449**
Impairment losses (net of reversals)	0	-215	-24	-1	-	**-240**
Disposals and other decreases	0	5	688	415	-	**1,108**
Changes in scope	0	-	-	-	-	**-**
Transfers	0	4	-	1,219	50	**1,272**
Conversion gains and losses	0	-16	188	141	-0	**313**
Depreciation and impairment as at 06/30/2018	**-**	**-92,926**	**-106,346**	**-21,201**	**0**	**-220,474**
Net value as at 12/31/2017	**19,600**	**88,288**	**82,246**	**10,854**	**37,859**	**238,848**
Net value as at 06/30/2018	**19,455**	**89,966**	**88,673**	**11,435**	**31,024**	**240,553**

The main increases recorded in property, plant and equipment in the first half relate to investment projects at:

- Virbac USA has invested €1.2 million on the Sentinel tabs production line and €1.2 million on a new production line for Iverhart Soft Chews;
- At Centrovet, €1.3 million was invested in the renovation of a vaccine manufacturing line;
- Other industrial projects are also underway in Brazil (€0.9 million spent in the first half of 2018) and in Australia (€0.7 million in the first half of 2018).

Virbac SA invested over €4.2 million in a multitude of small projects.

A5. Share in companies accounted for by the equity method

in € thousand	Company's individual accounts using equity method				Consolidated financial statements	
	Balance sheet total	Equity	Sales	Result	Share of equity	Share of result
AVF Animal Health Co Ltd	N.D	N.D	-	-	3,263	242
GPM Virbac					211	-7
Share in companies accounted for by the equity method					**3,474**	**235**

At the end of 2017, Virbac created a joint venture in Algeria with a local pharmaceutical company to develop and secure the distribution of its products in this country. As at June 30, 2018 the transfer of marketing authorizations (MA) is in progress, the activity of the joint venture can only start in the second half of the year.

A6. Inventory and work in progress

in € thousand	Raw materials and supplies	Work in progress	Finished products and goods for resale	Inventories and work in progress
Gross value as at 12/31/2017	**74,695**	**13,282**	**111,862**	**199,839**
Variations	5,089	1,118	6,029	**12,236**
Changes in scope	-	-	-	**-**
Transfers	-	-	-	**-**
Conversion gains and losses	-47	-18	-592	**-657**
Gross value as at 06/30/2018	**79,737**	**14,382**	**117,298**	**211,418**
Depreciation as at 12/31/2017	**-5,900**	**-539**	**-8,642**	**-15,081**
Allowances	-1,794	-1,002	-2,463	**-5,259**
Reversals	3,106	539	2,637	**6,282**
Changes in scope	-	-	-	**-**
Transfers	26	-	-26	**-**
Conversion gains and losses	-71	-	-88	**-158**
Depreciation as at 06/30/2018	**-4,633**	**-1,003**	**-8,582**	**-14,216**
Net value as at 12/31/2017	**68,795**	**12,743**	**103,220**	**184,758**
Net value as at 06/30/2018	**75,105**	**13,380**	**108,717**	**197,203**

The increase in inventories is related to the launch of new products in the US, South African and Asian markets. Security stocks were also set aside for strategic supplies for the Group, or in anticipation of expected sales in the second half of the year.

A7. Trade receivables

in € thousand	Trade receivables
Gross value as at 12/31/2017	**116,475**
Variations	**10,472**
Changes in scope	**0**
Transfers	**-0**
Conversion gains and losses	**-1,290**
Gross value as at 06/30/2018	**125,658**
Depreciation as at 12/31/2017	**-3,528**
Allowances	**-863**
Reversals	**37**
Changes in scope	**0**
Transfers	**0**
Conversion gains and losses	**49**
Depreciation as at 06/30/2018	**-4,304**
Net value as at 12/31/2017	**112,948**
Net value as at 06/30/2018	**121,353**

The entry into force of IFRS 9 has resulted in a new approach to the impairment of trade receivables. Virbac used the simplified method of depreciation based on expected credit losses over the life of the receivables. The opening balance sheet has been adjusted to take into account this new approach on trade receivables as of December 31, 2017. The corresponding adjustments on the opening balance sheet are not significant.

The increase in trade receivable is related to the increase in activity over the first half of the year and to a lesser extent to longer settlement times in one of the Group's subsidiaries. It should be noted that the amount of receivables that benefited from factoring remained relatively stable between the end of December 2017 and June 2018.

A8. Other receivables

in € thousand	12/31/2017	Variations	Changes in scope	Transfers	Conversion gains and losses	06/30/2018
Income tax receivables	**1,815**	1,065	-	-	-2	**2,878**
Social receivables	**532**	426	-	-	-43	**915**
Other receivables to the State	**27,730**	-8,173	-	-	30	**19,587**
Advances and prepayments on orders	**2,395**	1,991	-	-	-93	**4,294**
Depreciation on various other receivables	**-**	-	-	-	-	**-**
Prepaid expenses	**5,593**	1,446	-	-	27	**7,067**
Other various receivables	**15,013**	1,585	-	-	125	**16,723**
Other receivables	**53,078**	**-1,659**	**-**	**0**	**45**	**51,465**

Income tax receivables include this year a new tax credit of €784 thousand from our US subsidiary: Alternative Minimum Tax (AMT), resulting from the new tax legislation.

The decrease in “Other receivables to the State” is related to:

- The sale of the receivable of the 2017 CIR (€7,821 thousand offset by the CIR and CICE receivables recognized for the first half of 2018 (respectively €3,570 thousand and €711 thousand);
- The reimbursement to Virbac SA of the 3% contribution on the dividends paid from 2013 to 2015 (€1,309 thousand), following a claim filed by the company in December 2015;
- In Chile, tax receivables were offset by tax payables up to €1,649 thousand.

A9. Trade payables

in € thousand	12/31/2017	Variations	Changes in scope	Transfers	Conversion gains and losses	06/30/2018
Current trade payables	**105,670**	-4,630	-	-2,137	-325	**98,578**
Payables of intangible assets	**1,428**	-890	-	-	181	**719**
Payables of tangible assets	**1,635**	-1,315	-	-	-183	**136**
Trade payables	**108,733**	**-6,836**	**-**	**-2,137**	**-327**	**99,432**

The "Transfers" column corresponds to debts that are offset against commitments to customers (product returns) that were erroneously classified as trade payables at the end of the previous year and were the first half of a reclassification to other creditors.

A10. Other provisions

in € thousand	12/31/2017	Allowances	Reversals	Changes in scope	Transfers	Conversion gains and losses	06/30/2018
Trade disputes and industrial tribunals	**1,601**	2,186	-488	-	-	-10	**3,288**
Fiscal disputes	**964**	-	-58	-	-	-3	**903**
Various risks and charges	**446**	239	-126	-	-	-	**560**
Other non-current provisions	**3,011**	**2,426**	**-671**	**-**	**0**	**-13**	**4,752**
Trade disputes and industrial tribunals	**1,213**	-	-752	-	-	12	**473**
Fiscal disputes	-	-	-	-	-	-	-
Various risks and charges	**1,027**	-	-349	-	-	19	**697**
Other current provisions	**2,240**	**0**	**-1,101**	**-**	**0**	**31**	**1,170**
Other provisions	**5,251**	**2,426**	**-1,772**	**-**	**-**	**18**	**5,922**

In the context of the dispute with a competitor and the two counterfeit and unfair competition actions at national and European level, the risk resulting from the remaining uncertainty was analysed and a provision was recorded accordingly in the accounts at June 30, 2018.

Provisions of a tax nature are intended to handle with the financial consequences of tax audits in the Group.

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

Contingent liabilities

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

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

A11. Other financial liabilities

Change in other financial liabilities

in € thousand	12/31/2017	Increase	Decrease	Changes in scope	Transfers	Conversion gains and losses	06/30/2018
Loans	**407,406**	43,508	-13,978	0	-3,423	1,222	**434,735**
Bank overdrafts	**0**	-	-	-	-	-	**-**
Accrued interests not yet matured	**0**	-	-	-	-	-	**-**
Debt relating to leasing contracts	**1,371**	152	-60	0	368	1	**1,831**
Employee profit sharing	**3**	1	-1	0	-	0	**2**
Currency and interest rate derivatives	**854**	-	-114	0	-	-	**740**
Other	**0**	-	-	-	-	-	**-**
Other non-current financial liabilities	**409,634**	**43,661**	**-14,153**	**-**	**-3,055**	**1,223**	**437,308**
Loans	**78,330**	27,495	-17,744	-	3,423	-34	**91,470**
Bank overdrafts	**16,689**	0	-5,042	-	0	12	**11,659**
Accrued interests not yet matured	**40**	-	3	-	-	-	**43**
Debt relating to leasing contracts	**2,481**	131	-1,560	-	338	3	**1,393**
Employee profit sharing	**267**	242	-227	-	-	8	**290**
Currency and interest rate derivatives	**949**	-	-604	-	-	-	**345**
Other	**0**	-	-	-	-	-	**-**
Other current financial liabilities	**98,757**	**27,868**	**-25,175**	**-**	**3,761**	**-11**	**105,200**
Other financial liabilities	**508,390**	**71,529**	**-39,328**	**-**	**706**	**1,211**	**542,508**

Virbac has three financings whose main characteristics are as follows:

- a syndicated loan of €420 million, drawn in euros and dollars, contracted with a pool of banks and repayable in full upon maturity in April 2020, which term was extended to April 9, 2022 following the receipt of the extension agreement by all lenders on March 23, 2018;
- market-based contracts (*Schuldschein*) consisting of four instalments, with maturities of five, seven and ten years, at variable and fixed rates;
- a US$90 million financing contract with *Banque Publique d'Investissement* (EIB), seven years repayable in fine for half and refundable over eleven years for the other half.

Virbac also benefit from bilateral loans and BPI and EIB financing amounted.

As at June 30, 2018, the position of these funding instruments was as follows:

- the drawn credit facility amounted to US$152 million and €123 million;
- the market-driven contracts amounted to €15 million and US$15.5 million;
- the bilateral loans and BPI and EIB financing amount €96.4 million and US$90 million.

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

In the first quarter of 2018, Virbac applied for a waiver to relax the financial ratio compliance clause for the year 2018. This request was accepted by all *Schuldschein* investors and bank partners. Thus, the ratio of net debt to Ebitda should not exceed 5 at June 30, 2018 and 4.25 at December 31, 2018.

As at June 30, 2018, the ratio is respected, at 4.39.

(1) Net consolidated indebtedness represents the total of the other financial liabilities current and non-current, as follows: loans, bank overdrafts, accrued interests not yet matured, debt relating to leasing contracts, employee profit-sharing, currency and interest rate derivatives, and others; deducted from following elements: cash and cash equivalents, fixed-term deposits, and currency and interest rate derivatives as shown into the consolidated statements.

(2) Consolidated Ebitda refers to net operating income for the 12 previous months period (that of the last six months of 2017 plus that of the first half of 2018), plus depreciations and provisions net of reversals and dividends received from non-consolidated subsidiaries.

Other financial liabilities by maturity

As at June 30, 2018

in € thousand	Payments			Total
	less than 1 year	from 1 to 5 years	more than 5 years	
Loans	91,470	358,969	75,766	**526,205**
Bank overdrafts	11,659	-	-	**11,659**
Accrued interests not yet matured	43	-	-	**43**
Debt relating to leasing contracts	1,393	1,831	-	**3,225**
Employee profit sharing	290	2	-	**292**
Currency and interest rate derivatives	345	740	-	**1,085**
Other	0	0	-	**-**
Other financial liabilities	**105,200**	**361,542**	**75,766**	**542,508**

Information on financing activities

in € thousand	12/31/2017	Cash flows		Other flows			06/30/2018
		Debt issuance	Repayments of debt	Fair Value	Transfers	Conversion gains and losses	
Non-current financial liabilities	**407,406**	43,508	-13,978	-	-3,423	1,222	**434,735**
Current financial liabilities	**78,330**	27,495	-17,744	-	3,423	-34	**91,470**
Debt relating to leasing contracts	**3,851**	283	-1,620	-	706	4	**3,225**
Employee profit sharing	**270**	242	-228	-	-	8	**292**
Currency and interest rate derivatives	**1,803**	-	-	-719	-	-	**1,085**
Other financial liabilities	**491,661**	**71,529**	**-33,570**	**-719**	**706**	**1,199**	**530,806**

A12. Revenue from ordinary activities

in € thousand	06/30/2018	06/30/2017	*Change*
Sales of finished goods and merchandise	480,971	491,784	*-2.2%*
Services	3	57	*-94.8%*
Additional income from activity	2,016	3,766	*-46.5%*
Royalties paid	175	165	*5.9%*
Gross sales	**483,165**	**495,772**	***-2.5%***
Discounts, rebates and refunds on sales	-43,847	-46,121	*-4.9%*
Expenses deducted from sales	-7,769	-9,743	*-20.3%*
Financial discounts	-1,582	-2,159	*-26.8%*
Provision for returns	-7	-212	*-96.7%*
Expenses deducted from sales	**-53,205**	**-58,236**	***-8.6%***
Revenue from ordinary activities	**429,960**	**437,536**	***-1.7%***

In the first half of the year, the overall change in sales was -1.7% compared to the same period in 2017. Excluding the negative impact of foreign exchange rates, particularly with the US and Australian dollar, the Indian rupee and the Brazilian real, sales were up +3.9%.

A13. Other operating income and expenses

in € thousand	06/30/2018	06/30/2017	*Change*
Royalties paid	-1,658	-1,912	*-13.3%*
Grants received (including research tax credit)	4,357	4,554	*-4.3%*
Allowances for depreciation of receivables	-863	-189	*357.0%*
Reversals of depreciation of receivables	37	220	*-83.2%*
Bad debts	-190	-50	*283.6%*
Net book value on disposed assets	-78	-69	*13.3%*
Income from disposals of assets	112	87	*28.5%*
Other current income and expenses	-806	-1,995	*-59.6%*
Other operating income and expenses	**911**	**647**	***40.8%***

A14. Other non-current income and expenses

The amount classified on this line corresponds in full to the costs incurred by the Group as part of a restructuring of the subsidiary Virbac Distribution, which is mentioned in the significant events of the period.

A15. Financial income and expenses

in € thousand	06/30/2018	06/30/2017	*Change*
Gross cost of financial debt	-8,528	-10,321	*-17.4%*
Income from cash and cash equivalents	434	95	*357.0%*
Net cost of financial debt	**-8,093**	**-10,226**	***-20.9%***
Foreign exchange gains and losses	-5,382	-6,378	*-15.6%*
Changes in foreign currency derivatives and interest rate	1,168	5,005	*-76.7%*
Other financial charges	2	-66	*-103.7%*
Other financial income	351	31	*1018.1%*
Other financial income and expenses	**-3,861**	**-1,407**	***174.4%***
Financial income and expenses	**-11,954**	**-11,633**	***2.8%***

The net cost of financial debt is improving compared to the same period last year, in connection with the decrease in indebtedness.
The increase in income from cash and cash equivalent results from the investments of our subsidiary in India.
The improvement in the foreign exchange result results from the variation of the unrealized losses on the financing operations.
The amount of the foreign exchange result as of June 30, 2018 comes mainly from net unrealized losses on foreign currency financial liabilities in France and Chile.

A16. Income tax

In accordance with IAS 34, in the financial statements at June 30, 2018, the tax charge was determined by applying to the profit before tax for the period the average tax rate estimated for the year 2018.

Non-current tax expense

As the Virbac USA subsidiary recognized tax losses in the first half of 2018, a deferred tax asset was recorded in its accounts for US$4 million (€3,374 thousand). However, in accordance with IAS 12 and in line with the position retained in the consolidated financial statements at December 31, 2017, the deferred tax asset relating to tax losses for the first half of 2018 was impaired for the full amount.
Also included in the line "Non-current tax expense" is the tax income calculated on "Other non-current income and expenses" (see Note A14).

A17. Bridge from net result to net result from ordinary activities

As at June 30, 2018

in € thousand	Net result IFRS 06/30/2018	Impairment of assets	Restructuring costs	Other items	Non-current tax expense	Net result from ordinary activities 06/30/2018
Revenue from ordinary activities	**429,960**					**429,960**
Current operating profit before depreciation of assets arising from acquisitions	**45,189**					**45,189**
Depreciations of intangible assets arising from acquisitions	-7,634					-7,634
Operating profit from ordinary activities	**37,556**					**37,556**
Other non-current income and expenses	-1,167		1,167			0
Operating result	**36,389**					**37,556**
Financial income and expenses	-11,954					-11,954
Profit before tax	**24,434**					**25,601**
Income tax	-12,042		-404		3,374	-9,072
Share from companies' result accounted for by the equity method	235					235
Result for the period	**12,627**					**16,764**

A18. Result per share

	06/30/2018	06/30/2017
Profit attributable to the owners of the parent company	**€12,269,356**	**€13,921,355**
Total number of shares	8,458,000	8,458,000
Impact of dilutive instruments	-	-
Number of treasury shares	34,564	31,628
Outstanding shares	8,423,436	8,426,372
Profit attributable to the owners of the parent company, per share	**€1.46**	**€1.65**
Profit attributable to the owners of the parent company, diluted per share	**€1.46**	**€1.65**

Treasury shares

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

As at June 30, 2018, the number of shares held by the Group amounted to 34,564 (against 31,628 shares as at June 30, 2017) for a total of €4,037 thousand.

A19. Operating segments

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

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

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

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

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

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

As at June 30, 2018

in € thousand	France	Europe (excluding France)	Latin America	North America	Asia	Pacific	Africa & Middle East	Total
Revenue from ordinary activities	68,931	112,376	69,711	56,964	66,509	42,716	12,752	**429,960**
Current operating profit before depreciations of assets aring from acquisitions	10,669	7,997	9,568	-3,554	9,472	8,586	2,452	**45,189**
Profit attributable to the owners of the parent company	3,444	5,795	2,068	-12,183	6,172	5,348	1,624	**12,269**
Non-controlling interests	1	-	357	-	-	-	-	**358**
Consolidated profit	**3,445**	**5,795**	**2,426**	**-12,183**	**6,172**	**5,348**	**1,624**	**12,627**

As at June 30, 2018

in € thousand	France	Europe (excluding France)	Latin America	North America	Asia	Pacific	Africa & Middle East	Total
Assets by geographic area	659,900	65,890	225,957	155,689	103,039	84,543	9,449	**1,304,466**
Intangible investment	1,983	54	81	393	17	0	61	**2,588**
Tangible investment	4,232	123	2,330	3,838	545	760	9	**11,837**

A20. Information on related parties

Transactions between the Group and related parties mainly concern:

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

In the first half of the year 2018, there is no significant transaction concluded between the Group and a member of the management body or a shareholder exercising a significant influence on the company.
Throughout the first half of the year 2018, no performance-related stock grants were awarded.

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

Transactions between related parties are arm’s length operations. There is no major change in the nature of the transactions with related parties throughout the first half of the year 2018 compared to December 31, 2017.

A21. Scope of consolidation

Company name	Locality	Country	06/30/2018		12/31/2017	
			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 Véto Test	La Seyne sur Mer	France	100.00%	Full	100.00%	Full
Alfamed	Carros	France	99.70%	Full	99.70%	Full
Europe (excluding France)						
Virbac Belgium SA	Wavre	Belgium	100.00%	Full	100.00%	Full
Virbac Nederland BV *	Barneveld	Netherlands	100.00%	Full	100.00%	Full
Virbac (Switzerland) AG	Glattbrugg	Switzerland	100.00%	Full	100.00%	Full
Virbac Ltd	Bury St. Edmunds	United Kingdom	100.00%	Full	100.00%	Full
Virbac SRL	Milan	Italy	100.00%	Full	100.00%	Full
Virbac Danmark A/S	Kolding	Denmark	100.00%	Full	100.00%	Full
Virbac Pharma Handelsgesellshaft mbH	Bad Oldesloe	Germany	100.00%	Full	100.00%	Full
Virbac Tierarzneimittel GmbH	Bad Oldesloe	Germany	100.00%	Full	100.00%	Full
Virbac SP zoo	Warsaw	Poland	100.00%	Full	100.00%	Full
Virbac Hungary Kft	Budapest	Hungary	100.00%	Full	100.00%	Full
Virbac Hellas SA	Agios Stefanos	Greece	100.00%	Full	100.00%	Full
Animedica SA	Agios Stefanos	Greece	100.00%	Full	100.00%	Full
Virbac España SA	Barcelona	Spain	100.00%	Full	100.00%	Full
Virbac Österreich GmbH	Vienna	Austria	100.00%	Full	100.00%	Full
Virbac de Portugal Laboratorios Lda	Almerim	Portugal	100.00%	Full	100.00%	Full
North America						
Virbac Corporation *	Fort Worth	United States	100.00%	Full	100.00%	Full
PP Manufacturing Corporation	Framingham	United States	100.00%	Full	100.00%	Full

*** Pre-consolidated levels**

Company name	Locality	Country	06/30/2018		12/31/2017	
			Control	Consolidation	Control	Consolidation
Latin America						
Virbac do Brasil Industria e Comercio Ltda	São Paulo	Brazil	100.00%	Full	100.00%	Full
Virbac Mexico SA de CV	Guadalajara	Mexico	100.00%	Full	100.00%	Full
Laboratorios Virbac Mexico SA de CV	Guadalajara	Mexico	100.00%	Full	100.00%	Full
Virbac Colombia Ltda	Bogota	Colombia	100.00%	Full	100.00%	Full
Laboratorios Virbac Costa Rica SA	San José	Costa Rica	100.00%	Full	100.00%	Full
Virbac Chile SpA	Santiago	Chile	100.00%	Full	100.00%	Full
Virbac Patagonia Ltda	Santiago	Chile	100.00%	Full	100.00%	Full
Holding Salud Animal SA	Santiago	Chile	51.00%	Full	51.00%	Full
Centro Veterinario y Agricola Limitada	Santiago	Chile	51.00%	Full	51.00%	Full
Farquimica SpA	Santiago	Chile	51.00%	Full	51.00%	Full
Bioanimal Corp SpA	Santiago	Chile	51.00%	Full	51.00%	Full
Productos Quimico Ehlinger	Santiago	Chile	51.00%	Full	51.00%	Full
Centrovet Inc	Allegheny	United States	51.00%	Full	51.00%	Full
Centrovet Argentina	Buenos Aires	Argentina	51.00%	Full	51.00%	Full
Inversiones HSA Ltda	Santiago	Chile	51.00%	Full	51.00%	Full
Rentista de capitales Takumi Ltda	Santiago	Chile	51.00%	Full	51.00%	Full
Virbac Uruguay SA	Montevideo	Uruguay	99.17%	Full	99.17%	Full
Virbac Latam Spa	Santiago	Chile	100.00%	Full	100.00%	Full
Asia						
Virbac Trading (Shanghai) Co. Ltd	Shanghai	China	100.00%	Full	100.00%	Full
Virbac H.K. Trading Limited	Hong Kong	Hong Kong	100.00%	Full	100.00%	Full
Asia Pharma Ltd	Hong Kong	Hong Kong	100.00%	Full	100.00%	Full
Virbac Korea Co. Ltd	Seoul	South Korea	100.00%	Full	100.00%	Full
Virbac (Thailand) Co. Ltd	Bangkok	Thailand	100.00%	Full	100.00%	Full
Virbac Taiwan Co. Ltd	Taipei	Taiwan	100.00%	Full	100.00%	Full
Virbac Philippines Inc.	Taguig City	Philippines	100.00%	Full	100.00%	Full
Virbac Japan Co. Ltd	Osaka	Japan	100.00%	Full	100.00%	Full
Virbac Asia Pacific Co. Ltd	Bangkok	Thaïland	100.00%	Full	100.00%	Full
Virbac Vietnam Co. Ltd	Ho Chi Minh Ville	Vietnam	100.00%	Full	100.00%	Full
Virbac Animal Health India Private Limited	Mumbai	India	100.00%	Full	100.00%	Full
SBC Virbac Limited	Hong Kong	Hong Kong	100.00%	Full	100.00%	Full
SBC Virbac Biotech Limited	Tapei	Taiwan	100.00%	Full	100.00%	Full
AVF Animal Health Co Ltd Hong-Kong	Hong Kong	Hong Kong	50.00%	Equity method	50.00%	Equity method
AVF Chemical Industrial Co Ltd China	Jinan (Shandong)	China	50.00%	Equity method	50.00%	Equity method
Pacific						
Virbac (Australia) Pty Ltd *	Milperra	Australia	100.00%	Full	100.00%	Full
Virbac New Zealand Limited	Hamilton	New Zealand	100.00%	Full	100.00%	Full
Africa & Middle East						
Virbac RSA (Proprietary) Ltd *	Centurion	South Africa	100.00%	Full	100.00%	Full
GPM Algeria	Constantine	Algeria	42.85%	Equity method	42.85%	Equity method
Virbac Hayvan Sağlığı Limited Şirketi	Istanbul	Turkey	100.00%	Full	-	-

*** Pre-consolidated levels**

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

Period from January 1 to June 30, 2018

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

To the Shareholders,

In compliance with the assignment entrusted to us by your annual general meeting and in accordance with Article L.451-1-2 of the French monetary and financial code (*Code monétaire et financier*), we hereby report to you on:

- the review of the accompanying condensed half-yearly consolidated financial statements of Virbac for the period from January 1 to June 30, 2018;
- the verification of the information contained in half-yearly management report.

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

CONCLUSION ON THE FINANCIAL STATEMENTS

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

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

SPECIFIC VERIFICATION

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

Nice and Marseille, September 13, 2018
The statutory auditors
French original signed by

Novances - David & Associés
Jean-Pierre Giraud

Deloitte & Associés
Vincent Gros

STATEMENT OF RESPONSIBILITY FOR THE HALF-YEARLY FINANCIAL REPORT

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

Carros, 11 september 2018

Sébastien Huron, chairman of the executive board