Virbac

Half-yearly financial report

As of June 30, 2019

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Shaping the future of animal health

HALF YEARLY MANAGEMENT REPORT

FIRST HALF 2019 MAJOR EVENTS

Evolution within governing bodies

Cyrille Petit was appointed as a member of the supervisory board as of June 18, 2019. In addition, he will replace Olivier Bohuon on the audit committee, who is also a member of the supervisory board.

Return to the initial conditions of the financial ratio compliance clause

In the first quarter of 2018, in order to obtain more flexibility, Virbac applied for a waiver to have the financial ratio compliance clause relaxed for the year 2018. This request was accepted by all banking partners and *Schuldschein* investors. Thus, the ratio of net debt to Ebitda was not to exceed 5.00 at June 30, 2018 and 4.25 at December 31, 2018.
The year 2019 marking the return to the initial terms of the contract, the ratio should from now on be under the threshold of 4.25 at June 30, 2019 and below 3.75 at December 31, 2019. The financial conditions linked to these thresholds are more favorable.

Amendment to the defined-benefit retirement plan

Following the decision of the supervisory board dated March 12, 2019, an amendment to the defined-benefit retirement plan of the executive board was signed on June 14, 2019. This amendment redefines on one hand the beneficiaries of the plan, and on the other hand the new pension rate applicable.
The impact of the exit from the plan of two beneficiaries no longer meeting the required conditions, cumulated to the decrease in the pension rate from 22.0% to 10.5% of the reference salary, generate an income of €3.2 million before taxes in the half-yearly consolidated financial statements.

Additional impairment of the CaniLeish asset

At June 30, 2019, the Group reviewed the recoverable value of the Leishmaniosis vaccine CGU. This test led to the recognition of an impairment of the intangible assets of the CGU for €7.2 million, as follows: €9.7 million of intangible assets (marketing authorizations) and -€2.5 million of deferred tax liabilities.

Sale of the Fort Worth real estate

Virbac US sold its Fort Worth administrative building, generating a net income of €1.1 million in the half-year financial statements. The move to the new rental premises will occur gradually over the course of the second half of 2019.

MAJOR EVENTS SUBSEQUENT TO CLOSING

No major events occurred after June 30, 2019.

SALES PERFORMANCE

By segment

Consolidated number in million Euros	H1 2019	H1 2018	Change at actual rates	Change at constant rates and scope [1]
Companion animals	270.4	243.2	11.2%	9.3%
Food producing animals	186.4	181.8	2.6%	2.2%
Other activities	6.9	5.1	37.5%	36.4%
Total	**463.7**	**430.0**	**7.9%**	**6.6%**

[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 +11.2% at real rates (+9.3% at constant exchange rates, and +6.0% outside of the United States), mainly driven by the solid performance of the internal and external parasiticide ranges, the petfood range, dermatology and specialties (particularly reproduction products).

Food producing animals

The food producing animal segment is growing more moderately by +2.6% at real exchange rates (+2.2% at constant rates). Aquaculture is continuing the trend of the first quarter, with segment growth rising to +10.7% at constant rates, thanks to the momentum in sales of injectable vaccines for salmon. The industrial farming sector (swine and poultry) shows slight growth of +1.5% at constant rates, and lastly, the ruminants sector is stable compared to the same period in 2018, growth in sales of vaccines and bovine parasiticides offsetting the decline in antibiotics.

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.

By region

Consolidated number in million Euros	H1 2019	H1 2018	Change at actual rates	Change at constant rates and scope [1]
France	50.5	51.4	-1.7%	-1.7%
Europe excluding France	130.8	125.4	4.3%	4.1%
North America	72.9	57.2	27.4%	20.5%
Latin America	77.2	69.2	11.5%	9.3%
Africa & Middle East	16.0	16.1	-0.6%	6.5%
Asia	75.9	68.5	10.8%	8.9%
Pacific	40.5	42.2	-4.2%	-2.7%
Total	**463.7**	**430.0**	**7.9%**	**6.6%**

[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.

Similar to the situation at the end of March, all areas continue to show growth over the half-year compared to the same period in 2018. In the United States, first half-year activity shows a marked increase of +27.4% at real rates (+20.5% at constant exchange rates). It benefits from a major base effect related to 2018 first half-year distribution inventory reductions, which impacted ex-Virbac sales (excluding the destocking effect, the increase is around +7%). Ex-distributor sales in the United States of Virbac's products to veterinary clinics continue to grow compared to the same period in 2018. Heartworm products show a slight decline compared to 2018, with strong double digit growth of the Iverhart range that partially offset the erosion of sales of Sentinel, which is evolving within market trend, itself shrinking due to unfavorable climatic conditions. Other ranges continue their double-digit growth driven by the dynamism of dental products, specialties and antibiotics.

Outside of the United States, the Group is growing at +4.8% at real rates, or +4.5% at constant rates. In Europe, revenue is growing at +2.6% at real rates (+2.4% at constant rates). The key contributors to this performance are Spain, Germany, Benelux, Poland, Scandinavia and Portugal, boosted by a high level of activity in companion animal product ranges (particularly petfood, vaccines and specialties), offsetting the decline in OTC (Over-the-counter) sales in the area, and to a lesser degree in the United Kingdom and Italy. In Latin America, excluding Chile, the Group had a good start to the year. Activity continued to grow by +9.7% at real rates (+8.3% at constant exchange rates), thanks to contributions from Brazil, Mexico and Colombia, which offset the temporary decline in export sales for the area. In Asia-Pacific, growth at real rates is +5.1% (+4.4% at constant exchange rates), very strong in China, Japan and Taiwan, which offset the more modest growth in India and Australia as well as New Zealand's delay. Lastly, in Chile, first half-year activity remains strong and shows growth of +14.0% at real rates (+10.6% at constant rates), driven primarily by sales of injectable vaccines and parasiticides for aquaculture.

REVIEW OF THE FINANCIAL SITUATION AND RESULTS

The condensed consolidated financial statements of Virbac for the period from January 1st to June 30, 2019 have been reviewed by the auditors and are available on corporate.virbac.com website.

Results

Consolidated number in million Euros	H1 2019	H1 2018	Change 2019 / 2018
Revenue from ordinary activities	**463.7**	**430.0**	**7.9%**
Growth at constant exchange rates [1]			+6.6%
Pro-forma growth at constant exchange rates [1]			+6.6%
Current operating profit before depreciation of assets arising from acquisitions	**66.9**	**45.2**	**48.1%**
Operating profit from ordinary activities	**59.4**	**37.6**	**58.2%**
As a % of revenue	*12.8%*	*8.7%*	
Operating result	**50.0**	**36.4**	**37.3%**
Result for the period	**28.4**	**12.6**	**124.9%**
attributable to the owners of the parent company	26.4	12.3	115.5%
attributable to the non-controlling interests	2.0	0.4	447.4%

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 amounts to €463.7 million versus €430.0 million over the same period in 2018, for an overall change of +7.9%. Excluding the favorable effect of exchange rates, revenue is growing at +6.6%.

Current operating income is growing. It amounts to €59.4 million compared to €37.6 million last year, increasing by +58.2%. This result includes €7.5 million depreciation of intangible assets arising from acquisitions, compared to €7.6 million at June 30, 2018. Adjusted current operating income from these items amounted to €66.9 million at June 30, 2019, up +48.1% compared to June 30, 2018. This positive trend in current operating income before amortization of acquired assets is mainly due to the increased activity in most countries over the period, as well as certain "one-shot" elements such as the gain on the sale of the administrative offices of Virbac US, as well as the application of an amendment to the defined-benefit pension plan of the executive board redefining on one hand the beneficiaries of the plan, and on the other hand the new pension rate applicable (see notes A15 and A22 of the notes to the condensed consolidated financial statements, respectively). This change also benefits from a favorable base effect related to the destocking observed in the United States in 2018.

Operating profit amounted to €50.0 million, including a non-current expense of €9.7 million related to the additional impairment of the marketing authorizations of the Leishmaniosis vaccine CGU. This impairment was recognized after the identification of indications of impairment which led to performing an impairment test.

The result for the period attributable to the owners of the parent company amounts to €26.4 million after deduction of financial expenses and taxes, increasing by 115.5% 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 €2.0 million.

Financial situation

At June 30, 2019, the Group's net debt amounted to €455.5 million, compared to €426.1 million as at December 31, 2018. This increase in financing requirements in the first half of the year is mainly due to the first-time application of accounting standard IFRS 16. At comparable accounting standards, the Group's net debt remained relatively stable over the period.

The main features of Virbac's three funding instruments are as follows:
- a syndicated loan of €420 million, drawn in euros and American 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*) taken out in 2015 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), set up in 2017 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, 2019, the position of the funding instruments was as follows:
- the syndicated loan was drawn for amounts of €94 million and US$164 million;
- the market-based contracts amounted to €15 million and US$15.5 million;
- the bilateral loans and BPI and EIB financing amounted to €76.8 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. The year 2019 is marking the return to the initial terms of the contract regarding the financial ratios to adhere to. The net debt on Ebitda ratio should from now on be under the threshold of 4.25 at June 30, 2019 and below 3.75 at December 31, 2019. The financial conditions linked to these thresholds are more favorable.

Taking into account the application of IFRS 16 in Virbac's consolidated accounts from January 1st, 2019, and in order to proceed with the calculation of the financial ratio consistently with respect to prior years for the financial statements as of June 30, 2019, Virbac has informed its lenders of the adjustments that have been made to restate the impact of IFRS 16.

At June 30, 2019, the financial covenant is respected, the ratio reaching 3.00.

[1] Consolidated net debt refers to the sum of other current and non-current financial liabilities, namely the following items: loans, bank overdrafts, 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 last 12 months (that of the last six months of 2018 added to that of the first half-year of 2019) excluding IFRS 16, plus depreciations and provisions, net of reversals and dividends received from non-consolidated subsidiaries.

Annual outlook

First half-year activity supports the outlook announced by the Group for 2019. Annual revenue growth at constant rates is now expected to be at the high end of the 4% to 6% range compared to 2018 and the ratio of "current operating profit, before depreciation of assets arising from acquisitions" to "revenue" should be growing by around 2 points compared to 2018 at constant exchange rates. From a financial standpoint, tight control of invested capital should allow further debt relief of between €40 and €50 million at constant rates for the year.

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 2018 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 2019. These risks are likely to occur in the second half of 2019 or during subsequent years.

OPERATIONS WITH RELATED PARTIES

Information on related parties is detailed in Note A22 of condensed half yearly financial statements

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

HALF YEARLY CONSOLIDATED FINANCIAL STATEMENTS

Statement of financial position

in € thousand	Notes	06/30/2019	12/31/2018
Goodwill	A1	312,336	309,711
Intangible assets	A2	282,626	295,016
Tangible assets	A4	227,651	236,685
Right of use	A5	31,345	-
Other financial assets		7,544	10,771
Share in companies accounted for by the equity method	A6	3,254	3,140
Deferred tax assets		13,083	9,936
Non-current assets		**877,838**	**865,259**
Inventories and work in progress	A7	208,858	195,776
Trade receivables	A8	115,256	101,507
Other financial assets		220	768
Other receivables	A9	51,983	46,686
Cash and cash equivalents		70,866	62,810
Assets classified as held for sale		-	-
Current assets		**447,183**	**407,549**
Assets		**1,325,021**	**1,272,807**
Share capital		10,573	10,573
Reserves attributable to the owners of the parent company		478,325	449,735
Equity attributable to the owners of the parent company		**488,898**	**460,307**
Non-controlling interests		36,323	35,567
Equity		**525,222**	**495,875**
Deferred tax liabilities		38,812	36,423
Provisions for employee benefits	A22	19,341	20,294
Other provisions	A11	10,529	10,532
Lease liability	A12	23,122	-
Other financial liabilities	A13	398,752	375,900
Other payables		2,099	2,520
Non-current liabilities		**492,656**	**445,669**
Other provisions	A11	1,760	1,778
Trade payables	A10	84,940	89,572
Lease liability	A12	8,670	-
Other financial liabilities	A13	95,790	112,995
Other payables		115,984	126,919
Current liabilities		**307,143**	**331,265**
Liabilities		**1,325,021**	**1,272,807**

Income statement

in € thousand	Notes	06/30/2019	06/30/2018	Change
Revenue from ordinary activities	**A14**	**463,733**	**429,960**	***7.9%***
Purchases consumed		-152,494	-144,983	
External costs		-80,976	-87,777	
Personnel costs		-138,723	-133,549	
Taxes and duties		-7,207	-6,618	
Depreciations and provisions		-19,998	-12,756	
Other operating income and expenses	**A15**	2,583	911	
Current operating profit before depreciation of assets arising from acquisitions [1]		**66,917**	**45,189**	***48.1%***
Depreciations of intangible assets arising from acquisitions		-7,522	-7,634	
Operating profit from ordinary activities		**59,395**	**37,556**	***58.2%***
Other non-current income and expenses	**A16**	-9,431	-1,167	
Operating result		**49,964**	**36,389**	***37.3%***
Financial income and expenses	**A17**	-8,695	-11,954	
Profit before tax		**41,269**	**24,434**	***68.9%***
Income tax	**A18**	-12,964	-12,042	
Including non-current tax expense		*2,345*	*-2,970*	
Share from companies' result accounted for by the equity method	**A6**	90	235	
Net result from ordinary activities [2]	**A19**	**35,481**	**16,764**	***111.7%***
Result for the period		**28,395**	**12,627**	***124.9%***
attributable to the owners of the parent company		26,435	12,269	*115.5%*
attributable to the non-controlling interests		1,960	358	*447.4%*
Profit attributable to the owners of the parent company, per share	**A20**	€3.14	€1.46	*115.4%*
Profit attributable to the owners of the parent company, diluted per share	**A20**	€3.14	€1.46	*115.4%*

(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.

At June 30, 2019, the line "Including non-recurrent tax expense" applies to:

- the impact in income tax of the additional impairment of the CGU Leishmaniosis vaccine (€2,493 thousand);
- the impairment of the deferred tax asset (€148 thousand), recognized under tax losses for the period in the Virbac US subsidiary (see note A18).

Some lines of the income statement were impacted by the implementation of IFRS 16. It concerns:

- the line "External costs", which includes the cancellation of rental expenses for €5.7 million;
- the line "Depreciations and provisions", impacted by the amortization of the right of use over the period for €5.2 million;
- the line "Financial income and expenses", with the recognition of interests costs on lease liability for €0.7 million.

Comprehensive income statement

in € thousand	06/30/2019	06/30/2018	Change
Result for the period	**28,395**	**12,627**	***124.9%***
Conversion gains and losses	5,384	1,292	
Effective portion of gains and losses on hedging instruments	-2,800	559	
Items subsequently reclassifiable to profit and loss (before tax)	**2,585**	**1,851**	***39.7%***
Actuarial gains and losses	-539	186	
Items not subsequently reclassifiable to profit and loss (before tax)	**-539**	**186**	***-389.5%***
Other items of comprehensive income (before tax)	**2,046**	**2,037**	***0.5%***
Tax on items subsequently reclassifiable to profit and loss	889	-193	
Tax on items not subsequently reclassifiable to profit and loss	204	-153	
Comprehensive income	**31,534**	**14,319**	***120.2%***
attributable to the owners of the parent company	28,489	15,108	*88.6%*
attributable to the non-controlling interests	3,045	-789	*-486.0%*

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 12/31/2017	**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**
2018 allocation of net income	-	-	20,099	-	-20,099	**-**	-	**-**
Distribution of dividends	-	-	-	-	-	**-**	-1,756	**-1,756**
Treasury shares	-	-	806	-	-	**806**	-	**806**
Changes in scope	-	-	-	-	-	**-**	-	**-**
Other variations	-	-	-705	-	-	**-705**	-533	**-1,238**
Comprehensive income	-	-	-2,245	4,299	26,435	**28,489**	3,045	**31,534**
Equity as at 06/30/2019	**10,573**	**6,534**	**457,606**	**-12,249**	**26,435**	**488,898**	**36,323**	**525,222**

The ordinary shareholders' meeting of June 18, 2019 decided to pay no dividend on the result of fiscal year 2018.

On the one hand, the item "Other variations" corresponds to entries recognized in equity in accordance with IAS 8, arising from an error in the calculation of the deferred tax liability related to assets in the Chilean entity (for a global amount of -€1.1 million to be split between the reserves attributable to the owners of the parent company and the non-controlling interests). On the other hand, it includes the opening impact on equity of the implementation of IFRS 16, applicable from January 1st, 2019 on, totaling -€0.2 million. Indeed, Virbac chose the modified retrospective approach and therefore the impact of the transition has been recognized into equity at the opening date of the period without any restatement of the information previously disclosed.

For information, changes in equity of the first half of 2018 were as follows:

in € thousand	Share capital	Share premiums	Reserves	Conversion reserves	Result for the period	Equity attributable to the owners of the parent company	Non-controlling interests	Equity
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	-	-	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**

* The first application of IFRS 9 generated a non-material adjustment on the opening equity of the 2018 period.

Cash flow statement

in € thousand	Notes	06/30/2019	06/30/2018
Result for the period		**28,395**	**12,627**
Elimination of share from companies' profit accounted for by the equity method	**A6**	-90	-235
Elimination of depreciations and provisions		34,421	23,085
Elimination of deferred tax change		-1,712	-1,032
Elimination of gains and losses on disposals	**A15**	-2,004	-34
Other income and expenses with no cash impact		2,159	-1,439
Cash flow		**61,169**	**32,973**
Effect of net change in inventories	**A7**	-11,517	-13,259
Effect of net change in trade receivables	**A8**	-12,605	-9,646
Effect of net change in trade payables	**A10**	-5,166	-3,925
Effect of net change in other receivables and payables		-17,053	-12,704
Effect of change in working capital requirements		**-46,341**	**-39,534**
Net financial interests paid	**A17**	8,715	8,093
Net cash flow generated by operating activities		**23,543**	**1,532**
Acquisitions of intangible assets	**A2-A10**	-4,545	-3,479
Acquisitions of tangible assets	**A4-A10**	-7,650	-13,152
Disposals of intangible and tangible assets		6,160	112
Change in financial assets		388	178
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		**-5,647**	**-17,165**
Dividends paid to the owners of the parent company		-	-
Dividends paid to the non-controlling interests		-2,057	-1,728
Change in treasury shares		864	390
Increase/decrease of capital		-	-
Cash investments		-	-
Debt issuance	**A13**	48,239	71,529
Repayments of debt	**A13**	-36,948	-33,570
Repayments of lease obligation	**A12**	-4,557	-
Net financial interests paid	**A17**	-8,714	-8,093
Net cash flow from financing activities		**-3,173**	**28,527**
Change in cash position		**14,722**	**12,893**

The implementation of IFRS 16 from January 1st, 2019 onwards generated some changes in the presentation of the cash flow statement. Lease payments previously reported into the net cash flow generated by operating activities are now included into the net cash flow from financing activities (repayments of lease obligation and net financial interests paid – see notes A12 and A17).

Statement of change in cash position

in € thousand	06/30/2019	06/30/2018
Cash and cash equivalents	62,810	48,378
Bank overdraft	-19,173	-16,689
Accrued interests not yet matured	-49	-40
Opening net cash position	**43,588**	**31,649**
Cash and cash equivalents	70,866	55,453
Bank overdraft	-11,813	-11,659
Accrued interests not yet matured	-50	-43
Closing net cash position	**59,003**	**43,751**
Impact of currency conversion adjustments	693	-791
Impact of changes in scope	-	-
Net change in cash position	**14,722**	**12,893**

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 compartment A of Euronext.

The 2019 condensed half-year consolidated financial statements were approved by the executive board on August 22, 2019.

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

Significant events for the period

Return to the initial conditions of the financial ratio compliance clause

In the first quarter of 2018, in order to obtain more flexibility, Virbac applied for a waiver to have the financial ratio compliance clause relaxed for the year 2018. This request was accepted by all banking partners and *Schuldschein* investors. Thus, the ratio of net debt to Ebitda was not to exceed 5.00 at June 30, 2018 and 4.25 at December 31, 2018.
The year 2019 marking the return to the initial terms of the contract, the ratio should from now on be under the threshold of 4.25 at June 30, 2019 and below 3.75 at December 31, 2019. The financial conditions linked to these thresholds are more favorable.

Amendment to the defined-benefit retirement plan

Following the decision of the supervisory board dated March 12, 2019, an amendment to the defined-benefit retirement plan of the executive board was signed on June 14, 2019. This amendment redefines on one hand the beneficiaries of the plan, and on the other hand the new pension rate applicable.
The impact of the exit from the plan of two beneficiaries no longer meeting the required conditions, cumulated to the decrease in the pension rate from 22.0% to 10.5% of the reference salary, generate an income of €3.2 million before taxes in the half-yearly consolidated financial statements.

Additional impairment of the CaniLeish asset

At June 30, 2019, the Group reviewed the recoverable value of the Leishmaniosis vaccine CGU. This test led to the recognition of an impairment of the intangible assets of the CGU for €7.2 million, as follows: €9.7 million of intangible assets (marketing authorizations) and -€2.5 million of deferred tax liabilities.

Sale of the Fort Worth real estate

Virbac US sold its Fort Worth administrative building, generating a net income of €1.1 million in the half-year financial statements. The move to the new rental premises will occur gradually over the course of the second half of 2019.

Significant events after the closing date

There is no significant event after the closing date.

Scope of consolidation

The condensed consolidated financial statements as at June 30, 2019 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 A23.

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, 2019 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 analyzed with regards to the consolidated statements of the previous year, as of December 31, 2018.
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, as of December 31, 2018.

New standards and interpretations

Mandatory standards and interpretations effective January 1st, 2019
For the presentation of the condensed half-year consolidated financial statements, which ended on June 30, 2019, the Group applied all the standards and interpretations that came into force at European level, applicable to financial years beginning on or after January 1st, 2019. These standards and interpretations are the following:

- **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 replaces IAS 17 as well as IFRIC and SIC interpretations and removes, for lessees, the distinction previously made between "operating leases" and "financial leases". Lessees are now required to record all lease contracts with a duration over one year by recording an asset and a liability for rights and obligations created by a lease contract.

The Group chose the modified retrospective approach consisting of the restatement of the liability arising from the residual lease payments at transition date, and the recognition of this impact into the opening equity without any restatement of the comparative figures. The Group also decided to apply the exemptions set out in the standard, and therefore not to take into consideration the contracts with a duration of less than twelve months and those related to assets of low value.
The application of IFRS 16 to lease contracts applying to intangible assets is an option the Group decided to use regarding contracts dealing with information technology (software).
The duration of the contracts corresponds to the non-cancellable periods completed, when applicable, with the renewal options the Group deems the exercise is reasonably certain.

In order to account for the contracts in the scope, the Group, with the support of an external provider, had set up a questionnaire allowing the collection of the necessary contract-related information, as requested by the standard, to make, from 2018 on, a first assessment of the transition impact. To meet the requirements of 2019 half-year closing, new contracts have been taken into consideration, and renewal options were re-examined on a case-by-case basis, and readjusted when deemed necessary, taking into account the most recent events which could have an impact on the decision of the management regarding these options.
Discounted rates used apply to the initial term of the contracts and were determined, with the support of an actuarial firm, by taking into account the risk of the country, through the currency in which the contract is labelled, by category of the underlying asset (the three major categories considered being buildings, cars and other assets), based on an average contract length by asset category.

Exchange rates used for the modified retrospective approach are the average rates of the period.

In anticipation of the future amendment to IAS 12, the Group decided not to recognize the deferred tax effect of the standard.

Regarding the presentation of the financial statements, Virbac decided to isolate the right of use on one hand, as well as the lease liability on the other hand, on separate lines of the statement of financial position.

The impacts of this new standard on the Group consolidated accounts and on the main performance indicators are presented in the notes A5, A12 and A17.

It should be noted that the Group equipped itself with a dedicated IT solution aimed at the monitoring of contracts and the calculation of the financial impacts of the standard.

- **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".

- **amendments 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.

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

This amendment specifies how 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.

- **amendments to IFRS 9. Prepayment features with negative compensations**

- **annual improvements (2015-2017 cycle)**

These improvements apply to IAS 12 (income tax consequences of payments on financial instruments classified as equity), IAS 23 (borrowing costs eligible for capitalization), as well as IFRS 3 and IFRS 11 (previously held interests in a joint operation).

With the exception of IFRS 16, these new standards had no impact on the Group's accounts.

Standards and interpretations available for early adoption as at January 1st, 2019,

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.

- **amendments to IAS 1 and IAS 8. Definition of material**

- **IFRS 17. Insurance contracts**

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 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, 2019 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 fully consolidated companies 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 parties.

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 authorization, 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 2019, and applied to the result before tax as at June 30, 2019. 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 2019.

A1. Goodwill

Change in goodwill by CGU:

in € thousand	Gross value as at 12/31/2018	Impairment value as at 12/31/2018	Book value as at 12/31/2018	Increases	Sales	Impair-ment of value	Conversion gains and losses	Book value as at 06/30/2019
Italy	1,585	-	**1,585**	-	-	-	-	**1,585**
Denmark	4,643	-	**4,643**	-	-	-	-0	**4,643**
Leishmaniosis vaccine	5,421	-5,421	**0**	-	-	-	-	**-**
Greece	1,358	-	**1,358**	-	-	-	-	**1,358**
Colombia	1,729	-	**1,729**	-	-	-	28	**1,757**
India	14,291	-	**14,291**	-	-	-	206	**14,497**
United States	225,010	-3,581	**221,429**	-	-	-	1,352	**222,781**
Australia	3,215	-308	**2,907**	-	-	-	-2	**2,905**
Peptech	3,379	-	**3,379**	-	-	-	-5	**3,374**
New Zealand	14,892	-152	**14,740**	-	-	-	83	**14,823**
Chile	29,655	-	**29,655**	-	-	-	899	**30,554**
Uruguay	4,154	-	**4,154**	-	-	-	25	**4,179**
SBC	7,329	-	**7,329**	-	-	-	14	**7,343**
Other CGUs	4,224	-1,712	**2,512**	-	-	-	25	**2,537**
Goodwill	**320,885**	**-11,174**	**309,711**	**-**	**-**	**-**	**2,625**	**312,336**

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 12/31/2018	**162,293**	**227,779**	**62,041**	**9,745**	**461,858**
Acquisitions and other increases	46	397	1,241	2,018	**3,702**
Disposals and other decreases	-	-	-	-4	**-4**
Changes in scope	-	-	-	-	**-**
Transfers	-	127	-434	492	**186**
Conversion gains and losses	2,185	1,859	117	30	**4,192**
Gross value as at 06/30/2019	**164,524**	**230,163**	**62,965**	**12,283**	**469,935**
Depreciation as at 12/31/2018	**-6,324**	**-111,293**	**-48,849**	**-375**	**-166,841**
Depreciation expense	-	-7,978	-2,026	-	**-10,004**
Impairment losses (net of reversals)	-9,653	-	-	-	**-9,653**
Disposals and other decreases	-	-	-	-	**-**
Changes in scope	-	-	-	-	**-**
Transfers	-	5	13	-	**18**
Conversion gains and losses	-	-772	-50	-5	**-828**
Depreciation as at 06/30/2019	**-15,977**	**-120,039**	**-50,912**	**-380**	**-187,308**
Net value as at 12/31/2018	**155,969**	**116,486**	**13,192**	**9,369**	**295,016**
Net value as at 06/30/2019	**148,547**	**110,124**	**12,053**	**11,901**	**282,626**

Acquisitions recognized over the first half of the year, totaling €3.7 million, mainly apply to IT projects of Virbac SA (of which €1.8 million of assets in progress).

Depreciations and impairments amount to €19.7 million. The impairment recognized for €9.7 million on the assets with indefinite life applies to the marketing authorizations of the Leishmaniosis vaccine CGU as a consequence of an impairment test which has been performed and which is presented into the note A3.

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

As at June 30, 2019

in € thousand	Acquisition date	Brands	Patents and know-how	Marketing authorizations and registration rights	Customers lists and others	Total
United States: Sentinel	2015	44,025	22,404	41,243	10,343	**118,014**
SBC	2015	-	3,883	1,928	-	**5,812**
Uruguay: Santa Elena	2013	3,445	9,338	-	-	**12,783**
Australia: Axon	2013	886	1,121	-	-	**2,007**
Australia: Fort Dodge	2010	1,489	443	-	-	**1,932**
New Zealand	2012	3,126	785	-	2,422	**6,333**
Centrovet	2012	20,772	35,962	-	8,219	**64,953**
Multimin	2011-2012	3,255	4,625	-	-	**7,880**
Peptech	2011	953	-	-	-	**953**
Colombia: Synthesis	2011	1,697	-	693	-	**2,390**
Schering-Plough Europe	2008	4,879	124	3,814	-	**8,817**
India: GSK	2006	11,472	-	-	-	**11,472**
Leishmaniosis vaccine	2003	-	1,652	-	-	**1,652**
Others		7,076	1,861	3,660	1,076	**13,673**
Total intangible assets		**103,074**	**82,198**	**51,338**	**22,060**	**258,671**

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

As at June 30, 2019

in € thousand	Intangible assets with indefinite life	Intangible assets with finite life	Total
Brands	103,074	-	**103,074**
Patents and know-how	42,322	39,876	**82,198**
Marketing authorizations and registration rights	3,095	48,244	**51,338**
Customers lists and others	56	22,004	**22,060**
Total intangible assets	**148,547**	**110,123**	**258,671**

A3. Impairment test of assets

Pursuant to IAS 36, the Group performs impairment tests once a year, during the second semester, on the net book value of eligible assets. 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, 2019, the Group reviewed the recoverable value of the CGU Leishmaniosis vaccine. This test conducted to the recognition of an impairment of the intangible assets of the CGU for a net amount of €7.2 million. The goodwill being already totally impaired, the loss in value was applied to intangible assets and more specifically to the marketing authorizations for a gross amount of €9.7 million and to the related deferred tax liability for -€2.5 million.

It should be noted that the implementation of IFRS 16 and therefore the consideration of the new assets into the CGU or groups of CGU's had no impact on the impairment tests that were performed.

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 12/31/2018	**18,872**	**187,695**	**195,674**	**32,195**	**25,803**	**460,238**
Acquisitions and other increases	-	939	2,483	960	3,930	**8,312**
Disposals and other decreases	-522	-7,692	-133	-661	-0	**-9,008**
Changes in scope	-	-	-	-	-	**-**
Transfers	-	1,322	6,411	-4,699	-9,588	**-6,554**
Conversion gains and losses	157	1,042	798	356	231	**2,583**
Gross value as at 06/30/2019	**18,506**	**183,306**	**205,234**	**28,150**	**20,375**	**455,571**
Depreciation as at 12/31/2018	**-**	**-92,296**	**-108,948**	**-21,404**	**-905**	**-223,553**
Depreciation expense	-	-4,077	-6,452	-1,360	-	**-11,890**
Impairment losses (net of reversals)	-	-	-0	2	-	**1**
Disposals and other decreases	-	4,195	128	532	-	**4,855**
Changes in scope	-	-	-	-	-	**-**
Transfers	-	-	-132	2,631	918	**3,417**
Conversion gains and losses	-	-259	-272	-205	-14	**-750**
Impairment as at 06/30/2019	**-**	**-92,437**	**-115,677**	**-19,805**	**-0**	**-227,920**
Net value as at 12/31/2018	**18,872**	**95,399**	**86,726**	**10,790**	**24,898**	**236,685**
Net value as at 06/30/2019	**18,506**	**90,869**	**89,556**	**8,345**	**20,375**	**227,651**

The increases recorded on tangible assets during the first semester, which are totaling €8.3 million, mainly apply to:

- Virbac SA, which invested €3.2 million mainly in technical facilities for industrial buildings and various equipment aimed at production;
- Centrovet, which invested €1.6 million for the refurbishment of facilities and new equipment dedicated to microbiology and bioprocesses;
- the USA, for €1.1 million, mainly for industrial equipment.

Disposals mainly concern the US subsidiary which recognized the sale of its administrative building in Fort Worth. The move to the new rental premises will occur gradually over the course of the second half of 2019.

The line "Transfers" corresponds to the commissioning of assets but also to the reclassifications of some assets linked to the implementation of IFRS 16. Indeed, assets previously recognized pursuant to IAS 17 (mainly IT equipment in Virbac SA as well as vehicles in some entities of the Group) were reclassified from "Other tangible assets" to "Right of use" for a net amount of €2.7 million.

A5. Right of use

In terms of presentation of its financial statements, Virbac decided to isolate the right of use arising from the lease contracts sheltered by IFRS 16 on a dedicated line of the statement of financial position.

Changes in right of use during the first semester 2019 are as follows:

in € thousand	Right of use
Gross value as at 12/31/2018	**-**
Impact of first adoption	**31,766**
New contracts	**3,044**
Termination of contracts	**-1,013**
Changes in scope	**-**
Transfers	**5,121**
Conversion gains and losses	**-181**
Gross value as at 06/30/2019	**38,736**
Depreciation as at 12/31/2018	**-**
Impact of first adoption	**-143**
Allowances	**-5,180**
Impairment losses (net of reversals)	**-**
Termination of contracts	**378**
Changes in scope	**-**
Transfers	**-2,469**
Conversion gains and losses	**22**
Depreciation as at 06/30/2019	**-7,391**
Net value as at 12/31/2018	**-**
Net value as at 06/30/2019	**31,345**

The table below shows the right of use split by category of underlying assets:

in € thousand	Software	Land and buildings	Technical facilities, materials and industrial equipment	Transportation equipment	Office equipment and others	Hardware	Total
Gross value as at 12/31/2018	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Impact of first application	-	22,091	2,084	6,831	531	228	**31,766**
New contracts	-	1,346	-	1,601	68	28	**3,044**
Termination of contracts	-7	-542	-1	-457	-6	-	**-1,013**
Changes in scope	-	-	-	-	-	-	**-**
Transfers	743	-	-	1,312	-	3,066	**5,121**
Conversion gains and losses	0	-128	-6	-41	-4	-3	**-181**
Gross value as at 06/30/2019	**736**	**22,767**	**2,078**	**9,247**	**590**	**3,319**	**38,736**
Depreciation as at 12/31/2018	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Impact of first adoption	-	-	-22	-69	-52	-	**-143**
Allowances	-76	-2,088	-319	-2,199	-105	-393	**-5,180**
Termination of contracts	7	7	1	360	3	-	**378**
Changes in scope	-	-	-	-	-	-	**-**
Transfers	-413	-	-	-560	-	-1,496	**-2,469**
Conversion gains and losses	-	9	1	10	1	2	**22**
Impairment as at 06/30/2019	**-482**	**-2,071**	**-340**	**-2,458**	**-153**	**-1,887**	**-7,391**
Net value as at 12/31/2018	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net value as at 06/30/2019	**254**	**20,696**	**1,738**	**6,788**	**437**	**1,432**	**31,345**

The lines "Transfers" identify the reclassification of assets previously recognized pursuant to IAS 17 in "Right of use" in compliance with IFRS 16, for a net amount of €2.7 million.

Allowances to depreciation over the period amount to €5.2 million.

Analysis of residual rental costs

The table below shows the rental expenses arising from lease contracts that were not capitalized, pursuant to the exemptions in the standard:

in € thousand	Residual rental costs
Variable rental costs	-96
Rental costs on short-term contracts	-468
Rental costs on assets of low value	-484
Residual rental costs	**-1,048**

This new standard has a favorable effect on the Ebitda, a key performance indicator, since depreciation expenses as well as financial interests are recognized instead of rental costs. The impact during the first semester is assessed at €4.9 million.

A6. 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	NA	NA	-	-	3,071	122
GPM Virbac	NA	NA	-	-	182	-33
Share in companies accounted for by the equity method					**3,254**	**90**

A7. 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 12/31/2018	**69,914**	**15,136**	**128,911**	**213,961**
Variations	2,721	-588	9,996	**12,129**
Changes in scope	-	-	-	**-**
Transfers	-	-	-	**-**
Conversion gains and losses	551	23	1,092	**1,666**
Gross value as at 06/30/2019	**73,186**	**14,571**	**139,999**	**227,756**
Depreciation as at 12/31/2018	**-4,722**	**-1,192**	**-12,271**	**-18,184**
Allowances	-2,359	-733	-3,628	**-6,720**
Reversals	1,189	1,192	3,727	**6,108**
Changes in scope	-	-	-	**-**
Transfers	-	-	-	**-**
Conversion gains and losses	-16	-	-85	**-102**
Depreciation as at 06/30/2019	**-5,908**	**-733**	**-12,257**	**-18,899**
Net value as at 12/31/2018	**65,192**	**13,944**	**116,640**	**195,777**
Net value as at 06/30/2019	**67,278**	**13,838**	**127,741**	**208,858**

The increase in inventories mainly applies to finished goods. These inventories were established in anticipation of the sales forecasted in the months to come. The rise remains consistent with the increase of the activity over the semester compared to the end of 2018. It should be noted that this increase is partly driven by the will to ensure sufficient availability of certain strategic products.

A8. Trade receivables

in € thousand	Trade receivables
Gross value as at 12/31/2018	**104,754**
Variations	**12,118**
Changes in scope	**-**
Transfers	**-**
Conversion gains and losses	**1,224**
Gross value as at 06/30/2019	**118,096**
Depreciation as at 12/31/2018	**-3,247**
Allowances	**-529**
Reversals	**1,016**
Changes in scope	**-**
Transfers	**-58**
Conversion gains and losses	**-21**
Depreciation as at 06/30/2019	**-2,840**
Net value as at 12/31/2018	**101,507**
Net value as at 06/30/2019	**115,256**

The increase in trade receivables is related to the increase in activity over the second half of the semester in comparison with the end of 2018, especially in Chile, where account receivables rose by €3.1 million, but also in Italy, in Spain and in India. To be noted that the amount of receivables derecognized thanks to a factoring program increased slightly by €2.5 million between the end of December 2018 and June 2019, in the range of €40 million.

A9. Other receivables

in € thousand	12/31/2018	Variations	Transfers	Change in standard	Conversion gains and losses	06/30/2019
Income tax receivables	**2,818**	659	-	-	16	**3,492**
Social receivables	**605**	-113	58	-	7	**558**
Other receivables to the State	**24,487**	-2,548	-	-	199	**22,138**
Advances and prepayments on orders	**2,090**	356	-	-	42	**2,488**
Depreciation on various other receivables	**-**	-	-	-	-	**-**
Prepaid expenses	**5,258**	2,841	-	-217	7	**7,888**
Other various receivables	**11,429**	3,805	169	-	15	**15,418**
Other receivables	**46,686**	**5,001**	**227**	**-217**	**285**	**51,983**

The decrease of the other receivables to the State mainly arises from the repayment of tax instalments and contributions paid in 2018, which was obtained by the Chilean entity during the first semester. The prepaid expenses, increasing by €2.8 million, mainly apply to various insurance and maintenance contracts. The rise in the other various receivables mainly arises from an operational receivable recognized by a Group entity for €2.8 million.

A10. Trade payables

in € thousand	12/31/2018	Variations	Changes in scope	Transfers	Conversion gains and losses	06/30/2019
Current trade payables	**86,803**	-4,871	-	-63	474	**82,343**
Payables of intangible assets	**1,831**	-843	-	-	8	**997**
Payables of tangible assets	**938**	662	-	-	1	**1,601**
Trade payables	**89,572**	**-5,052**	**-**	**-63**	**484**	**84,940**

The decrease of trade payables mainly arises from a drop in the purchases of raw materials, especially in Chile and in the United States.

A11. Other provisions

in € thousand	12/31/2018	Allowances	Reversals	Changes in scope	Transfers	Conversion gains and losses	06/30/2019
Trade disputes and industrial tribunals	**4,157**	274	-237	-	-28	0	**4,166**
Fiscal disputes	**1,196**	1,310	-535	-	-	15	**1,986**
Various risks and charges	**5,178**	396	-1,197	-	-	-	**4,377**
Other non-current provisions	**10,531**	**1,980**	**-1,969**	**-**	**-28**	**15**	**10,529**
Trade disputes and industrial tribunals	**510**	-	-	-	-	3	**513**
Fiscal disputes	**-**	-	-	-	-	-	**-**
Various risks and charges	**1,268**	-	-23	-	-	2	**1,247**
Other current provisions	**1,778**	**0**	**-23**	**-**	**0**	**5**	**1,760**
Other provisions	**12,309**	**1,980**	**-1,993**	**-**	**-28**	**20**	**12,289**

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 analyzed and the provision that was recorded at the opening has been maintained in the accounts at June 30, 2019.

Provisions of a tax nature are intended to cope 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 recognized 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 compensation 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.

A12. Lease liability

Change in lease liabilities

en k€	12/31/2018	New contracts and renewals	Repayments and cancellations	Impact of transition	Transfers	Conversion gains and losses	06/30/2019
Lease liability - Non-current	-	2,107	-428	23,885	-2,314	-128	**23,122**
Lease liability - Current	-	745	-4,764	7,573	5,149	-33	**8,670**
Lease liability	**-**	**2,852**	**-5,192**	**31,458**	**2,835**	**-161**	**31,792**

As at June 30, 2019, lease liabilities contributed €31.8 million to the Group's indebtedness. IFRS 16 introducing a single lessee accounting model for the lease contracts meeting the criteria of application, the new lease liability shelters the debts arising from contracts previously capitalized pursuant to IAS 17.

Lease liability by maturity

As at June 30, 2019

in € thousand	Payments			Total
	less than 1 year	from 1 to 5 years	more than 5 years	
Lease liability - Non-current	-	15,438	7,685	**23,122**
Lease liability - Current	8,670	-	-	**8,670**
Lease liability	**8,670**	**15,438**	**7,685**	**31,792**

Information on financing activities

in € thousand	12/31/2018	Repayments of debt	Impact of transition	Increase	Decrease	Transfers	Conversion gains and losses	06/30/2019
Lease liability	-	-4,557	31,458	2,852	-635	2,835	-161	**31,792**
Lease liability	**-**	**-4,557**	**31,458**	**2,852**	**-635**	**2,835**	**-161**	**31,792**

Decreases correspond to early terminations with no cash impact.
The item "Transfers" includes the reclassification of the debts related to financial leases previously recognized in compliance with IAS 17 into the lease liability pursuant to IFRS 16.

Reconciliation between off-balance sheet commitments and lease liability at opening date

The table below shows the bridge between the minimum future lease payments as disclosed as of December 31, 2018 and the lease liability at transition date.

in € thousand	01/01/2019
Future lease payments communicated as of December 31, 2018	**26,880**
Difference in lease commitments assessment	1,486
Impact of renewal or early termination options	3,168
Short-term contracts or assets of low value	-76
Transition impact to IFRS 16 (present value of the debt)	**31,458**
Financial leases as recognized into December 31, 2018 statements	2,784
Lease liability as of January 1st, 2019	**34,243**

As a result of the implementation of IFRS 16, the Group re-examined all its lease agreements. Consequently, the components and durations of the contracts were analyzed and revised when necessary.

A13. Other financial liabilities

Change in other financial liabilities

in € thousand	12/31/2018	Increase	Decrease	Changes in scope	Transfers	Conversion gains and losses	06/30/2019
Loans	**373,317**	28,100	-1,747	-	-5,159	2,512	**397,023**
Bank overdrafts	**-**	-	-	-	-	-	**-**
Accrued interests not yet matured	**-**	-	-	-	-	-	**-**
Debt relating to leasing contracts	**1,618**	-	-	-	-1,634	16	**-0**
Employee profit sharing	**2**	5	-	-	-	-	**8**
Currency and interest rate derivatives	**963**	-	757	-	-	-	**1,720**
Other	**-**	-	-	-	-	-	**-**
Other non-current financial liabilities	**375,900**	**28,106**	**-990**	**-**	**-6,793**	**2,528**	**398,752**
Loans	**91,435**	19,917	-34,702	-	5,159	1,278	**83,088**
Bank overdrafts	**19,173**	-	-7,367	-	-	6	**11,813**
Accrued interests not yet matured	**49**	-	1	-	-	-	**50**
Debt relating to leasing contracts	**1,167**	-	-9	-	-1,173	15	**-0**
Employee profit sharing	**532**	216	-491	-	-	17	**274**
Currency and interest rate derivatives	**639**	-	-73	-	-	-	**565**
Other	**-**	-	-	-	-	-	**-**
Other current financial liabilities	**112,995**	**20,133**	**-42,640**	**-**	**3,986**	**1,317**	**95,790**
Other financial liabilities	**488,895**	**48,239**	**-43,630**	**-**	**-2,807**	**3,845**	**494,542**

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

- a syndicated loan of €420 million, drawn in euros and American dollars, contracted with a pool of banks and 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*) taken out in 2015, consisting of four instalments, 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), set up in 2017 for a seven-year term, repayable in fine for half and refundable over eleven years for the other half.

Virbac also received bilateral loans and BPI financing.

As of June 30, 2019, the position of the funding instruments was as follows:

- the syndicated loan was drawn for amounts of €94 million and US$164 million;
- the market-based contracts amounted to €15 million and US$15.5 million;
- the bilateral loans and BPI and EIB financing amounted to €76.8 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 amortization) (2) for the twelve previous months period for half-year statements.

The year 2019 is marking the return to the initial terms of the contract regarding the financial ratios to adhere to. The net debt on Ebitda ratio should from now on be under the threshold of 4.25 at June 30, 2019 and below 3.75 at December 31, 2019.

Taking into account the application of IFRS 16 in Virbac's consolidated accounts from January 1st, 2019, and in order to proceed with the calculation of the financial ratio consistently with respect to prior years for the financial statements as of June 30, 2019, Virbac has informed its lenders of the adjustments that have been made to restate the impact of IFRS 16.
At June 30, 2019, the financial covenant is respected, the ratio reaching 3.00.

(1) Consolidated net debt refers to the sum of other current and non-current financial liabilities, namely the following items: loans, bank overdrafts, 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 12 previous months period (that of the last six months of 2018 plus that of the first half of 2019) excluding IFRS 16, plus depreciations and provisions net of reversals and dividends received from non-consolidated subsidiaries.

Other financial liabilities by maturity

As at June 30, 2019

	Payments			Total
in € thousand	less than 1 year	from 1 to 5 years	more than 5 years	
Loans	83,088	311,950	85,073	**480,111**
Bank overdrafts	11,812	-	-	**11,812**
Accrued interests not yet matured	50	-	-	**50**
Employee profit sharing	274	8	-	**282**
Currency and interest rate derivatives	566	1,720	-	**2,286**
Other	0	0	-	**-**
Other financial liabilities	**95,790**	**313,679**	**85,073**	**494,543**

Information on financing activities

		Cash flows		Other flows			
in € thousand	12/31/2018	Debt issuance	Repayments of debt	Fair Value	Transfers	Conversion gains and losses	06/30/2019
Non-current financial liabilities	**373,317**	28,100	-1,747	-	-5,159	2,512	**397,023**
Current financial liabilities	**91,435**	19,917	-34,702	-	5,159	1,278	**83,087**
Debt relating to leasing contracts	**2,785**	-	-9	-	-2,807	32	**-0**
Employee profit sharing	**534**	222	-491	-	-	17	**282**
Currency and interest rate derivatives	**1,601**	-	-	684	-	-	**2,286**
Other financial liabilities	**469,672**	**48,239**	**-36,948**	**684**	**-2,807**	**3,839**	**482,679**

A14. Revenue from ordinary activities

in € thousand	06/30/2019	06/30/2018	*Change*
Sales of finished goods and merchandise	526,413	480,971	*9.4%*
Services	31	3	*946.9%*
Additional income from activity	1,264	2,016	*-37.3%*
Royalties paid	214	175	*22.5%*
Gross sales	**527,923**	**483,165**	***9.3%***
Discounts, rebates and refunds on sales	-51,938	-43,847	*18.5%*
Expenses deducted from sales	-9,086	-7,769	*16.9%*
Financial discounts	-3,155	-1,582	*99.4%*
Provision for returns	-11	-7	*60.6%*
Expenses deducted from sales	**-64,190**	**-53,205**	***20.6%***
Revenue from ordinary activities	**463,733**	**429,960**	***7.9%***

In the first half of the year, the overall change in sales was +7.9% compared to the same period in 2018. Excluding the positive impact of foreign exchange rates, sales were up +6.6%.

A15. Other operating income and expenses

in € thousand	06/30/2019	06/30/2018	*Change*
Royalties paid	-1,828	-1,658	*10.3%*
Grants received (including research tax credit)	3,883	4,357	*-10.9%*
Allowances for depreciation of receivables	-529	-863	*-38.6%*
Reversals of depreciation of receivables	1,016	37	*2647.5%*
Bad debts	-1,034	-190	*443.7%*
Net book value on disposed assets	-4,156	-78	*5230.9%*
Income from disposals of assets	6,160	112	*5421.2%*
Other operating income and expenses	-930	-806	*15.3%*
Other current income and expenses	**2,583**	**911**	***183.5%***

The increase of the "Other operating income and expenses" mainly arises from the gain on the sale of the administrative offices of Virbac US.

A16. Other non-current income and expenses

in € thousand	06/30/2019
Impairment of MA held by BVT on Leishmaniosis vaccine	-9,653
Cancellation of the debt on SBC shares	222
Other non-current income and expenses	**-9,431**

As of June 30, 2019, the Group re-examined the recoverable value of the CGU Leishmaniosis vaccine. This test led to the recognition of an impairment of the intangible assets of the CGU for a gross amount of €9.7 million (marketing authorizations).

A17. Financial income and expenses

in € thousand	06/30/2019	06/30/2018	*Change*
Gross cost of financial debt	-9,637	-8,528	*13.0%*
Income from cash and cash equivalents	923	434	*112.6%*
Net cost of financial debt	**-8,714**	**-8,093**	***7.7%***
Foreign exchange gains and losses	1,342	-5,382	*-124.9%*
Changes in foreign currency derivatives and interest rate	-1,318	1,168	*-212.8%*
Other financial charges	-45	2	*-2354.3%*
Other financial income	40	351	*-88.6%*
Other financial income and expenses	**19**	**-3,861**	***-100.5%***
Financial income and expenses	**-8,695**	**-11,954**	***-27.3%***

As a consequence of the implementation of IFRS 16 from January 1st, 2019 on, the cost of financial debt now includes the interest cost on lease liability which is amounting to €734 thousand as of June 30, 2019.
Excluding IFRS 16 impact, the net cost of financial debt is decreasing, due to a lower net debt. The income from cash and cash equivalents results from the investments of the Indian subsidiary.

The improvement in the foreign exchange gains and losses mainly arises from unrealized income on the financing operations in CLP in France and in Chile, due to the appreciation of this currency against euro and American dollar over the first half 2019, when the CLP sharply depreciated during the first semester 2018.

A18. Income tax

In accordance with IAS 34, in the financial statements at June 30, 2019, the tax charge was determined by applying to the profit before tax for the period the average tax rate estimated for the year 2019.

Non-current tax expense

As the Virbac US subsidiary recognized tax losses in the first half of 2019, a deferred tax asset was recorded in its accounts for US$167 thousand (€148 thousand). However, in accordance with IAS 12 and in line with the position retained in the consolidated financial statements at December 31, 2018, the deferred tax asset relating to tax losses for the first half of 2019 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 A16).

A19. Bridge from net result to net result from ordinary activities

in € thousand	Net result IFRS 06/30/2019	Impairment of assets	Restructuring costs	Other items	Non-current tax expense	Net result from ordinary activities 06/30/2019
Revenue from ordinary activities	**463,733**					**463,733**
Current operating profit before depreciation of assets arising from acquisitions	**66,917**					**66,917**
Depreciations of intangible assets arising from acquisitions	-7,522					-7,522
Operating profit from ordinary activities	**59,395**					**59,395**
Other non-current income and expenses	-9,431	9,653		-222		-
Operating result	**49,964**	**9,653**		**-222**		**59,395**
Financial income and expenses	-8,695					-8,695
Profit before tax	**41,269**	**9,653**		**-222**		**50,700**
Income tax	-12,964	-2,493			148	-15,309
Share from companies' result accounted for by the equity method	90					90
Result for the period	**28,395**	**7,159**	**-**	**-222**	**148**	**35,481**

A20. Result per share

	06/30/2019	06/30/2018
Profit attributable to the owners of the parent company	**26,434,849 €**	**12,269,356 €**
Total number of shares	8,458,000	8,458,000
Impact of dilutive instruments	-	-
Number of treasury shares	30,894	34,564
Outstanding shares	8,427,106	8,423,436
Profit attributable to the owners of the parent company, per share	**€3.14**	**€1.46**
Profit attributable to the owners of the parent company, diluted per share	**€3.14**	**€1.46**

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, 2019, the number of shares held by the Group amounted to 30,894 (against 34,564 shares as at June 30, 2018) for a total of €4,411 thousand.

A21. 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 cannot 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 includes the Group’s head office expenses and a substantial proportion of its research and development expenses.

As at June 30, 2019

in € thousand	France	Europe (excluding France)	Latin America	North America	Asia	Pacific	Africa & Middle East	Total
Revenue from ordinary activities	66,863	117,847	78,166	72,895	73,176	41,517	13,270	**463,733**
Current operating profit before depreciations of assets aring from acquisitions	10,567	8,159	12,492	10,578	10,938	12,102	2,081	**66,917**
Profit attributable to the owners of the parent company	1,384	5,645	4,105	-796	6,946	7,772	1,379	**26,435**
Non-controlling interests	0	-	1,960	-	-	-	-	**1,960**
Consolidated profit	**1,384**	**5,645**	**6,065**	**-796**	**6,946**	**7,772**	**1,379**	**28,395**

in € thousand	France	Europe (excluding France)	Latin America	North America	Asia	Pacific	Africa & Middle East	Total
Assets by geographic area	675,185	53,717	228,029	154,851	123,209	81,733	8,299	**1,325,021**
Intangible investment	3,350	18	16	284	32	1	-	**3,702**
Tangible investment	3,451	122	2,433	1,116	685	474	30	**8,312**

One customer of the Group achieved more than 10% of the revenue.

A22. 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

Following the decision of the supervisory board dated March 12, 2019, an amendment to the defined-benefit retirement plan of the executive board was signed on June 14, 2019. This amendment redefines on one hand the beneficiaries of the plan, and on the other hand the new pension rate applicable.
The impact of the exit from the plan of two beneficiaries no longer meeting the required conditions, cumulated to the decrease in the pension rate from 22.0% to 10.5% of the reference salary, generate an income of €3.2 million before taxes in the half-yearly consolidated financial statements (consisting in a release provision amounting to €2.6 million and a decrease in social contributions amounting to €0.6 million).

In the first half of the year 2019, there is no other 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 2019, 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 2019 compared to December 31, 2018.

A23. Scope of consolidation

Company name	Locality	Country	06/30/2019		12/31/2018	
			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
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	06/30/2019		12/31/2018	
			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 Quimicos 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	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
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

*** Pre-consolidated levels**

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

Period from January 1st to June 30, 2019

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 1st to June 30, 2019;
- 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.

Without qualifying the conclusion expressed above, we draw your attention to Note "IFRS 16 – leases" to the condensed half-year consolidated financial statements, which describes the impacts of the first-time application as of January 1, 2019 of IFRS 16 "leases" standard.

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, 2019
The statutory auditors
French original signed by

Novances - David & Associés
Jean-Pierre Giraud

Deloitte & Associés
Philippe Battisti

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, September 10, 2019

Sébastien Huron, chairman of the executive board