

CONSOLIDATED FINANCIAL STATEMENTS

Statement of financial position

in € thousand	Notes	2016	2015
Goodwill	A1-A3	342,368	330,488
Intangible assets	A2-A3	354,380	353,912
Tangible assets	A4	246,818	229,083
Other financial assets	A5	10,530	12,072
Share in companies accounted for by the equity method	A6	2,513	1,889
Deferred tax assets	A7	27,041	17,606
Non-current assets		983,650	945,050
Inventories and work in progress	A8	197,908	182,314
Trade receivables	A9	129,197	150,907
Other financial assets	A5	81	762
Other receivables	A10	57,870	100,355
Cash and cash equivalents	A11	48,454	51,163
Assets classified as held for sale	A12	-	-
Current assets		433,510	485,499
Assets		1,417,161	1,430,550
Share capital		10,573	10,573
Reserves attributable to the owners of the parent company		463,055	427,837
Equity attributable to the owners of the parent company	A13	473,628	438,410
Non-controlling interests		47,159	43,880
Equity		520,787	482,290
Deferred tax liabilities	A7	43,661	41,321
Provisions for employee benefits	A14	18,016	15,425
Other provisions	A15	2,558	2,986
Other financial liabilities	A16	438,460	523,562
Other payables	A17	583	889
Non-current liabilities		503,278	584,183
Other provisions	A15	2,197	2,001
Trade payables	A18	105,261	115,026
Other financial liabilities	A16	157,057	133,305
Other payables	A17	128,580	113,745
Current liabilities		393,096	364,077
Liabilities		1,417,161	1,430,550

Income statement

in € thousand	Notes	2016	2015	Change
Revenue from ordinary activities	A19	871,828	852,623	2.3%
Purchases consumed	A20	-300,152	-297,852	
External costs	A21	-181,927	-208,141	
Personnel costs		-269,714	-252,183	
Taxes and duties		-11,345	-11,977	
Depreciations and provisions	A22	-26,997	-27,107	
Other operating income and expenses	A23	1,167	2,097	
Current operating profit before depreciation of assets arising from acquisitions *		82,860	57,460	44.2%
Depreciations of intangible assets arising from acquisitions	A22	-16,468	-19,150	
Operating profit from ordinary activities		66,392	38,310	73.3%
Other non-current income and expenses	A24	2,621	-3,801	
Operating result		69,013	34,509	100.0%
Financial income and expenses	A25	-16,453	-19,126	
Profit before tax		52,560	15,383	241.7%
Income tax	A26	-14,987	-1,937	
Share from companies' result accounted for by the equity method		294	-778	
Result for the period		37,867	12,668	198.9%
attributable to the owners of the parent company		34,646	9,405	268.4%
attributable to the non-controlling interests		3,221	3,263	-1.3%
Profit attributable to the owners of the parent company, per share	A27	€4.11	€1.12	268.4%
Profit attributable to the owners of the parent company, diluted per share	A27	€4.11	€1.12	268.4%

* In order to provide a clearer picture of its economic performance, the Group has been isolating, since 2015, the impact of the depreciation on intangible assets resulting from acquisition transactions. Indeed, this one is relevant given the latest business combinations operated by the Group. Consequently, the income statement shows an operating result before depreciations of intangible assets arising from acquisitions.

Comprehensive income statement

in € thousand	2016	2015	Change
Result for the period	37,867	12,668	198.9%
Conversion gains and losses	10,348	13,331	
Effective portion of gains and losses on hedging instruments	414	-266	
Items subsequently reclassifiable to profit and loss (before tax)	10,762	13,065	-17.6%
Actuarial gains and losses	-1,682	112	
Items not subsequently reclassifiable to profit and loss (before tax)	-1,682	112	-1601.5%
Other items of comprehensive income (before tax)	9,081	13,177	-31.1%
Tax on items subsequently reclassifiable to profit and loss	-139	91	
Tax on items not subsequently reclassifiable to profit and loss	576	-61	
Withholding tax on distributions *	-5,126	-	
Comprehensive income	42,258	25,875	63.3%
attributable to the owners of the parent company	35,106	24,992	40.5%
attributable to the non-controlling interests	7,152	883	710.0%

* Virbac has borne, in one of its subsidiaries, a withholding tax of over €5 million on distributions realised in 2016 in order to channel available cash toward Virbac SA.

Statement of change in equity

	Share capital	Share premiums	Reserves	Conversion reserves	Result for the period	Equity attributable to the owners of the parent company	Non- controlling interests	Equity
in € thousand								
Equity as at 31/12/2014	10,573	6,534	361,867	-11,228	63,596	431,342	50,848	482,190
2014 allocation of net income	-	-	63,596	-	-63,596	-	-	-
Distribution of dividends	-	-	-16,013	-	-	-16,013	-7,851	-23,864
Treasury shares	-	-	-440	-	-	-440	-	-440
Changes in scope	-	-	-	-1,471	-	-1,471	-	-1,471
Other variations	-	-	-	-	-	-	-	-
Comprehensive income	-	-	-124	15,711	9,405	24,992	883	25,875
Equity as at 31/12/2015	10,573	6,534	408,886	3,012	9,405	438,410	43,880	482,290
2015 allocation of net income	-	-	9,405	-	-9,405	-	-	-
Distribution of dividends	-	-	-	-	-	-	-3,873	-3,873
Treasury shares	-	-	205	-	-	205	-	205
Changes in scope	-	-	-	-	-	-	-	-
Other variations	-	-	-93	-	-	-93	-	-93
Comprehensive income	-	-	-5,957	6,417	34,646	35,106	7,152	42,258
Equity as at 31/12/2016	10,573	6,534	412,446	9,429	34,646	473,628	47,159	520,787

The ordinary shareholders' meeting of June 24, 2016 decided to pay no dividend on the 2015 accounts.

Cash flow statement

in € thousand	Notes	2016	2015
Result for the period		37,867	12,668
Elimination of share from companies' profit accounted for by the equity method	A6	-294	778
Elimination of depreciations and provisions	A14-A22	44,070	47,697
Elimination of deferred tax change	A7	-7,745	-6,168
Elimination of gains and losses on disposals	A23	-47	965
Other income and expenses with no cash impact		-2,092	417
Cash flow		71,759	56,357
Effect of net change in inventories	A8	-11,650	-2,573
Effect of net change in trade receivables	A9	23,710	-9,734
Effect of net change in trade payables	A18	-10,292	31,136
Effect of net change in other receivables and payables	A10-A17	49,866	-41,157
Effect of change in working capital requirements		51,634	-22,328
Net financial interests paid	A25	19,056	12,192
Net cash flow generated by operating activities		142,449	46,221
Acquisitions of intangible assets	A2-A18	-5,653	-5,519
Acquisitions of tangible assets	A4-A18	-34,380	-37,017
Disposals of intangible and tangible assets	A23	314	1,155
Change in financial assets	A5	-2,618	-3,425
Change in debts relative to acquisitions		-	1,305
Acquisitions of subsidiaries or activities		-696	-377,294
Disposals of subsidiaries or activities		-	-
Withholding tax on distributions	A17	-5,126	-
Dividends received		-	-
Net cash flow allocated to investing activities		-48,159	-420,794
Dividends paid to the owners of the parent company		-	-16,013
Dividends paid to the non-controlling interests		-3,873	-7,853
Change in treasury shares		-4	49
Increase/decrease of capital		-	-
Cash investments	A5	673	2,238
Debt issuance	A16	104,612	604,338
Repayments of debt	A16	-177,274	-524,517
Net financial interests paid	A25	-19,056	-12,192
Net cash flow from financing activities		-94,922	46,051
Change in cash position		-632	-328,522

Statement of change in cash position

in € thousand	2016	2015
Cash and cash equivalents	51,163	375,912
Bank overdraft	-12,098	-7,845
Accrued interests not yet matured	-54	-24
Opening net cash position	39,011	368,043
Cash and cash equivalents	48,454	51,163
Bank overdraft	-9,158	-12,098
Accrued interests not yet matured	-36	-54
Closing net cash position	39,260	39,011
Impact of currency conversion adjustments	881	-1,181
Impact of changes in scope	-	671
Net change in cash position	-632	-328,522

NOTES TO THE 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.

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

Virbac is a public limited company under French law with an executive board and a supervisory board. Its trading name is "Virbac". The company was established in 1968 in Carros.

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

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

The 2016 consolidated financial statements were approved by the executive board on February 16, 2017. They will be submitted for approval to the shareholders' general meeting on June 23, 2017; the meeting has the power to have the statements amended.

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

Significant events for the period

Resumption of production at the St. Louis facility and lifting of the warning letter

In the United States, the production, release and sale of historical products resumed in 2016 and continued throughout the year. At the same time, the Virbac group continued to invest and implement the necessary upgrades to the quality system at the St. Louis facility in order to ensure full pharmaceutical compliance with the rules of cGMP (current Good manufacturing practices).

Further to its inspection carried out in December 2014, the FDA (Food and drug administration) conducted follow-up inspections at the St. Louis industrial site from August 9, to September 7, 2016. After this inspection, the FDA handed the Virbac Corporation a 483 report containing five observations. The Group continued its compliance efforts and, in December, received from the FDA the letter confirming the lifting of the warning letter.

This announcement allows the St. Louis production site to fully recover its cGMP status and beyond that, gives it the opportunity to file new registration and variation files with the FDA. This also allows Virbac to continue the transfer of production of Sentinel Spectrum to the St. Louis manufacturing site, as originally planned.

Request for waiver

Through its pool of banks, Virbac had its financial covenant compliance clause relaxed until the end of 2016. The net debt/Ebitda ratio (based on the definition in note A16) must now be below 5.5 at actual rates compared to 4.5 previously in effect. The request for waiver made at year-end was accepted for all of the creditors, with the exception of nine *Schuldschein* investors amounting to €70 million, early repaid by Virbac at the beginning of January 2017. Furthermore, through its pool of banks, Virbac had its financial covenant compliance clause relaxed for 2017, for the end of June and the end of December, in the same proportions as in 2016.

Significant events after the closing date

No significant event has occurred since the 2016 year-end closing.

Scope

The consolidated financial statements as at December 31, 2016 include the financial statements of the companies that Virbac controls indirectly or directly in law or in fact. The list of consolidated companies is provided in note A37.

No change occurred in the scope during the fiscal year.

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).

For the presentation of the consolidated financial statements for the 2016 financial year, the Group applied all standards and interpretations in force at the European level, applicable to periods beginning on or after January 1, 2016. These standards and interpretations are as follows:

- Amendments to IAS 1, "Disclosure initiative", applicable for financial years beginning on or after January 1, 2016;
- Amendments to IAS 16 and IAS 38, "Acceptable methods of depreciation and amortisation", applicable for financial years beginning on or after January 1, 2016;
- Amendment to IAS 19, "Defined benefit plans: employee contributions", applicable for financial years beginning on or after February 1, 2015;
- Amendments to IAS 27, "Equity method in separate financial statements", applicable for financial years beginning on or after January 1, 2016;
- Amendments to IFRS 11, "Acquisition of a interests in joint operations", applicable for financial years beginning on or after January 1, 2016;
- Amendments to IAS 16 and IAS 41, "Bearer plants", applicable for financial years beginning on or after January 1, 2016;
- Amendments to IFRS 10, IFRS 12 and IAS 28, "Investment entities: applying the consolidation exemption", applicable for financial years beginning on or after January 1, 2016;
- Annual improvements (2010-2012 cycle), "Annual improvements to IFRSs published in December 2013", applicable for financial years beginning on or after January 1, 2016;
- Annual improvements (2012-2014 cycle), "Annual improvements to IFRSs published in September 2014", applicable for financial years beginning on or after January 1, 2016.

The application of these new standards had no significant impact on the consolidated financial statements for 2016.

On the reporting date of these consolidated financial statements, the following standards and interpretations were submitted by IASB (International Accounting Standards Board) but were still not adopted by the European Union or still had no option for early application:

- IFRS 9, "Financial instruments";
- IFRS 15, "Revenue from contracts with customers";
- IFRS 16, "Leases";
- Amendments to IAS 7, "Information related to financing activities";
- Amendments to IAS 12, "Recognition of deferred income tax assets for unrealised losses";
- Amendments to IFRS 2, "Classification and assessment of share-based payment transactions";
- Amendments to IFRS 15 Clarification;
- Amendments to IFRS 4 Linkages between IFRS 4 and IFRS 9;
- Amendments to IAS 40 on clarification regarding transfers of investment property;
- Annual improvements (2012-2014 cycle) - Annual improvements to IFRSs published in December 2016;
- IFRIC 22 Foreign currency transactions and advance consideration.

The Group is currently analysing the practical consequences of these new texts and the effects of their application on the financial statements. Where necessary, the Group will apply these standards in its financial statements once they are adopted by the European Union.

Consolidation rules

Consolidation methods

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

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

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

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

All companies have been consolidated based on the financial statements as at December 31, 2016.

Conversion of the financial statements

The functional currency in the Group's foreign subsidiaries is the current local currency, with the exception of Virbac Uruguay SA (formerly Santa Elena) whose functional currency is the US dollar.

The financial statements of foreign companies for which the functional currency is not the euro are converted according to following principles:

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

Elimination of inter-company transactions

All transactions between Group companies, as well as inter-company profits, are eliminated from the consolidated financial statements.

Accounting principles and methods

Goodwill

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

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

For the purposes of these tests, the values of the assets are grouped by CGU (cash generating unit). In the cases of goodwill, the legal entity is used as the CGU. In the implementation of goodwill impairment tests, the Group uses an approach based on estimated future cash flow (estimation of value in use). This approach consists of calculating the value in use of the CGU by discounting estimated future cash flows. When the value in use of the CGU proves lower than its net carrying amount, an impairment loss in respect of goodwill is recognised to reduce the net carrying amount of the assets of the CGU to their recoverable amount, which is defined as the higher of the net fair value and the value in use.

The assessments made for the purposes of the goodwill impairment tests are sensitive to the assumptions used as regards not only the selling price and future costs, but also the discount and growth rates. The future cash flows used for the impairment tests are calculated based on estimates ranging from five to ten years. The choice of cash flow horizon takes into account the product life cycle in the veterinary industry, which is very long and generally far exceeds five years. For cash flow forecasts, the perpetual growth rates used, which depend on products and market growth expectations, and the discount rates based on the weighted average cost of capital after tax method, are presented in note A3.

Intangible assets

In accordance with the criteria stipulated in IAS 38, an intangible asset is recognised as an asset in the financial statements where it is likely that future economic benefits attributable to the asset will flow to the Group.

Intangible assets are evaluated at the historic acquisition cost, including acquisition charges, less accumulated depreciation and, if necessary, less any accumulated impairment loss.

Intangible assets with indefinite useful lives are reviewed annually to ensure that their useful lives have not become finite. The intangible assets with finite useful lives are subject to a linear depreciation, from which time the asset is ready to be used:

- concessions, patents, licences and marketing authorisations: amortised over their useful lives,
- standard software (office tools, etc.): amortised over a period of three or four years,
- ERP: amortised over a period of five to ten years.

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

Research and development costs are capitalised from the moment they satisfy the criteria set out in IAS 38. Within the framework of the Group's activities, the main development costs are associated with the products that may only be exploited with marketing authorisation. The Group considers that until the date when this marketing authorisation is obtained, all IAS 38 criteria are not fulfilled and the related costs are posted as expenses.

In accordance with the provisions set forth in standard IAS 36 "Impairment of assets", the potential impairment loss of intangible assets is examined each year. In the case of assets with indefinite useful lives, the tests are carried out during the second half of the year, regardless of whether there is any indication of impairment, and consistently whenever events or new circumstances indicate an impairment loss for assets with defined useful lives. For the purposes of this testing, the Group takes account of sales generated by the intangible asset acquired. When carrying out intangible asset impairment tests, the Group takes an approach based on estimated future cash flows (estimate of value in use). The future cash flows used for the impairment tests are calculated based on estimates ranging from five to fifteen years. For cash flow forecasts, the perpetual growth rates used, which depend on the products and market growth expectations, and the discount rates based on the weighted average cost of capital after tax method, are presented in note A3.

Tangible assets

In accordance with IAS 16, tangible assets are evaluated at the historic acquisition cost, including acquisition charges, or at the initial production cost, minus the accumulated depreciations and, where applicable, the accumulated impairment losses.

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

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

Items of property, plant and equipment are depreciated over their estimated useful lives, namely:

- buildings:
 - structure: forty years,
 - components: ten to twenty years,
- materials and industrial equipment:
 - structure: twenty years,
 - components: five to ten years,
 - computer hardware: three or four years,
- other tangible assets: five to ten years.

Financial assets

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

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

Other financial assets at fair value

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

Inventories and work in progress

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

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

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

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

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

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

Spare parts are part of rotating inventories and the inventory at closing is valued based on the last purchase price.

An impairment loss is recorded in order to return the inventories to their net realisable value, when the products become damaged or unusable or also according to sales forecasts for these products assessed according to the market.

Trade receivables

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

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

Cash and cash equivalents

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

Treasury shares

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

Conversion reserves

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

Reserves

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

Non-controlling interests

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

Derivative instruments and hedge accounting

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

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

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

Other financial liabilities

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

Pension schemes, retirement bonuses and other post-employment benefits

Defined contribution retirement plans

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

Defined benefit retirement plans

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

Other provisions

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

Taxation

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

The income or expense of tax consolidation is recognised in the parent company's accounts.

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

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

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

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

At December 31, 2016, no asset was classified as held for sale.

Revenue from ordinary activities

Revenue from ordinary activities comprises the value before tax of the goods and services sold by the integrated companies as part of their normal operations, after elimination of intra-group sales.

Sales are recognised on the date on which the majority of the risks and advantages inherent to ownership are transferred, generally when the customer physically receives the product. Sales are measured at fair value of the consideration received or to be received, that is net of commercial discounts or rebates.

Some expenses, the amount of which is proportional to sales and that meet the definition of income from ordinary activities, are recognised as a deduction from Group sales.

Financial discounts and provisions for returns are also recognised as a deduction from sales.

The Group measures its provisions for deferred discounts granted to customers based on its contractual or implicit commitments identified at the reporting date.

Personnel costs

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

They also include optional and compulsory profit sharing.

Taxes and duties

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

Operating profit

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

Operating expenses include:

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

Operating items also include tax credits that may be characterised as public subsidies and that meet the criteria of IAS 20 (it may mainly concern research tax credit and tax credit on low salaries).

Current operating profit before depreciation of assets arising from acquisitions

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

Operating profit from ordinary activities

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

Other non-current income and expenses

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

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

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

Financial income and expenses

This mainly includes interest and other assimilated income and expenses. They also include exchange gains and losses.

Result per share

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

Main sources of uncertainty relating to estimations

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

Acquisition prices

Some acquisition contracts relating to business combinations or the purchase of intangible assets, include a clause likely to change the price of the acquisition, depending on the objectives associated with financial income, the obtaining of marketing authorisation, or results of efficacy testing.

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

Goodwill and other intangible assets

The Group has intangible assets that were purchased or acquired through business combinations, in addition to the resulting goodwill. As indicated in the "Accounting principles and methods" section, the Group performs at least one test annually on impairment of goodwill and intangible assets for which the useful life cannot be defined. These impairment tests are based on an evaluation of future cash flows for a period of five to ten years. The evaluations made at the time of these tests are sensitive to assumptions relating to the sale price and future costs, but also in terms of discount rates and growth. These sensitivity calculations make it possible to measure the Group's exposure to significant variations in growth rates into infinity.

The Group may depreciate certain fixed assets in the event of deterioration in earning prospects for these assets or if there is a loss index value for one of these assets.

As at December 31, 2016, the net total of goodwill was €342,368 thousand and the value of the intangible assets was €354,380 thousand.

Deferred taxes

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

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

Provisions for pension schemes and other post-employment benefits

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

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

The total commitment relating to personnel benefits was €18,016 thousand as at December 31, 2016.

Other provisions

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

No provisions are established if the company considers that the liability is contingent (as defined by IAS 37). As at December 31, 2016, the total amount of other provisions was €4,755 thousand.

A1. Goodwill

Change in goodwill by CGU

	Gross value as at 31/12/2015	Impairment value as at 31/12/2015	Book value as at 31/12/2015	Increases	Sales	Impair- ment of value	Conversion gains and losses	Book value as at 31/12/2016
in € thousand								
Italy	1,585	-	1,585	-	-	-	-	1,585
Denmark	4,643	-	4,643	-	-	-	-	4,643
Leishmaniosis vaccine	5,421	-	5,421	-	-	-	-	5,421
Greece	1,358	-	1,358	-	-	-	-	1,358
Colombia	1,837	-	1,837	-	-	-	131	1,968
India	15,727	-	15,727	-	-	-	89	15,816
United States	236,563	-3,767	232,796	-	-	-	7,588	240,384
Australia	3,388	-335	3,054	-	-	-	37	3,091
Peptech	3,241	-	3,241	-	-	-	67	3,308
New Zealand	15,957	-166	15,791	-	-	-	793	16,584
Chile	30,614	-	30,614	-	-	-	2,678	33,292
Uruguay	4,370	-	4,370	-	-	-	143	4,513
SBC	7,555	-	7,555	-	-	-	310	7,865
Other CGUs	4,206	-1,710	2,496	-	-	-	44	2,540
Goodwill	336,465	-5,978	330,488	-	-	-	11,881	342,368

A2. Intangible assets

Change in intangible assets

	Concessions, patents, licences and brands		Other intangible assets	Intangible assets in progress	Intangible assets
	Indefinite life	Finite life			
in € thousand					
Gross value as at 31/12/2015	169,755	236,425	46,482	6,497	459,159
Acquisitions and other increases	-	10	2,274	5,204	7,489
Disposals and other decreases	-280	-85	-	-	-365
Changes in scope	-	-	-	-	-
Transfers	-149	605	2,020	-2,544	-68
Conversion gains and losses	7,775	8,580	400	319	17,074
Gross value as at 31/12/2016	177,102	245,535	51,176	9,476	483,289
Depreciation as at 31/12/2015	-540	-64,727	-39,733	-248	-105,248
Depreciation expense	-	-17,425	-3,826	-	-21,251
Impairment losses (net of reversals)	69	-19	-	-	50
Disposals and other decreases	249	29	-	-	279
Changes in scope	-	-	-	-	-
Transfers	-	169	14	-	183
Conversion gains and losses	3	-2,539	-343	-43	-2,922
Depreciation as at 31/12/2016	-219	-84,512	-43,888	-291	-128,909
Net value as at 31/12/2015	169,215	171,698	6,749	6,249	353,912
Net value as at 31/12/2016	176,883	161,023	7,288	9,185	354,380

The other intangible assets largely corresponds to IT projects in several of the Group's subsidiaries.

The "Other intangible assets" all have definite useful lives.

The increase in the item "Other intangible assets" is primarily due to software investments at Virbac SA (amounting to €1.6 million). Virbac SA's software investments also account for a €2.6 million increase in intangible assets in progress. The increase of the intangible assets in progress is, for €2.3 million, also linked to a licensing agreement with a CRO (*contract research organisation*) developing a range of products for food producing animals. A total consideration of €9.5 million is anticipated for the worldwide rights and split between upfront and milestone payments, on a product-by-product basis, conditional on their successful development and on the registration of each project within certain predefined timelines.

The increase in the item "Concessions, patents, licences and brands" appearing below is related to currency rate fluctuations.

Concessions, patents, licences and brands

The Group's intangible assets are comprised mainly of:

- rights relating to the patents, know-how and marketing authorisations necessary for the Group's production activities and commercialisation procedures;
- trademarks;
- distribution rights, customers lists and other rights on intangible assets.

This item mainly includes intangible assets purchased and treated as per the principles set out in standard IAS 38, as well as assets acquired as part of external growth operations as defined by IFRS 3.

As at December 31, 2016, this item comprised the following:

	Acquisition date	Brands	Patents and know-how	Marketing authorisations and registration rights	Customers lists and others	Total
in € thousand						
United States: Sentinel	2015	47,529	35,837	54,890	16,241	154,497
SBC	2015	-	4,392	2,006	-	6,398
Uruguay: Santa Elena	2013	3,719	10,466	-	-	14,185
Australia: Axon	2013	987	1,585	-	-	2,572
Australia: Fort Dodge	2010	1,657	493	-	-	2,150
New Zealand	2012	3,497	1,046	-	3,984	8,527
Centrovet	2012	22,633	42,488	-	12,445	77,566
Multimin	2011-2012	3,626	6,629	-	-	10,255
Peptech	2011	1,061	246	-	-	1,307
Colombia: Synthesis	2011	1,958	-	1,103	-	3,061
Schering-Plough Europe	2008	4,879	435	6,802	-	12,116
India: GSK	2006	12,583	-	-	-	12,583
Leishmaniosis vaccine	2003	-	2,068	15,827	-	17,894
Others		7,768	1,438	4,437	1,151	14,794
Total intangible assets		111,897	107,122	85,065	33,821	337,906

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

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

As at December 31, 2016

	Intangible assets with indefinite life	Intangible assets with finite life	Total
in € thousand			
Brands	111,897	-	111,897
Patents and know-how	46,003	61,119	107,122
Marketing authorisations and registration rights	18,961	66,104	85,065
Customers lists and others	22	33,800	33,822
Total intangible assets	176,883	161,023	337,906

No brands are classified as intangible assets with finite useful lives and therefore no trademarks are amortised.

A3. Impairment of assets

At the end of the 2016 financial year, Virbac conducted intangible asset impairment tests. These involve comparing their net carrying amount, including acquisition goodwill, to the recoverable amount of each CGU (Cash generating unit).

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

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

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

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

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

Beyond the future cash flow horizon (from 5 to a maximum of 15 years based on tested CGUs and product life cycle, market projections and the latest business developments), an infinite growth rate is applied to the terminal value.

Virbac assumed a zero infinite growth rate for market authorisations and patents. For companies, the infinite growth rate was calculated at 2% for mature markets like Europe, North America, Japan and Australia, at 3% for Chile and at 5% for emerging markets like India.

The discount rate used for these calculations is based on the Group's weighted average cost of capital, amounting to 7.5% for 2016. This rate was increased by 2 points for some CGUs, *i.e.* a rate of 9.5% in 2016 (in particular for Chile), in order to take into account risks inherent to some markets. This discount rate is post-tax applied to post-tax cash flows.

The CGUs are detailed in note A2.

As at December 31, 2016, based on these tests, no impairment was recorded.

Sensitivity tests

The Group tested for sensitivity to key assumptions as they pertain to all of the tested CGUs. Changes in assumptions are as follows:

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

Both changes in key assumptions would not involve any impairment of tested assets, except on the Centrovét CGU, which would require an impairment of €32.4 million in the event of a 2.0 point increase in the discount rate and an impairment of €9.6 million in the event of a 2.0 point decrease in the infinite growth rate.

Moreover, for the five most significant CGUs (which accounted for 80% of the gross value of intangible assets and goodwill as at December 31, 2016), Virbac carried out sensitivity tests on a change in operating income (EBIT rate). Only the Centrovét CGU would require impairment in the event of rate decreases of 2 and 4 points, amounting to €1 million and €21.6 million respectively.

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

For the major CGUs, the results of the break-even point are presented below.

	Net book value of CGU as at 31/12/2016	Discount rate, combined into a zero perpetual growth rate, from which impairment is established
in € thousand		
United States	482,172	8.9%
SBC	19,211	12.9%
Uruguay: Santa Elena	31,956	13.1%
Australia	23,459	43.5%
New Zealand	31,211	19.6%
Centrovét	179,035	8.6%
Multimin	12,712	39.9%
Peptech	7,529	80.0%
Colombia	7,465	47.0%
Schering-Plough Europe	14,606	14.7%
India: GSK	48,415	34.5%
Leishmaniosis vaccine	26,983	8.7%

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

A4. Tangible assets

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

As at December 31, 2016, the gross value of goods acquired through leasing contracts and restated as tangible assets, in accordance with IAS 17, totalled €9,415 thousand (€4,475 thousand in assets at the Centrovét production site in Chile and €4,264 thousand in Virbac computer hardware).

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

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

	Land	Buildings	Technical facilities, materials and industrial equipment	Other tangible assets	Tangible assets in progress	Tangible assets
in € thousand						
Gross value as at 31/12/2015	20,345	168,235	163,465	30,261	33,982	416,288
Acquisitions and other increases	25	5,463	5,488	3,194	23,019	37,189
Disposals and other decreases	-64	-250	-4,306	-968	-	-5,588
Changes in scope	-	-	-	-	-	0
Transfers	-	469	6,179	163	-12,361	-5,550
Conversion gains and losses	596	1,428	1,517	631	1,265	5,437
Gross value as at 31/12/2016	20,902	175,345	172,344	33,280	45,905	447,775
Depreciation as at 31/12/2015	-	-78,850	-89,216	-19,139	-	-187,206
Depreciation expense	-	-7,085	-10,945	-3,884	-	-21,914
Impairment losses (net of reversals)	-	-3	-21	-	-	-24
Disposals and other decreases	-	238	4,295	875	-	5,408
Changes in scope	-	-	-	-	-	0
Transfers	-	1,053	2,656	1,115	-	4,825
Conversion gains and losses	-	-675	-1,007	-367	-	-2,048
Impairment as at 31/12/2016	-	-85,322	-94,237	-21,400	-	-200,958
Net value as at 31/12/2015	20,345	89,385	74,249	11,122	33,982	229,083
Net value as at 31/12/2016	20,902	90,023	78,107	11,880	45,905	246,818

Virbac US recorded a €16.2 million increase in tangible assets, most of which were investments made in preparation for the resumption by Virbac of manufacturing of its Sentinel range products (€10.2 million). Furthermore, productive investments were made in Carros (including more than €4 million in building fixtures and fittings), in Australia, as well as in Chile and Mexico, to finalize Argo Navis facility. Commissioning of these various investments are shown on the line "transfers". This is also where the disposals of completely depreciated assets are isolated.

The currency effect generated a €3.4 million increase in the net asset value.

A5. Other financial assets

Change in other financial assets

	2015	Increases	Decreases	Changes in scope	Transfers	Conversion gains and losses	2016
in € thousand							
Loans and other financial receivables	741	2,645	-37	-	39	-55	3,333
Currency and interest rate derivatives	11,283	-	-4,133	-	-	-	7,150
Restricted cash	43	-	-	-	-	-	43
Other	5	-	-	-	-	-	5
Other financial assets, non-current	12,072	2,645	-4,171	-	39	-55	10,530
Loans and other financial receivables	762	15	-678	-	3	-21	81
Currency and interest rate derivatives	-	-	-	-	-	-	-
Restricted cash	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Other financial assets, current	762	15	-678	-	3	-21	81
Other financial assets	12,834	2,661	-4,849	-	41	-76	10,611

The decrease in value of derivatives is due primarily to the portion of the exchange rate included in the re-evaluation of the €/CLP cross currency swap.

The increase in the line loans and other fixed receivables basically refers to the security deposit made as part of the factoring contracts that were set up.

Other financial assets classified according to their maturity

As at December 31, 2016

in € thousand	Payments			Total
	less than 1 year	from 1 to 5 years	more than 5 years	
Loans and other financial receivables	81	3,333	-	3,413
Currency and interest rate derivatives	-	7,150	-	7,150
Restricted cash	-	43	-	43
Other	-	-	5	5
Other financial assets	81	10,525	5	10,611

As at December 31, 2015

in € thousand	Payments			Total
	less than 1 year	from 1 to 5 years	more than 5 years	
Loans and other financial receivables	762	741	-	1,503
Currency and interest rate derivatives	0	11,283	-	11,283
Restricted cash	0	43	-	43
Other	0	-	5	5
Other financial assets	762	12,067	5	12,834

A6. Information about IFRS 12

Information about non-controlling interests

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

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

The share of non-controlling interests in the Group stands at 49%. Equity allocated to non-controlling interests amounts to €46,944 thousand, including €3,222 thousand in respect of the result for the period.

The table below provides a summary of the financial position of the HSA group as at December 31, 2016.

	in CLP thousand	in € thousand
Goodwill	23,563,558	33,291
Intangible assets	54,928,464	77,604
Tangible assets	20,657,548	29,186
Non-current assets	99,149,570	140,081
Inventories and work in progress	10,061,671	14,215
Trade receivables	19,795,272	27,967
Other financial assets	5,467,706	7,725
Cash and cash equivalents	774,977	1,095
Current assets	36,099,627	51,003
Assets	135,249,197	191,084
Equity	91,374,039	129,096
Non-current financial liabilities	959,047	1,355
Other non-current liabilities	15,985,910	22,585
Non-current liabilities	16,944,957	23,940
Current financial liabilities	20,097,934	28,395
Other current liabilities	6,832,267	9,653
Current liabilities	26,930,201	38,048
Liabilities	135,249,197	191,084

The net change in cash and cash equivalents over the course of the financial year showed a €252 thousand increase.

The dividends paid out by the HSA Group in 2016 totalled €7,615 thousand (including €3,731 thousand paid out to owners of non-controlling interests).

The table below provides summarised income statement of the HSA group in respect of 2016.

	in CLP thousand	in € thousand
Revenue from ordinary activities	47,390,871	63,299
Other income and expenses	-39,646,723	-52,956
Operating result	7,744,149	10,344
Financial income and expenses	967,748	1,293
Profit before tax	8,711,897	11,636
Income tax	-3,789,195	-5,061
Result for the period	4,922,701	6,575

Information about equity accounted companies

	Company's individual accounts using equity method				Consolidated financial statements	
	Balance sheet total	Equity	Sales	Result	Share of equity	Share of result
in € thousand						
AVF Animal Health Co Ltd	N/A	N/A	-	-	2,513	294
Share in companies accounted for by the equity method					2,513	294

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

A7. Deferred taxes

In accordance with IAS 12, which under certain conditions authorises the offsetting of debts and tax loans, the deferred tax assets and liabilities have been offset by fiscal entity. The Group records all identified temporary differences. The impact of future tax rate increases, in particular on France (28.92% by 2019) and Chile (27% as of 2018), was taken into account for the calculation of the deferred income tax expense.

Variation in deferred taxes

	2015	Variations	Changes in scope	Transfers	Conversion gains and losses	2016
in € thousand						
Deferred tax assets	36,434	9,360	-	662	1,213	54,783
Deferred tax liabilities	60,149	1,754	-	-4	2,391	71,403
Deferred tax offset	-23,715	7,606	0	666	-1,177	-16,620

The variation in deferred taxes shown above excludes deferred taxes on the effective share of the profits and losses on hedging instruments, which totalled -€139 thousand in 2016.

Deferred taxes broken down by type

As at December 31, 2016

in € thousand	Deferred tax assets	in € thousand	Deferred tax liabilities
Internal margin on inventories	8,179	Adjustments on intangible assets	55,139
Retirement and end of career severance commitments	4,971	Adjustments on tangible assets	5,202
Tax loss carryforwards	15,401	Adjustments on fiscal provisions	9,075
Sales adjustments (IAS 18)	1,427	Activation of expenses linked to acquisitions	1,005
Inventory adjustments (IAS 2)	4,068	Leases adjustments	981
Other non-deductible provisions	1,706		
Other charges with deferred deduction	18,675		
Other income taxed in advance	356		
Total by type	54,783	Total by type	71,403
Impact of compensation by fiscal entity	-27,742	Impact of compensation by fiscal entity	-27,742
Deferred net tax assets	27,041	Deferred net tax liabilities	43,661

Deferred tax asset use horizon

The table below indicates the use horizon of tax losses and other charges for deferred deduction:

in € thousand	Deferred tax assets as at 31/12/2016	less than 1 year	from 1 to 5 years	more than 5 years
Tax loss carryforwards in the United States (1)	14,188	-	-	14,188
Tax loss carryforwards in France (2)	1,213	-	1,213	-
Deferred tax on other charges with deferred deduction in the United States (3)	10,702	-	-	10,702
Deferred tax on other charges with deferred deduction in Chile	1,709	755	954	-
Deferred tax on retirement and end of career severance commitments	4,971	-	-	4,971
Deferred tax on other bases	22,000	15,736	6,264	-
Total deferred tax assets	54,783	16,491	8,431	29,861

(1) Estimated turnaround beginning in 2022 - time limit in effect locally for carry-forwards = 20 years

(2) No time limit in effect locally for carry-forwards

(3) Estimated turnaround in 10 years

A8. Inventories and work in progress

in € thousand	Raw materials and supplies	Work in progress	Finished products and goods for resale	Inventories and work in progress
Gross value as at 31/12/2015	82,060	12,353	104,481	198,894
Variations	4,183	698	5,310	10,190
Changes in scope	-	-	-	-
Transfers	40	-	148	187
Conversion gains and losses	1,823	104	2,336	4,263
Gross value as at 31/12/2016	88,106	13,155	112,274	213,535
Depreciation as at 31/12/2015	-8,525	-71	-7,983	-16,579
Allowances	-1,986	-1,431	-3,206	-6,622
Reversals	2,714	71	5,297	8,082
Changes in scope	-	-	-	-
Transfers	-4	-	-184	-187
Conversion gains and losses	-239	-	-83	-322
Depreciation as at 31/12/2016	-8,039	-1,431	-6,158	-15,627
Net value as at 31/12/2015	73,535	12,282	96,497	182,314
Net value as at 31/12/2016	80,067	11,724	106,117	197,908

The increase in the total amount of inventories of finished and semi-finished products is in large part due to the resumption of production activities in the United States. Conversely, in Europe and especially in France, streamlining efforts enabled to decrease the level of inventories.

Unrealised exchange gains resulted in a relevant increase in the inventory's net value by €3.9 million.

A9. Trade receivables

in € thousand	Trade receivables
Gross value as at 31/12/2015	154,362
Variations	-23,694
Changes in scope	-
Transfers	150
Conversion gains and losses	3,115
Gross value as at 31/12/2016	133,932
Depreciation as at 31/12/2015	-3,455
Allowances	-175
Reversals	160
Changes in scope	-
Transfers	-1,285
Conversion gains and losses	20
Depreciation as at 31/12/2016	-4,735
Net value as at 31/12/2015	150,907
Net value as at 31/12/2016	129,197

The decrease in trade receivables is primarily due to the factoring contracts that were set up in 2016. Through these contracts set up in many of the Group's subsidiaries, each subsidiary in question transfers to a financial institution the receivables relating to a list of selected customers. The analysis of contracts put in place led the Group to de-recognise the transferred receivables, in accordance with IAS 39. Total de-recognised receivables as at December 31, 2016, in the Group's various entities, amount to €27 million.

The credit risk from trade receivables and other receivables is presented in note A30.

A10. Other receivables

in € thousand	2015	Variations	Changes in scope	Transfers	Conversion gains and losses	2016
Income tax receivables	18,124	-42,892	-	28,589	-276	3,545
Social receivables	736	-228	-	13	5	526
Other receivables to the State	27,231	-877	-	1,399	-636	27,117
Advances and prepayments on orders	3,152	-184	-	-	179	3,147
Depreciation on various other receivables	-	-	-	-	-	-
Prepaid expenses	9,183	-2,251	-	-1,272	-25	5,635
Other various receivables	41,929	5,570	-	-29,972	372	17,899
Other receivables	100,355	-40,861	-	-1,243	-381	57,870

The main events in 2016 that account for the decrease in this item are:

- the repayment by the US administration of the carry-back receivable applied for by Virbac US (€14.9 million);
- the repayment by the French administration of the research tax credit receivable (€4.9 million);
- the transfer to a financial institution of research tax credit receivables from financial years 2013 to 2015, amounting to €21 million.

Research tax credit receivables have been reclassified between other receivables and income tax receivables.

The amount of the tax credit on low salaries in France totalled €1,394 thousand in 2016.

A11. Cash and cash equivalents

in € thousand	2015	Variations	Changes in scope	Transfers	Conversion gains and losses	2016
Available funds	30,108	14,587	-	-	1,435	46,130
Marketable securities	21,055	-18,131	-	-	-599	2,324
Cash and cash equivalents	51,163	-3,544	-	-	836	48,454
Bank overdraft	-12,098	2,895	-	-	45	-9,158
Accrued interests not yet matured	-54	18	-	-	-	-36
Overdraft	-12,152	2,913	-	-	45	-9,194
Net cash position	39,011	-632	-	-	881	39,260

The decrease in marketable securities mainly concerns a subsidiary of the Group, which held €19,153 thousand at the opening.

A12. Assets classified as held for sale

During the 2016 financial year, as in 2015, no asset was classified as held for sale.

A13. Equity

in € thousand	2016	2015
Capital	10,573	10,573
Premiums linked to capital	6,534	6,534
Legal reserve	1,089	1,089
Other reserves and retained earnings	297,167	257,904
Consolidation reserves	117,576	152,172
Conversion reserves	9,429	3,012
Actuarial gains and losses	-3,386	-2,279
Result for the period	34,646	9,405
Equity attributable to the owners of the parent company	473,628	438,410
Other reserves and retained earnings	49,197	49,807
Conversion reserves	-5,260	-9,190
Result for the period	3,222	3,263
Non-controlling interests	47,159	43,880
Equity	520,787	482,290

Capital management policy

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

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

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

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

Treasury shares

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

Shares with a double voting rights

Double voting rights are granted to all shareholders whose shares have been registered in their name for at least two years. Of the 8,458,000 shares making up the share capital, 4,352,438 have double voting rights.

Share buyback programme

The ordinary shareholders' meeting of June 24, 2016 authorised the Virbac parent company to buy back shares in accordance with articles L225-209 *et seq.* of the French commercial code and in line with the terms of the buyback plan set out in the prospectus published by our professional distributor and on the company's website on May 18, 2016, in accordance with the provisions of the transparency directive that came into force on January 20, 2007.

As at December 31, 2016, Virbac held 28,968 treasury shares acquired on the market for a total of €3,907,938 excluding fees, for an average price of €134.91 per share.

During the financial year, the company bought 36,589 treasury shares (at an average price of €162.17) and sold 35,401 shares (at an average price of €167.49) as part of the market-making contract.

As at December 31, 2016, treasury shares accounted for 0.34% of Virbac's capital. They are earmarked for market making and performance-related stock grants, in accordance with the fifteenth resolution adopted by the shareholders' meeting of June 24, 2016.

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

- ensuring liquidity or supporting the market price via an independent investment services provider pursuant to a liquidity agreement in accordance with a code of ethics recognised by the French financial markets authority (*Autorité des marchés financiers*);

- allocating free performance-related stock grants;
- reduction of the company's capital stock by cancelling part or all of the shares repurchased, subject to the adoption by the ordinary shareholder's meeting of the resolution on the authorisation to reduce the share capital by cancellation of repurchased shares.

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

A14. Employee benefits

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

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

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

Change in provisions by country

	2015	Allowances	Reversals	Transfers	Equity	Conversion	2016
in € thousand					gains and	losses	
France	6,077	605	-402	-	668	-	6,948
Italy	644	87	-28	-	84	-	788
Germany	458	108	-	-	-	-	566
Greece	126	14	-	-	-	-	140
Mexico	106	18	-10	-	-7	-14	93
Korea	90	124	-40	-	25	2	201
Taiwan	491	72	-16	-	58	35	639
Thailand	213	15	-29	-	-	8	207
Uruguay	1,131	144	-750	-	-	-5	520
Retirement and severance pay allowances	9,337	1,188	-1,275	-	828	25	10,104
France	1,631	239	-	-	787	0	2,657
Japan	1,376	241	-	-	78	77	1,772
Defined benefit retirement plans	3,007	480	-	-	865	77	4,429
South Africa	888	114	-30	-	2	163	1,137
Medical cover	888	114	-30	-	2	163	1,137
India	483	323	-209	-	-14	7	590
Allowances for absence	483	323	-209	-	-14	7	590
Australia	1,495	192	-153	-	-	32	1,565
Austria	164	14	-35	-	-	-	143
Spain	51	3	-6	-	-	-	48
Other long term benefits	1,710	208	-194	-	-	32	1,756
Provisions for employee benefits	15,425	2,314	-1,709	-	1,682	304	18,016

The main impacts on "equity" are in France and in Italy due to a falling discount rate.

Main commitments

As at December 31, 2016, the main debt linked to employee benefits was located in France, Australia, Japan and South Africa. They respectively contributed 53%, 9%, 10% and 6% of provisions related to employee benefit schemes.

Retirement and severance pay allowances

■ France

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

The rights vest are as follows:

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

Defined benefit retirement plans

■ France

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

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

This scheme is pre-financed through a fund managed by an insurance company.

■ Japan

The scheme results in payments in the form of capital.

The eligibility conditions are as follows:

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

The amount of capital is calculated from the base salary multiplied by a coefficient varying between 5 and 35 depending on years of service.

Medical cover

■ South Africa

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

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

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

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

Long-service leave

■ Australia

In accordance with regulations in Australia, Virbac grants employees long-service leave in line with their compensation and years of service. Each employee is entitled to 3 months' leave after 15 years' service, which is acquired as follows:

- if the employee is dismissed after 5 to 10 years' service, he has the right to his pro-rata share in the acquired rights;
- if the employee leaves the company for any other reason between 5 and 10 years of service, he or she has no rights;
- if the employee leaves the company, for whatever reason, after 10 years of service, he or she is entitled to a pro-rata share of the acquired rights.

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

Calculation parameters of the main personnel benefits schemes in the Group

Assumptions as at December 31, 2016

	Discount rate	Future salary growth
France	1.30%	2,50% - 1,25%
South Africa	9.62%	N/A
Japan	0.50%	3.00%
India	7.20%	7.00%

Assumptions as at December 31, 2015

	Discount rate	Future salary growth
France	2.00%	2,50% - 1,25%
South Africa	10.84%	N/A
Japan	0.80%	3.00%
India	8.30%	7.00%

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

A 0.5 point increase or decrease in the discount rate would entail, respectively, a reduction in the provision for employee benefits of around €719 thousand or an increase of approximately €766 thousand recognised with a balancing entry in other comprehensive income.

Also, a 0.5 point increase or decrease in the future growth rate of salaries would entail, respectively, an increase in the provision for employee benefits of around €600 thousand or a reduction of approximately €560 thousand recognised with a balancing entry in other comprehensive income.

Allowance for the year

in € thousand	2016 allowance
Cost of services rendered	1,996
Financial cost	470
Expected return on assets	-152
Change of scheme	-
Immediate recognition of actuarial (gains)/losses in the year	-
Administrative costs recognised in expenses	1
Net cost/(net gain) recognised in income	2,314

Employer contributions (including benefits paid directly by the employer) in 2016 totalled €1,709 thousand and are estimated at €790 thousand for 2017.

Movements of amounts recognised in the statement of financial position

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

in € thousand	Actuarial liability
Present value as at January 1, 2016	19,858
Benefits paid by employer	-1,459
Benefits paid by funds	-1,049
Cost of services rendered and financial cost	2,466
Termination/end of contract	-
Actuarial (gains)/losses due to demographic assumptions	-1
Actuarial (gains)/losses due to financial assumptions	1,306
Actuarial experience (gains)/losses	289
Change of scheme	-
Other variations	-
Transfers	-
Conversion gains and losses	315
Present value as at December 31, 2016	21,725

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

in € thousand		Hedging assets
Fair value as at January 1, 2016		4,433
Contributions paid		709
Benefits paid by funds		-1,509
Interest income		152
Actuarial gains/(losses)		-87
Tax on premiums paid		-1
Other variations		-
Conversion gains and losses		12
Fair value as at December 31, 2016		3,709

in € thousand		Employee benefits
Fair value of hedging assets		-3,709
Present value of actuarial liability		21,725
(Assets) /Liabilities recognised in provisions as at December 31, 2016		18,016

in € thousand		Employee benefits
Provision to liabilities as at January 1, 2016		15,425
Charge/(gain) recognised in income - allowance		2,314
Amount recognised in equity		1,682
Employer contributions/Benefits paid - reversal		-1,709
Other events		-
Transfers		-
Conversion gains and losses		304
Provision to liabilities as at December 31, 2016		18,016

A15. Other provisions

	2015	Allowances	Reversals	Changes in scope	Transfers	Conversion gains and losses	2016
in € thousand							
Trade disputes and industrial tribunals	1,775	817	-985	-	405	20	2,032
Fiscal disputes	114	-	-	-	-16	28	126
Various risks and charges	1,097	462	-1,178	-	-	20	401
Other non-current provisions	2,986	1,279	-2,163	-	389	67	2,558
Trade disputes and industrial tribunals	1,751	515	-467	-	-1,137	-87	576
Fiscal disputes	15	-	-14	-	-	-1	0
Various risks and charges	235	1,324	-149	-	178	33	1,621
Other current provisions	2,001	1,840	-630	-	-959	-55	2,197
Other provisions	4,987	3,118	-2,793	-	-570	13	4,756

The allocation to other provisions includes, in particular, a provision made to meet the risks associated with a product recall. This provision amounted to €711 thousand. A provision previously recognised as a provision for litigation has been reclassified as a provision for depreciation of trade receivables (for €1,137 thousand).

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

A16. Other financial liabilities

Change in other financial liabilities

	2015	Increase	Decrease	Changes in scope	Transfers	Conversion gains and losses	2016
in € thousand							
Loans	515,837	72,926	-93,724	-	-74,465	10,134	430,709
Bank overdrafts	-	-	-	-	-	-	-
Accrued interests not yet matured	-	-	-	-	-	-	-
Debt relating to leasing contracts	4,948	793	-	-	-2,887	182	3,036
Employee profit sharing	4	1	-1	-	-	-	4
Currency and interest rate derivatives	2,726	1,976	-	-	-	9	4,711
Other	46	-	-46	-	-	-	0
Other non-current financial liabilities	523,562	75,695	-93,771	-	-77,351	10,325	438,460
Loans	117,949	30,705	-80,104	-	72,492	3,472	144,515
Bank overdrafts	12,098	-	-2,895	-	-	-45	9,158
Accrued interests not yet matured	54	-	-18	-	-	-	36
Debt relating to leasing contracts	3,122	145	-3,339	-	3,162	196	3,286
Employee profit sharing	81	41	-60	-	-	-1	61
Currency and interest rate derivatives	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-
Other current financial liabilities	133,305	30,891	-86,415	-	75,654	3,622	157,057
Other financial liabilities	656,867	106,587	-180,187	-	-1,697	13,947	595,517

Virbac has two funding instruments the main features of which 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 eight instalments, with maturities of five, six, seven and ten years, at variable and fixed rates.

These funding instruments include a financial covenant compliance clause which requires the borrower to comply with financial ratios calculated on the basis of the consolidated financial statements and corresponding to the consolidated net debt for the period considered on the consolidated Ebitda for that same test period.

Virbac also benefits from bilateral loans and BPI financing.

As at December 31, 2016, the position of the funding instruments was as follows:

- the syndicated loan was drawn for an amount of \$368 million and €5 million;
- the market-driven contracts amounted to \$37 million and €65 million;
- bilateral loans and BPI financing were drawn for an amount of €44.2 million.

In the third quarter of 2016, Virbac applied for a waiver, which was accepted in the last quarter for all bank debt and a part of the market-based funding.

As part of this accepted waiver application, Virbac obtained a relaxation of the financial covenant clause from its pool of banks at the end of 2016. The ratio of net debt to Ebitda (earnings before interest, taxes, depreciation and amortisation) should from now on be below 5.5 at actual rates versus 4.5 previously.

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, employee 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 financial statements.

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

The agreement on this waiver request was accompanied by a moderate increase in the margin and commission amounting to €0.4 million.

Virbac also obtained a relaxation of the financial covenant clause for 2017 from its pool of banks which will now have to be below 5.5 at the end of June 2017 and below 4.75 at the end of December 2017.

The market-based contracts outstanding as at December 31, 2016 and for which Virbac did not receive a waiver and which will have to be reimbursed have been reclassified as other short-term financial liabilities. The total amount reclassified as of December 31, 2016 and redeemed early at the beginning of January 2017 amounts to €70.4 million (€50 million and \$21.5 million).

The company's cash and financial resources should remain sufficient to fund its cash requirements. The Group is exploring financing solutions to replace the lost financing positions of market-based contracts that were repaid at the beginning of January.

Other financial liabilities classified according to their maturity

As at December 31, 2016

in € thousand	Payments			Total
	less than 1 year	from 1 to 5 years	more than 5 years	
Loans	144,515	404,373	26,336	575,224
Bank overdrafts	9,158	-	-	9,158
Accrued interests not yet matured	36	-	-	36
Debt relating to leasing contracts	3,286	3,036	-	6,322
Employee profit sharing	61	4	-	66
Currency and interest rate derivatives	-	4,711	-	4,711
Other	-	-	-	-
Other financial liabilities	157,057	412,124	26,336	595,517

As at December 31, 2015

in € thousand	Payments			Total
	less than 1 year	from 1 to 5 years	more than 5 years	
Loans	117,949	423,659	92,178	633,786
Bank overdrafts	12,098	-	-	12,098
Accrued interests not yet matured	54	0	-	54
Debt relating to leasing contracts	3,122	4,948	-	8,071
Employee profit sharing	81	4	-	85
Currency and interest rate derivatives	-	2,726	-	2,726
Other	-	46	-	46
Other financial liabilities	133,305	431,384	92,178	656,867

A17. Other payables

	2015	Variations	Changes in scope	Transfers	Conversion gains and losses	2016
in € thousand						
Income tax payables	-	-	-	-	-	-
Social payables	-	-	-	-	-	-
Other fiscal payables	-	-	-	-	-	-
Advances and prepayments on orders	-	-	-	-	-	-
Prepaid income	889	-320	-	-	15	584
Various other payables	-	-	-	-	-	-
Other non-current payables	889	-320	-	-	15	584
Income tax payables	7,409	438	-	-	405	8,252
Social payables	36,752	2,760	-	329	541	40,381
Other fiscal payables *	10,842	-4,636	-	5,126	-284	11,048
Advances and prepayments on orders	170	-12	-	-	7	165
Prepaid income	1,715	999	-	-	94	2,808
Various other payables	56,857	3,640	-	5,345	83	65,925
Other current payables	113,745	3,190	-	10,800	845	128,580
Other payables	114,634	2,869	-	10,800	861	129,164

The transfers column includes the debt related to withholding tax on distributions that was recognised in equity and that was paid in fiscal year 2016.

It also includes items that have been reclassified between Other payables and Trade payables.

A18. Trade payables

	2015	Variations	Changes in scope	Transfers	Conversion gains and losses	2016
in € thousand						
Current trade payables	114,778	-9,568	-	-7,050	970	99,131
Payables of intangible assets	-	1,836	-		-104	1,732
Payables of tangible assets	248	2,809	-	981	360	4,398
Trade payables	115,026	-4,922	-	-6,069	1,226	105,261

The transfers column refers to reclassifications made between trade payables and various debts.

Foreign exchange differences generated a €1.2 million increase in trade payables.

A19. Revenue from ordinary activities

in € thousand	2016	2015	Change
Sales of finished goods and merchandise	978,894	942,603	3.9%
Services	341	1,329	-74.4%
Additional income from activity	1,740	1,100	58.2%
Royalties paid	327	351	-6.8%
Gross sales	981,301	945,383	3.8%
Discounts, rebates and refunds on sales	-88,059	-73,328	20.1%
Expenses deducted from sales	-16,352	-14,134	15.7%
Financial discounts	-4,072	-4,232	-3.8%
Provision for returns	-990	-1,066	-7.1%
Expenses deducted from sales	-109,473	-92,760	18.0%
Revenue from ordinary activities	871,828	852,623	2.3%

Sales amounted to €871.8 million, an increase of €19.2 million, representing an overall growth of 2.3% at constant rates (+4.5% excluding the unfavourable impact of exchange rates) compared with 2015. This change in sales is the result of various factors. The main ones are described below:

- all areas showed positive developments at constant rates (with the exception of Chile);
- in the United States, historical ranges continued to grow. The Sentinel range is down because of increased competition in the internal parasiticide segment;
- Europe showed a strong increase at comparable rates, notably due to sustained activity in France, as well as the performance of the United Kingdom, Italy, Greece and Spain;
- in the other areas, emerging countries contributed strongly to organic growth, due to the dynamism of India and China in 2016, as well as Brazil and Mexico, thanks in particular to antibiotics for ruminants.

Foreign exchange effects had a negative impact on sales of €19.1 million.

The expenses presented in deduction of sales are mainly made up of the following elements:

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

Provisions for returns are calculated using a statistical method, based on historical returns. This provision is mainly recorded by the US subsidiary (two thirds of the amount).

A20. Purchases consumed

in € thousand	2016	2015	Change
Inventoried purchases	-285,653	-265,443	7.6%
Non-inventoried purchases	-24,359	-24,506	-0.6%
Supplementary charges on purchases	-3,108	-3,041	2.2%
Discounts, rebates and refunds obtained	1,318	465	183.5%
Purchases	-311,802	-292,525	6.6%
Change in gross inventories	10,190	3,731	173.1%
Allowances for depreciation of inventories	-6,622	-13,631	-51.4%
Reversals of depreciation of inventories	8,082	4,573	76.7%
Net variation in inventories	11,650	-5,327	-318.7%
Purchases consumed	-300,152	-297,852	0.8%

A21. External costs

Within this item, the research and development costs recorded during the 2016 financial year totalled €11,119 thousand, compared with €15,040 thousand during the 2015 financial year.

Operating lease agreements

in € thousand	Rents for the period	Minimum future lease payments as per contracts			
		less than 1 year	from 1 to 3 years	from 3 to 5 years	more than 5 years
Lands and buildings	-4,422	-4,299	-5,611	-2,806	-1,211
Industrial equipment	-1,523	-491	-159	-60	-39
IT equipment	-617	-107	-23	-23	-23
Office equipment and furniture	-970	-142	-144	-55	-33
Transport equipment	-5,483	-1,983	-2,703	-723	-243
Lease payments	-13,015	-7,022	-8,640	-3,667	-1,549

A22. Depreciation, impairment and provisions

in € thousand	2016	2015	Change
Allowances for depreciation of intangible assets *	-4,783	-4,670	2.4%
Allowances for impairment of intangible assets	-19	-276	-93.0%
Allowances for depreciation of tangible assets	-21,914	-21,988	-0.3%
Allowances for impairment of tangible assets	-649	-1,008	-35.7%
Reversals of depreciation of intangible assets	-	-	-
Reversals of impairment of intangible assets	69	181	-61.9%
Reversals of depreciation of tangible assets	-	-	-
Reversals of impairment of tangible assets	624	1,079	-100.0%
Depreciation and impairment	-26,671	-26,682	0.0%
Allowances of provisions for risks and charges	-3,118	-3,986	-21.8%
Reversals of provisions for risks and charges	2,793	3,561	-21.6%
Provisions	-326	-425	-23.4%
Impairment and provisions	-26,997	-27,107	-0.4%

* Excluding depreciation of intangible assets arising from acquisitions

The allowance to depreciation of assets arising from acquisitions breaks down as follows:

in € thousand	2016	2015
United States: Sentinel	-10,629	-13,218
SBC	-69	-23
Uruguay: Santa Elena	-147	-146
Australia: Axon	-133	-134
New Zealand	-637	-628
Centroviet	-2,495	-2,588
Multimin	-596	-635
Peptech	-168	-170
Colombia: Synthesis	-113	-127
Schering-Plough Europe	-1,481	-1,481
Total depreciations of intangible assets arising from acquisitions	-16,468	-19,150

The decrease in depreciation allowance between 2016 and 2015 is mainly due to the fact that one of the assets recognised as part of the acquisition of Sentinel at the beginning of 2015 has been amortised over 13 months.

A23. Other operating income and expenses

in € thousand	2016	2015	Change
Royalties paid	-4,087	-4,179	-2.2%
Grants received (including research tax credit)	7,276	8,926	-18.5%
Allowances for depreciation of receivables	-175	-359	-51.3%
Reversals of depreciation of receivables	160	429	-62.8%
Bad debts	-247	-469	-47.3%
Net book value on disposed assets	-266	-1,253	-78.7%
Income from disposals of assets	314	705	-55.5%
Other operating income and expenses	-1,807	-1,703	6.1%
Other current income and expenses	1,167	2,097	-44.3%

The amount of research tax credit posted as subsidies for the financial year ending December 31, 2016 was €7,273 thousand.

A24. Other non-current income and expenses

As at December 31, 2016, this item included the following element:

in € thousand	2016
Cancellation of the debt on Virbac Uruguay shares	2,621
Other non-current income and expenses	2,621

A25. Financial income and expenses

in € thousand	2016	2015	Change
Gross cost of financial debt	-20,150	-14,606	38.0%
Income from cash and cash equivalents	1,095	2,007	-45.5%
Net cost of financial debt	-19,056	-12,599	51.2%
Foreign exchange gains and losses	9,219	-9,323	-198.9%
Changes in foreign currency derivatives and interest rate	-6,523	2,316	-381.7%
Other financial charges	-344	-628	-45.1%
Other financial income	252	1,108	-77.2%
Other financial income and expenses	2,603	-6,527	-139.9%
Financial income and expenses	-16,453	-19,126	-14.0%

The net cost of financial debt increased from €12.6 million to €19.1 million. This increase is due essentially to higher financing costs.

Foreign exchange profit is improving favourably especially in the Chilean subsidiary, which is benefiting from a more favourable parity of USD/CLP this year, as well as in Virbac SA.

The impact of the revaluation of financial instruments, in accordance with IAS 32 and 39, generated an expense of €6,523 thousand in 2016, almost all of which came from foreign exchange instruments. This expense is largely offset by an unrealised exchange gain included in the €9,219 thousand of foreign exchange profit.

A26. Income tax

in € thousand	2016		2015	
	Base	Tax	Base	Tax
Profit before tax	52,560		15,383	
Adjustment for tax credits	-8,543		-10,657	
Adjustment of non-recurring items	-2,446		-5,675	
Profit before tax, after adjustments	41,570		-949	
Current tax for French companies		-545		-2,017
Current tax for foreign companies		-22,188		-6,088
Current tax		-22,733		-8,105
Deferred tax for French companies		2,087		-2,961
Deferred tax for foreign companies		5,658		9,129
Deferred tax		7,745		6,168
Tax accounted for		-14,987		-1,937
Restatement of adjustments on current tax		877		-448
Restatement of adjustments on deferred tax		27		2,693
Tax after restatements		-14,084		308
<i>Effective tax rate</i>		<i>33.88%</i>		<i>32.47%</i>
<i>Theoretical tax rate</i>		<i>34.43%</i>		<i>34.43%</i>
Theoretical tax		-14,313		327
Difference between theoretical tax and recorded tax		675		2,264

The theoretical tax rate used by the Group corresponds to the tax rate in force in France (including the additional contribution of 3.3%).

A27. Result per share

	2016	2015
Profit attributable to the owners of the parent company	€34,645,749	€9,405,071
Total number of shares	8,458,000	8,458,000
Impact of dilutive instruments	-	-
Number of treasury shares	28,968	27,780
Outstanding shares	8,429,032	8,430,220
Profit attributable to the owners of the parent company, per share	€4.11	€1.12
Profit attributable to the owners of the parent company, diluted per share	€4.11	€1.12

A28. Operating segments

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

The level of the Group's segment information is the geographic sector. The breakdown by geographic area covers seven sectors according to the place of establishment of Group assets:

- France;
- Europe (excluding France);
- Latin America;

- North America;
- Asia;
- Pacific;
- Africa & Middle East.

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

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

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

As at December 31, 2016

	France	Europe (excluding France)	Latin America	North America	Asia	Pacific	Africa & Middle East	Total
in € thousand								
Revenue from ordinary activities	137,223	211,406	135,790	151,786	128,123	86,817	20,684	871,828
Current operating profit before depreciations of assets arising from acquisitions	7,769	13,835	19,090	-1,904	19,829	21,172	3,069	82,860
Profit attributable to the owners of the parent company	6,603	10,059	6,891	-17,375	13,417	13,321	1,730	34,646
Non-controlling interests	3	-	3,219	-	-	-	-	3,221
Consolidated profit	6,606	10,059	10,110	-17,375	13,417	13,321	1,730	37,867

As at December 31, 2016

	France	Europe (excluding France)	Latin America	North America	Asia	Pacific	Africa & Middle East	Total
in € thousand								
Assets by geographic area	261,904	66,826	292,600	576,661	97,310	109,972	11,888	1,417,161
Intangible investment	4,011	231	551	2,654	33	7	2	7,489
Tangible investment	10,362	212	5,578	18,600	960	1,414	63	37,189

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

Sales to a distributor customer in North America in 2016 amounted to \$123,454 thousand (€112,238 thousand), or 12.9% of consolidated sales of the Group in 2016.

As at December 31, 2015

	France	Europe (excluding France)	Latin America	North America	Asia	Pacific	Africa & Middle East	Total
in € thousand								
Revenue from ordinary activities	131,158	206,791	151,755	134,981	119,262	85,149	23,527	852,623
Current operating profit before depreciations of assets arising from acquisitions	13,941	11,943	25,253	-31,568	17,950	15,378	4,563	57,460
Profit attributable to the owners of the parent company	15,099	8,536	2,646	-41,828	11,892	9,907	3,153	9,405
Non-controlling interests	3	-	3,260	-	-	-	-	3,263
Consolidated profit	15,102	8,536	5,906	-41,828	11,892	9,907	3,153	12,668

As at December 31, 2015

	France	Europe (excluding France)	Latin America	North America	Asia	Pacific	Africa & Middle East	Total
in € thousand								
Assets by geographic area	294,132	77,787	299,061	534,341	108,746	105,639	10,844	1,430,550
Intangible investment	152	1	461	771	3,949	135	10	5,480
Tangible investment	13,529	709	10,942	8,716	1,284	1,891	172	37,242

In 2015, no customer accounted for more than 10% of sales.

A29. Financial assets and liabilities

Breakdown of assets and liabilities measured at fair value

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

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

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

Financial assets

The various categories of financial assets are as follows:

As at December 31, 2016

	Assets available for sale	Loans and receivables	Financial assets at fair value through income	Financial assets at fair value through equity	Total	Fair value hierarchy
in € thousand						
Non-current derivative financial instruments	-	-	6,342	808	7,150	2
Other non-current financial assets	-	3,380	-	-	3,380	-
Trade receivables	-	129,197	-	-	129,197	-
Other receivables*	-	48,690	-	-	48,690	-
Current derivative financial instruments	-	-	-	-	-	-
Other current financial assets	-	81	-	-	81	-
Cash and cash equivalents	-	46,130	2,324	-	48,455	1
Financial assets	-	227,478	8,666	808	236,952	

As at December 31, 2015

in € thousand	Assets available for sale	Loans and receivables	Financial assets at fair value through income	Financial assets at fair value through equity	Total	Fair value hierarchy
Non-current derivative financial instruments	-	-	10,681	602	11,283	2
Other non-current financial assets	-	789	-	-	789	-
Trade receivables	-	150,907	-	-	150,907	-
Other receivables*	-	73,048	-	-	73,048	-
Current derivative financial instruments	-	-	-	-	0	-
Other current financial assets	-	762	-	-	762	-
Cash and cash equivalents	-	30,108	21,055	-	51,163	1
Financial assets	-	255,615	31,736	602	287,952	

* excluding prepaid expenses and income tax receivables.

Assets available for sale

This asset category notably includes unconsolidated equity interests and marketable securities that do not satisfy any of the other financial asset definitions. The unrealised gains and losses recognised in this asset class are recognised in shareholders' equity until disposal.

At the end of 2016, Virbac had no assets in this category.

Loans and receivables

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

■ **Loans and other financial receivables**

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

■ **Trade receivables**

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

■ **Current receivables**

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

■ **Cash and cash equivalents**

These are mainly bank account deposits and cash on hand.

Financial assets at fair value through profit and loss account

Financial assets recognised at fair value through the profit or loss account include interest rate and exchange rate instruments that Virbac has elected not to classify as hedging, changes to which are immediately recognised in income. This category also includes marketable securities acquired by Virbac for sale or redemption in the short term. They are measured at fair value at the balance sheet date, and any fair value changes are recognised in income. The fair values of marketable securities are mainly determined with reference to the market price (buying or selling price as applicable).

Assets held to maturity

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

Financial liabilities

The different categories of financial liabilities are the following:

As at December 31, 2016

in € thousand	Loans and debts	Financial liabilities at fair value through income	Financial liabilities at fair value through equity	Total	Fair value hierarchy
Non-current derivative financial instruments	-	4,177	534	4,711	2
Other non-current financial liabilities	433,749	-	-	433,749	-
Trade payables	105,261	-	-	105,261	-
Other payables*	117,520	-	-	117,520	-
Current derivative financial instruments	-	-	-	-	-
Bank overdrafts and accrued interests not yet matured	9,158	36	-	9,194	2
Other current financial liabilities	147,863	-	-	147,863	-
Financial liabilities	813,551	4,213	534	818,298	

As at December 31, 2015

in € thousand	Loans and debts	Financial liabilities at fair value through income	Financial liabilities at fair value through equity	Total	Fair value hierarchy
Non-current derivative financial instruments	-	1,970	756	2,726	2
Other non-current financial liabilities	520,836	-	-	520,836	-
Trade payables	115,026	-	-	115,026	-
Other payables*	104,621	-	-	104,621	-
Current derivative financial instruments	-	-	-	-	-
Bank overdrafts and accrued interests not yet matured	12,098	54	-	12,154	2
Other current financial liabilities	121,152	-	-	121,152	-
Financial liabilities	873,734	2,024	756	876,514	

* excluding prepaid income and income tax debt.

At December 31, 2016, the gross cost of financial debt amounted to €20,150 thousand. At December 31, 2015, it was €14,606 thousand.

A30. Risk management associated with financial assets and liabilities

Policy management of financial risk is controlled centrally by the Group's Financial Affairs department and in particular its Treasury and Financing department. Strategies for financing, investment, and interest and exchange rate risk hedging are also systematically reviewed and monitored by the Financial Affairs department. The operations carried out by local teams are also managed and monitored by the Group's Treasury and Financing department. The holding of financial instruments is conducted with the sole purpose of reducing exposure to exchange rate and interest rate risks and has no speculation purpose.

The Group holds derivative financial instruments solely for the purpose of reducing its exposure to rate or exchange risks on balance sheet items and its firm or highly probable commitments. As regards cash flow hedging, it is anticipated that cash flows will occur and impact profit during the course of 2017.

Credit risk

■ Risk factors

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

As at December 31, 2016, the Group's maximum exposure to credit risk was €129,197 thousand, which represents the trade receivables as presented in the Group's consolidated accounts.

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

■ Risk management mechanisms

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

As regards third-party receivables, the Group considers the counterparty risk to be immaterial given the strength of the main counterparties and the major geographic dispersal of its client base throughout the world. The Group's companies have implemented a mechanism for monitoring debts paid, allowing them to limit the amount of bad debts. Moreover, the Group has established a framework agreement with Coface allowing any subsidiaries - who need to do so - to hedge their credit risk locally.

The following statements provide a breakdown of trade receivables:

As at December 31, 2016

As at December 31, 2016							
	Receivables due	Receivables overdue for				Impaired	Total
in € thousand		< 3 months	3-6 months	6-12 months	> 12 months		
France	18,711	526	0	-		181	19,418
Europe (excluding France)	19,985	1,805	176	55	1	2,132	24,154
Latin America	32,998	5,485	1,761	568	-	2,238	43,050
North America	16,358	-	-	-	-	39	16,397
Asia	10,886	306	1,025	-	-	123	12,340
Pacific	15,304	27	14	150	-	16	15,511
Africa & Middle East	2,957	99	-	-	-	6	3,062
Trade receivables	117,199	8,248	2,976	773	1	4,735	133,932

As at December 31, 2015

As at December 31, 2015							
	Receivables due	Receivables overdue for				Impaired	Total
in € thousand		< 3 months	3-6 months	6-12 months	> 12 months		
France	23,970	198	11	-	8	183	24,370
Europe (excluding France)	31,811	1,184	99	23	2	2,098	35,217
Latin America	33,843	12,178	5,343	944	36	1,012	53,356
North America	16,006	-	-	-	-	5	16,011
Asia	9,122	562	42	-	-	149	9,875
Pacific	13,728	94	1	-	-	4	13,827
Africa & Middle East	1,659	43	-	-	-	5	1,707
Trade receivables	130,139	14,259	5,496	967	46	3,456	154,363

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

Bad debts are written off when identified as such.

Counterparty risk

■ Risk factors

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

■ Risk management mechanisms

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

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

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

Liquidity risk

■ Risk factors

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

■ Risk management mechanisms

The policy of pooling surplus cash and funding needs in all areas helps to refine the Group's net position and to optimise the management of investments and funding requirements, ensuring Group's ability to meet its financial commitments and maintain an optimal level of availability commensurate with its size and needs.

As part of its specific review of liquidity risk, the Group completed a waiver application at the end of the third quarter of 2016, anticipating a breach of the debt covenant. This waiver was accepted during the fourth quarter of 2016 for all bank debt and part of the market-based funding; the breach of covenant recorded as at December 31, 2016 is thus authorised and the level of covenant that will be measured during the financial year 2017 has been the subject of an amendment and an increase, permitting the integration of the 2017 prospects. The company's cash and financial resources are sufficient to fund its cash requirements. However, the Group does not exclude the use of its banking pool or other lenders to set up additional financing with short-term maturity to support its working capital requirements.

Market risks

Exchange risk

■ Risk factors

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

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

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

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

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

■ Risk management mechanisms

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

The Group hedges the majority of its significant and certain exchange positions (loans, debts, dividends, intra-group loans), a portion of its estimated positions, as well as its future sales and purchases.

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

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

in € thousand	2016	2015
Fair value hedges	-	-
Cash flow hedges	-83	414
Net investment hedges	-	20
Derivatives not qualifying for hedges	2,875	9,103
Derivative financial exchange instruments	2,792	9,537

Interest rate risk

■ Risk factors

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

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

The exposure to rate risks for the Virbac Group mainly results from the floating-rate credit lines implemented for a maximum amount of €555 million. This facility is indexed on the Euribor and the USD Libor.

The loan in the United States is indexed on the USD Libor.

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

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

The current amount on the credit lines is the following:

in € thousand	2016		2015	
	Average real interest rate	Book value	Average real interest rate	Book value
Brazil	-	-	13.500%	993
Chile	1.689%	26,086	1.367%	40,428
Mexico	7.426%	2,818	7.330%	2,203
Uruguay	5.238%	3,878	6.034%	1,887
France	2.760%	71,140	2.548%	70,995
Colombia	8.910%	727	9.227%	917
Fixed rate debt		104,649		117,424
Brazil	-	-	3.928%	270
France	1.920%	429,458	0.823%	469,488
United States	1.531%	28,460	0.972%	27,556
Mexico	9.553%	3,318	5.050%	8,091
Uruguay	-	-	4.825%	2,080
Colombia	10.422%	529	6.992%	1,400
New Zealand	4.467%	4,401	4.791%	4,519
Australia	2.740%	4,111	3.165%	1,678
Other	-	298	-	1,281
Variable rate debt		470,575		516,094
Bank overdrafts	-	9,158	-	12,098
Loans and bank overdrafts*		584,382		645,614

* excluding debt relating to the capital leasing contracts.

Interest rate derivatives are shown below, at market value:

in € thousand	2016	2015
Fair value hedges	-	-
Cash flow hedges	-353	-981
Net investment hedges	-	-
Derivatives not qualifying for hedges	-	-
Derivative financial rate instruments	-353	-981

■ Risk management mechanisms

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

As at December 31, 2016, the swap rates are considered hedging instruments, but not the cross currency swaps.

Specific impacts from hedging exchange and interest rate risks

■ Risk factors

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

■ Risk management mechanisms

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

Nevertheless, due to the constraints imposed by the documentation of hedging relationships, the Group has elected to only classify derivatives it holds at the balance sheet date as hedges for accounting purposes where the impact on the consolidated financial statements is truly material and where the hedging relationship can be demonstrated.

The exchange rate derivatives used for cash flow hedging generally mature within a year.

The derivative financial interest rate instruments are used to hedge the credit lines or loans and therefore have a maturity beyond several years, compatible with the hedged flows.

As at December 31, 2016, the unrealised exchange gains and losses in equity for the period showed a net gain of €275 thousand. The ineffective share of this cash flow hedging recorded as an expense was €50 thousand.

in € thousand	Nominal		Positive fair value		Negative fair value	
	2016	2015	2016	2015	2016	2015
Forward exchange contract	61,084	46,250	797	965	1,889	856
OTC options exchange	15,444	9,527	217	249	392	147
Cross currency swap	63,742	68,249	5,409	9,420	1,350	93
Exchange instruments	140,270	124,026	6,423	10,634	3,631	1,096
Swap rate	153,301	133,408	402	90	300	630
Interest rate options	128,071	105,631	325	559	779	1,001
Interest rate instruments	281,373	239,039	726	649	1,079	1,631
Derivative financial instruments	421,643	363,065	7,149	11,283	4,710	2,727

Supply risks

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

As far as possible, Virbac diversifies its sources of supply by referencing numerous suppliers, whilst ensuring that these different sources embody the sufficient characteristics of quality and loyalty.

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

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

A31. Composition of Virbac share capital

	2015	Increase	Decrease	2016
Number of authorised shares	8,458,000	-	-	8,458,000
Number of shares issued and fully paid	8,458,000	-	-	8,458,000
Number of shares issued and not fully paid	-	-	-	-
Outstanding shares	8,430,220	35,401	-36,589	8,429,032
Treasury shares	27,780	36,589	-35,401	28,968
Nominal value of shares	€1.25	-	-	€1.25
Virbac share capital	€10,572,500	-	-	€10,572,500

A32. Performance-related stock grant plans

The executive board, in accordance with authorisation from the shareholders' general meeting, granted an allocation of company shares for certain employees and directors at Virbac and at its subsidiaries.

Fair value of performance-related stock grant plans

In accordance with IFRS 2, these plans are valued in the Virbac consolidated accounts based on the fair value of the shares allocated on the date of their allocation, that is:

- for the 2012 plan, €1,196,000 corresponding to 10,000 shares at €119.60. This amount has been spread over a vesting period of 30 months.

The 2012 plan, which should have matured at the end of 2014, was renewed until the end of 2016 by the executive board following a decision of the supervisory board. The performance criterion for the 2012 plan is measured using the formula 10 times EBIT minus debt. At the end of the 2015 financial year, acknowledging that the level of EBIT and debt in the 2016 budget, and the low probability that this budget will be exceeded in a very significant way, it was considered that the level of the performance criterion would not be achieved and that the shares would therefore not be effectively acquired by the beneficiaries. At the close of the 2015 financial year, the expenses recognised in previous years under this plan were therefore fully recovered, for a total of €718 thousand.

- €2,248,358 for the 2016 plan, corresponding to 12,150 shares valued at €185.05 each. This amount was deferred over the vesting period of 27.5 months.

The expense recognised in respect of the performance share plans in the 2016 consolidated financial statements corresponds to the 2016 plan alone and amounts to €286 thousand.

A33. Dividends

In 2016, the company did not distribute a dividend.

A proposal will be submitted at the general shareholders meeting that no dividend should be paid for the 2016 financial year.

A34. Workforce

Evolution of workforce by geographic area

	2016	2015	Change
France	1,398	1,392	0.4%
Europe (excluding France)	322	324	-0.6%
Latin America	951	952	-0.1%
North America	536	552	-2.9%
Asia	1,208	1,128	7.1%
Pacific	303	301	0.7%
Africa & Middle East	134	132	1.5%
Workforce	4,852	4,781	1.5%

Distribution of workforce by position

	2016		2015	
Production	1,837	37.9%	1,783	37.3%
Administration	542	11.2%	523	10.9%
Commercial	1,933	39.8%	1,925	40.3%
Research & Development	540	11.1%	550	11.5%
Workforce	4,852	100.0%	4,781	100.0%

A35. Information on related parties

Compensation of supervisory board members

	2016		2015	
	Compensation	Directors' fees	Compensation	Directors' fees
Marie-Hélène Dick	€95,000	€21,000	€95,000	€21,000
Jeanine Dick	-	€12,000	-	€12,000
Pierre Madelpuech	-	€21,000	-	€21,000
Philippe Capron	-	€24,000	-	€24,000
Olivier Bohuon	-	€21,000	-	€21,000
Grita Loeb sack	-	€21,000	-	€21,000
Xavier Yon	-	€21,000	-	€21,000
Total	€95,000	€141,000	€95,000	€141,000

Compensation of executive board members

As at December 31, 2016 - Gross amount due

	Fixed compensation (including benefits in kind)	Compensation linked to terms of office for administrators in Group companies	Variable compensation	Total compensation
Éric Marée	€343,560	€74,528	€62,556	€480,644
Christian Karst	€267,911	€45,000	€51,460	€364,371
Michel Garaudet	€65,849	-	-	€65,849
Habib Ramdani *	€109,016	-	€38,700	€147,716
Sébastien Huron	€246,476	€25,000	€46,575	€318,051
Jean-Pierre Dick	€41,781	-	€13,773	€55,554
Total	€1,074,593	€144,528	€213,064	€1,432,185

* Remuneration to be counted from the time he joined the executive board
Michel Garaudet also received in 2016 a retirement benefit of €60,125.

As at December 31, 2015 - Gross amount due

	Fixed compensation (including benefits in kind)	Compensation linked to terms of office for administrators in Group companies	Variable compensation	Total compensation
Éric Marée	€336,064	€74,024	€50,000	€460,088
Christian Karst	€240,911	€45,000	€50,000	€335,911
Michel Garaudet	€197,546	€14,952	€50,000	€262,498
Sébastien Huron	€216,476	€25,000	€50,000	€291,476
Jean-Pierre Dick	€41,781	-	-	€41,781
Total	€1,032,778	€158,976	€200,000	€1,391,754

The compensation paid in respect of 2016 corresponds to the fixed compensation paid in 2016, the compensation linked to terms of office for directors in Group companies paid in 2016, the variable compensation paid in 2017 in respect of 2016 and the benefits in kind granted in 2016 (company car).

Calculation criteria for the variable portion

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

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

- sales growth;
- growth in operating profit from ordinary activities, as well as specific goals;
- inventory control;
- significant acquisitions, for the Group, of companies or products (in terms of size, financial contribution, strategic importance).

Other benefits

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

■ Retirement

The chairman of the executive board Éric Marée, general manager Christian Karst and Jean-Pierre Dick benefit from a supplementary defined benefit pension plan (12.5% of the reference salary and 22% in the event of service with the company exceeding 30 years) whose conditions of allocation are as follows:

- over ten years service in the Group (including nine years as a member of the executive board);
- at least 60 years old;
- finished his/her career in the Group.

Provisions related to defined contribution pension plans amounted to €2,657 thousand as at December 31, 2016 compared to €1,630 thousand at the 2015 year-end. A charge of €-239 thousand was recognised in the statement of income, and a change of €-787 thousand was recorded under other comprehensive income.

■ Severance pay

The commitments made by the company and the companies it controls to its executives in the event of dismissal are as follows:

- Éric Marée: €483,000;
- Christian Karst: €326,000.

On December 17, 2014 the supervisory board reappointed the executive board members for a three-year term. In line with the provisions of the act of August 21, 2007, the supervisory board, at its March 13, 2015 meeting, renewed the commitments made by the company and the companies it controls in the event of the termination of the offices of the chairman of the executive board, Éric Marée, and of Christian Karst, executive board member and general manager.

These commitments were approved by the shareholders' meeting of June 18, 2012 and, in accordance with the Afep-Medef recommendations, they follow the same terms and conditions as set by the supervisory board on December 22, 2008, namely: the severance pay shall only be payable in the event of dismissal, on the company's initiative. They will not be paid in the event of resignation, retirement or gross misconduct by the corporate officers concerned.

The fulfilment of the severance pay performance criteria is assessed over the two half-year periods that precede the director's departure, and not a minimum of two years, as advocated in the Code. However, the amount of this severance pay is substantially lower than the limit of two years of compensation provided under the Code and the performance criteria are demanding (current operating income to revenue ratio equal to or higher than 7%).

■ Performance-related stock grant plans

Since 2006, the Virbac executive board, in accordance with authorisation from the shareholders' meeting, has allocated stock grants to certain Virbac employees and directors and those of its subsidiaries.

These allocations are subject to meeting a performance target linked to the profitability and net debt of the Group.

The performance-related stock grants awarded under the 2012 plan amount to 9,200 shares as at December 31, 2015. Throughout 2013, 2014 and 2015 no performance-related stock grants were allocated.

The performance shares granted to members of the executive board for the past five financial years are as follows:

	Number of shares 2012 plan	Number of shares 2016 plan
Éric Marée	1,130	-
Christian Karst	820	1,000
Michel Garaudet	510	-
Sébastien Huron	520	1,000
Habib Ramdani	-	400
Total	2,980	2,400

Partnership

A sporting sponsorship agreement was signed between the Absolute Dreamer company, of which Jean-Pierre Dick is manager, and Virbac, where Jean-Pierre Dick is a member of the executive board. This partnership aims to contribute financially to the participation of a sailing vessel in various offshore races, which helps to promote Virbac's brand image throughout the world and increase its visibility.

An amount of €1.2 million was accounted for in expenses in the 2016 financial year as part of this contract.

A36. Off-balance sheet commitments

Deposits and guarantees given by Virbac or certain subsidiaries

A statement of the main deposits and guarantees is presented below.

in € thousand	Guarantee provided with	Validity limit date	2016	2015
PP Manufacturing Corporation	NDNE 9/90 Corporate Center LLC	30/09/2020	1,971	2,395
Virbac Uruguay	Banco de la Republica Oriental del Uruguay	-	5,527	5,383
Virbac RSA	Nedbank	Annual renewal	-	177
Guarantees given			7,498	7,954

Contingent liabilities

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

This was particularly the case in 2014 when a competitor of the Group made a request to seek compensation for alleged damages relating to a use patent.

The same applies to a request made by one of the Group's competitors at the end of 2016 seeking compensation for alleged damages resulting from damage to the reputation of one of its trademarks and infringement of that trademark.

In both cases, Virbac considers the application to be legally unfounded and disproportionate in terms of the amount claimed as compensation for the damage.

It is therefore, in both cases, a contingent liability in regards to which a significant outflow of resources is unlikely.

A37. Scope of consolidation

Company name	Locality	Country	2016		2015	
			Control	Consolidation	Control	Consolidation
<u>France</u>						
Virbac (parent company)	Carros	France	100.00%	Full	100.00%	Full
Interlab	Carros	France	100.00%	Full	100.00%	Full
Virbac France	Carros	France	100.00%	Full	100.00%	Full
Virbac Distribution	Wissous	France	100.00%	Full	100.00%	Full
Virbac Nutrition	Vauvert	France	100.00%	Full	100.00%	Full
Bio Vêto Test	La Seyne sur Mer	France	100.00%	Full	100.00%	Full
Alfamed	Carros	France	99.70%	Full	99.70%	Full
<u>Europe (excluding France)</u>						
Virbac Belgium SA	Wavre	Belgium	100.00%	Full	100.00%	Full
Virbac Nederland BV *	Barneveld	Netherlands	100.00%	Full	100.00%	Full
Virbac (Switzerland) AG	Glattbrugg	Switzerland	100.00%	Full	100.00%	Full
Virbac Ltd	Bury St. Edmunds	United Kingdom	100.00%	Full	100.00%	Full
Virbac SRL	Milan	Italy	100.00%	Full	100.00%	Full
Virbac Danmark A/S	Kolding	Denmark	100.00%	Full	100.00%	Full
Virbac Pharma Handelsgesellschaft mbH	Bad Oldesloe	Germany	100.00%	Full	100.00%	Full
Virbac Tierarzneimittel GmbH	Bad Oldesloe	Germany	100.00%	Full	100.00%	Full
Virbac SP zoo	Warsaw	Poland	100.00%	Full	100.00%	Full
Virbac Hungary Kft	Budapest	Hungary	100.00%	Full	- %	-
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
<u>North America</u>						
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	2016		2015	
			Control	Consolidation	Control	Consolidation
<u>Latin America</u>						
Virbac do Brasil Industria e Comercio Ltda	São Paulo	Brazil	100.00%	Full	100.00%	Full
Virbac Mexico SA de CV	Guadalajara	Mexico	100.00%	Full	100.00%	Full
Laboratorios Virbac Mexico SA de CV	Guadalajara	Mexico	100.00%	Full	100.00%	Full
Inmobiliara Virbac Mexico SA de CV	Guadalajara	Mexico	-	-	100.00%	Full
Virbac Colombia Ltda	Bogota	Colombia	100.00%	Full	100.00%	Full
Laboratorios Virbac Costa Rica SA	San José	Costa Rica	100.00%	Full	100.00%	Full
Virbac Chile SpA	Santiago	Chile	100.00%	Full	100.00%	Full
Virbac Patagonia Ltda	Santiago	Chile	100.00%	Full	100.00%	Full
Holding Salud Animal SA	Santiago	Chile	51.00%	Full	51.00%	Full
Centro Veterinario y Agrícola Limitada	Santiago	Chile	51.00%	Full	51.00%	Full
Farquímica SpA	Santiago	Chile	51.00%	Full	51.00%	Full
Bioanimal Corp SpA	Santiago	Chile	51.00%	Full	51.00%	Full
Productos Químico Ehlinger	Santiago	Chile	51.00%	Full	51.00%	Full
Centrovét Inc	Allegheny	United States	51.00%	Full	51.00%	Full
Centrovét Argentina	Buenos Aires	Argentina	51.00%	Full	51.00%	Full
Inversiones HSA Ltda	Santiago	Chile	51.00%	Full	51.00%	Full
Rentista de capitales Takumi Ltda	Santiago	Chile	51.00%	Full	51.00%	Full
Virbac Uruguay SA **	Montevideo	Uruguay	99.17%	Full	99.17%	Full
Virbac Latam Spa	Santiago	Chile	100.00%	Full	-	-
<u>Asia</u>						
Virbac Trading (Shanghai) Co. Ltd	Shanghai	China	100.00%	Full	100.00%	Full
Virbac H.K. Trading Limited	Hong Kong	Hong Kong	100.00%	Full	100.00%	Full
Asia Pharma Ltd	Hong Kong	Hong Kong	100.00%	Full	100.00%	Full
Virbac Korea Co. Ltd	Seoul	South Korea	100.00%	Full	100.00%	Full
Virbac (Thailand) Co. Ltd	Bangkok	Thailand	100.00%	Full	100.00%	Full
Virbac Taiwan Co. Ltd	Taipei	Taiwan	100.00%	Full	100.00%	Full
Virbac Philippines Inc.	Taguig City	Philippines	100.00%	Full	100.00%	Full
Virbac Japan Co. Ltd	Osaka	Japan	100.00%	Full	100.00%	Full
Virbac Asia Pacific Co. Ltd	Bangkok	Thailand	100.00%	Full	100.00%	Full
Virbac Vietnam Co. Ltd	Ho Chi Minh Ville	Vietnam	100.00%	Full	100.00%	Full
Virbac Animal Health India Private Limited	Mumbai	India	100.00%	Full	100.00%	Full
SBC Virbac Limited	Hong Kong	Hong Kong	100.00%	Full	100.00%	Full
SBC Virbac Biotech Limited	Tapei	Taiwan	100.00%	Full	100.00%	Full
AVF Animal Health Co Ltd Hong-Kong	Hong Kong	Hong Kong	50.00%	Equity method	50.00%	Equity method
AVF Chemical Industrial Co Ltd Hong Kong	Hong Kong	Hong Kong	50.00%	Equity method	50.00%	Equity method
AVF Chemical Industrial Co Ltd China	Jinan (Shandong)	China	50.00%	Equity method	50.00%	Equity method
<u>Pacific</u>						
Virbac (Australia) Pty Ltd *	Milperra	Australia	100.00%	Full	100.00%	Full
Virbac New Zealand Limited	Hamilton	New Zealand	100.00%	Full	100.00%	Full
<u>Africa & Middle East</u>						
Virbac RSA (Proprietary) Ltd *	Centurion	South Africa	100.00%	Full	100.00%	Full

* Pre-consolidated levels

** Change of corporation name of Santa Elena

Statutory auditors' report on the consolidated financial statements

Year ended December 31, 2016

To the shareholders,

In accordance with our appointment as statutory auditors at your annual general meeting, we hereby report to you for the year ended December 31, 2016 on:

- the audit of the accompanying consolidated financial statements of Virbac;
- the justification of our assessments;
- the specific verifications required by law.

The consolidated financial statements have been approved by the executive board. Our role is to express an opinion on these financial statements, based on our audit.

OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, using sample testing techniques or other selection methods, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as of December 31, 2016 and of the results of its operations for the year then ended in accordance with IFRSs as adopted by the European Union.

JUSTIFICATION OF OUR ASSESSMENTS

In accordance with article L. 823-9 of the French commercial code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters.

Goodwill and intangible assets, the net amounts of which total €342.4 million and €354.4 million, respectively, as of December 31, 2016, have been subject to impairment tests in accordance with the methods set forth in paragraph "Goodwill" of "Accounting principles and methods" note to the consolidated financial statements. We have examined the methods used to perform these tests based on value in use and reviewed the consistency of the assumptions used with forecasts taken from the strategic plans prepared for each of the activities or divisions under the Group's control. We have also verified that paragraph "Goodwill" in "Accounting principles and methods" note to the consolidated financial statements provides appropriate disclosure.

These assessments were performed as part of our audit approach for the consolidated financial statements taken as a whole and contributed to the expression of our opinion in the first part of this report.

SPECIFIC VERIFICATIONS

In accordance with professional standards applicable in France, we have also verified, pursuant to the law, the information relating to the Group given in the management report.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Nice and Marseille, March 13, 2017
The statutory auditors

Novances-David & Associés
French original signed by
Jean-Pierre Giraud

Deloitte & Associés
French original signed by
Hugues Desgranges Vincent Gros