Interim financial statements

First semester of 2018

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The undersigned hereby declare that, to the best of their knowledge, the condensed consolidated financial statements for the six-month period ended 30 June 2018, which have been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit and loss of the company and the undertakings included in the consolidation as a whole, and that the interim management report includes a fair review of the important events that have occurred during the first semester of the financial year and of other legal necessary information.

Rafael Padilla, CEO
Karin de Jong, CFO

1. Interim management report

A detailed report on the turnover of the first semester of 2018 can be found in the Fagron press release of the 3rd of August 2018.

2. Condensed consolidated income statement

(x 1,000 euros)	Note	June 2018	June 2017[1]
Operating income		**231,576**	**222,172**
Turnover		230,923	220,012
Other operating income		652	2,161
Operating expenses		**197,088**	**183,737**
Trade goods		89,228	83,336
Services and other goods		40,625	39,378
Employee benefit expenses		53,894	51,864
Depreciation and amortization		9,499	8,748
Other operating expenses		3,843	411
Operating profit		**34,487**	**38,435**
Financial income	8	399	2,117
Financial expenses	8	-10,873	-14,702
Profit before income tax		**24,013**	**25,850**
Taxes	17	5,241	4,796
Net result		**18,773**	**21,054**
Attributable to:			
Equity holders of the company (net result)		18,604	20,704
Non-controlling interest		169	351
Earnings (loss) per share attributable to owners of the parent entity during the period			
Profit (loss) per share (in euros)	9	0.26	0.29
Diluted profit (loss) per share (in euros)	9	0.26	0.29

[1] The condensed consolidated income statement has been revised for the application of IFRS 15.

3. Condensed consolidated statement of comprehensive income

(x 1,000 euros)	June 2018	June 2017
Profit for the period	**18,773**	**21,054**
Other comprehensive income:		
Items that may be subsequently reclassified to profit or loss		
Currency translation differences	-13,605	-9,625
Other comprehensive income for the period	**-13,605**	**-9,625**
Total comprehensive income for the period	**5,168**	**11,429**
Attributable to:		
Equity holders of the company	5,068	11,152
Non-controlling interest	100	277

The unrealised currency translation differences in 2018 of 13.6 million euros are mainly due to the weakening of the Brazilian real against the euro at 31 December 2017.

4. Condensed consolidated statement of financial position

(x 1,000 euros)	Note	June 2018	December 2017
Non-current assets		**474,595**	**427,617**
Intangible fixed assets		389,074	344,495
Property, plant and equipment		67,883	69,535
Financial fixed assets		2,406	2,232
Deferred tax assets		15,232	11,355
Current assets		**204,469**	**166,430**
Inventories		75,628	62,865
Trade receivables		43,036	32,220
Other receivables		9,376	10,574
Cash and cash equivalents		76,428	60,771
Total assets		**679,063**	**594,047**
Equity		**183,094**	**184,881**
Shareholders' equity (parent)		179,511	181,398
Non-controlling interest		3,583	3,483
Non-current liabilities		**300,557**	**300,925**
Provisions	12	12,073	12,476
Pension obligations		4,821	4,733
Deferred tax liabilities		193	198
Borrowings	13	283,470	283,518
Current liabilities		**195,413**	**108,241**
Borrowings	13	54,844	13,450
Trade payables		74,917	58,950
Taxes, remuneration and social security		30,505	27,168
Other current payables	14	35,148	8,673
Total liabilities		**495,970**	**409,166**
Total equity and liabilities		**679,063**	**594,047**

5. Condensed consolidated statement of changes in equity

(x 1,000 euros)	Share capital & share premium	Other reserves	Treasury shares	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2017	**561,852**	**-218,174**	**-18,823**	**-175,063**	**149,792**	**3,083**	**152,875**
Profit for the period	0	0	0	20,704	20,704	351	21,054
Other comprehensive income	0	-9,552	0	0	-9,552	-73	-9,625
Total comprehensive income for the period	**0**	**-9,552**	**0**	**20,704**	**11,152**	**277**	**11,429**
Dividends	0	0	0	0	0	0	0
Share-based payments	0	408	0	0	408	0	408
Reclassification	0	0	0	0	0	0	0
Balance at 30 June 2017	**561,852**	**-227,318**	**-18,823**	**-154,359**	**161,352**	**3,360**	**164,712**
Profit for the period	0	0	0	25,954	25,954	38	25,993
Other comprehensive income	0	-5,870	0	0	-5,870	83	-5,786
Total comprehensive income for the period	**0**	**-5,870**	**0**	**25,954**	**20,084**	**121**	**20,207**
Dividends	0	0	0	0	0	0	0
Share-based payments	0	-38	0	0	-38	0	-38
Reclassification	-54,182	0	0	54,182	0	0	0
Balance at 1 January 2018	**507,670**	**-233,226**	**-18,823**	**-74,223**	**181,398**	**3,483**	**184,881**
Profit for the period	0	0	0	18,604	18,604	169	18,773
Other comprehensive income	0	-13,536	0	0	-13,536	-68	-13,605
Total comprehensive income for the period	**0**	**-13,536**	**0**	**18,604**	**5,068**	**100**	**5,168**
Dividends	0	0	0	-7,184	-7,184	0	-7,184
Share-based payments	0	229	0	0	229	0	229
Balance at 30 June 2018	**507,670**	**-246,533**	**-18,823**	**-62,804**	**179,511**	**3,583**	**183,094**

6. Condensed consolidated statement of cash flows

(x 1,000 euros)	June 2018	June 2017
Operating activities		
Profit before income taxes	24,013	25,850
Taxes paid	-3,630	7,537
Adjustments for financial items	10,474	12,585
Total adjustments for non-cash items	9,265	8,415
Total changes in working capital	-5,707	-4,886
Total cash flow from operating activities	**34,416**	**49,501**
Investment activities		
Capital expenditure	-4,169	-5,066
Proceeds from sold shareholdings	0	6,400
Investments in existing shareholdings (subsequent payments) and in new holdings	-38,787	-1,437
Total cash flow from investing activities	**-42,957**	**-103**
Financing activities		
Dividends paid	-2,767	0
New borrowings	39,058	29,021
Reimbursement of borrowings	-1,300	-64,905
Interest received	399	2,117
Interest paid	-8,829	-14,787
Total cash flow from financing activities	**26,561**	**-48,553**
Total net cash flow for the period	**18,020**	**845**
Cash and cash equivalents – start of the period	60,771	295,585
Gains or losses from currency translation differences	-2,363	-2,910
Cash and cash equivalents – end of the period	76,428	293,520
Change in cash and cash equivalents	**18,020**	**845**

7. Notes to the interim financial information

1. General information

Fagron is a leading global company active in pharmaceutical preparations and focuses on delivering personalized pharmaceutical care to hospitals, pharmacies, clinics and patients in 35 countries worldwide.

The Belgian company Fagron NV is located in Nazareth and listed on Euronext Brussels and Euronext Amsterdam (stock exchange code 'FAGR'). The Dutch company Fagron BV directs Fagron's operational activities. Fagron BV's headquarters is located in Rotterdam.

These consolidated financial statements were approved for publication by the Board of Directors on the 2nd of August 2018.

In the event of differences between the English translation and the Dutch original of the interim financial statements, the latter prevails.

2. Summary of the most important basis for the condensed consolidated interim financial information

This condensed consolidated interim financial information for the first semester of 2018, including the comparative figures for 2017, has been prepared in accordance with IAS 34 'Interim Financial Reporting' as adopted by the European Union. The condensed consolidated interim financial information must be read in conjunction with the annual financial statements for the year 2017 (including the principles for financial reporting) which is available at www.fagron.com.

3. Summary of the most important accounting policies

The most important accounting policies used to prepare the consolidated interim financial statements for the first semester of 2018 are consistent with those applied in the Fagron consolidated financial statements for the year ended 31 December 2017.

The accounting policies were consistently applied for all periods presented.

A summary of the most important accounting policies can be found in the 2017 annual report. The annual report can be consulted through the following web link: www.fagron.com.

This condensed consolidated interim financial information has been prepared in accordance with IFRS standards and IFRIC interpretations that apply, or which are applied early, as of 30 June 2018 and which have been endorsed by the European Union.

IFRS 15 'Revenue from contracts with customers' relates to the recording of revenue from contracts with customers. The application of IFRS 15 is obligatory as of the 1st of January 2018 and this application has only a negative effect on the presentation hereof of less than one percent of the turnover and no impact on the operating profit. The comparable figures of 2017 have been restated for this.

IFRS 9 'Financial instruments' covers financial instruments on both the asset as well as the liability side and describes the criteria for recognition, classification and derecognition of such instruments, in addition to the allowed measurement methods. The application of IFRS 9 is obligatory as of the 1st of January 2018 and this application has no material impact on the consolidated figures of Fagron.

IFRS 16 'Leases' replaces the current standard (IAS 17). IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In the first semester of 2018 Fagron has largely conducted a detailed analysis of the impact of IFRS 16. As a result of this analysis Fagron expects that the total assets will increase with less than 5%. The final impact will depend on the number, the size, the remaining duration and possible extension options of the lease contracts on the moment of implementation. The application of IFRS16 will be effective as of the 1st of January 2019.

4. Seasonality

Revenue and operating result of the Group are limitedly impacted by seasonal influences.

8. Financial result

(x 1,000 euros)	June 2018	June 2017
Financial income	399	2,117
Financial expenses	10,873	14,702
Financial result	**10,474**	**12,585**

The financial income decreased compared to the previous year. In 2018 there were no outstanding financial derivatives whereas in 2017 a revaluation of the financial derivatives resulted in an income of 0.7 million euros. The income on interests were also higher in 2017 due to amongst other interest on the restricted funds as a result of the capital increases.

The decrease of the financial expenses can mostly be explained by lower interest expenses on the borrowings, partly offset by exchange rate differences.

9. Earnings per share

(x 1 euro)	June 2018	June 2017
Basic earnings (loss) per share	0.26	0.29
Diluted earnings (loss) per share	0.26	0.29

The earnings used in the calculations are as follows:

(x 1,000 euros)	June 2018	June 2017
Profit (loss) attributable to equity holders of the company	18,604	20,704

The weighted average number of ordinary shares used in the calculations are as follows:

(number of shares x 1,000)	June 2018	June 2017
Weighted average number of ordinary shares	**71,740**	**71,740**
Effect of warrants and stock options	172	296
Weighted average number of ordinary shares (diluted)	**71,912**	**72,036**

On 30 June 2018 the capital represented 71,843,904 shares, of which 103,627 are treasury shares held by Fagron NV.

10. Non-recurring result

A non-recurring item is an event or transaction that is considered abnormal, not related to ordinary company activities, and unlikely to recur in the foreseeable future. This can be a gain or a loss. The total non-recurring result included in EBITDA amounts to -4.7 million euros (June 2017: -0.9 million euros). The 2018 non-recurring costs include primarily a settlement with the previous owners of JCB Laboratories, restructuring costs and acquisition costs. The 2017 non-recurring costs include primarily restructuring costs, legal costs and the destruction of inventory related to Freedom Pharmaceuticals.

11. Segment information

Fagron's divisional structure is tailored to the various activities of Fagron and also supports effective decision-making and individual responsibility. This is in accordance with IFRS 8, which states that the operational segments must be determined on the basis of the components that the Executive Committee applies to assess the performance of the operational activities and on which the decisions are based. Fagron reports according to the following segments: Fagron Europe, Fagron North America, Fagron South America and HL Technology.

The segment results for the reporting period ending 30 June 2018 are as follows:

(x 1,000 euros)	Fagron Europe	Fagron North America	Fagron South America	Fagron Total	HL Technology	Total
Turnover	127,536	50,869	48,880	227,285	3,638	**230,923**
Intersegment turnover	172	106	16	294	0	294
Total turnover	**127,707**	**50,975**	**48,897**	**227,579**	**3,638**	**231,217**
Operating result per segment	28,282	-1,783	8,329	34,828	-340	**34,487**
Financial result						**-10,474**
Profit before taxes						**24,013**
Taxes on profits						**5,241**
Net result						**18,773**

The segment results for the reporting period ending 30 June 2017 are as follows:

(x 1,000 euros)	Fagron Europe	Fagron North America	Fagron South America	Fagron Total	HL Technology	Total
Turnover	127,220	39,880	49,450	216,551	3,638	**220,012**
Intersegment turnover	197	81	28	306	0	**306**
Total turnover	**127,417**	**39,961**	**49,478**	**216,857**	**3,638**	**220,318**
Operating result per segment	29,961	1,158	8,421	39,539	-1,104	**38,435**
Financial result						**-12,585**
Profit before taxes						**25,850**
Taxes on profits						**4,796**
Net result						**21,054**

On 30 June 2018, the assets and liabilities, as well as the capital expenditures (investments) are as follows:

(x 1.000 euros)	Fagron Europe	Fagron North America	Fagron South America	HL Technology	Unallocated/ inter segment elimination	Total
Total assets	290,137	202,773	130,159	5,600	50,395	**679,063**
Total liabilities	70,121	168,420	28,511	1,301	227,616	**495,970**
Capital expenditure	1,965	1,574	1,261	37	0	**4,837**

The gross capital expenditure in the first semester of 2018 mainly relates to facility improvements in the United States and Brazil and software implementations. The Group is currently engaged in various small investment projects. The capex excludes the change in investment payables for 0.4 million euros, mainly related to the investments mentioned above. The unallocated assets include primarily cash and cash equivalents. The unallocated liabilities include primarily the borrowings.

On 31 December 2017, the assets and liabilities, as well as the capital expenditures (investments) are as follows:

(x 1.000 euros)	Fagron Europe	Fagron North America	Fagron South America	HL Technology	Unallocated/ inter segment elimination	Total
Total assets	290,159	126,423	133,786	5,507	38,172	**594,047**
Total liabilities	78,687	90,653	25,800	897	213,130	**409,166**
Capital expenditure	4,054	2,502	2,603	447	0	**9,607**

The gross capital expenditure in 2017 mainly relates to building and production facilities improvements in all regions and ERP implementations. The capex excludes the change in investment payables for 2.0 million euros, mainly related to the investments mentioned above. The unallocated assets include primarily cash and cash equivalents. The unallocated liabilities include primarily the borrowings.

12. Provisions

The US government is conducting an investigation into the pricing of pharmaceutical products in the period primarily prior to the acquisition of Bellevue Pharmacy and Freedom Pharmaceuticals. The investigation relates to the sector as a whole. In order to limit the uncertainty and further attorneys' fees and (internal) investigation costs, Fagron is considering reaching a settlement with the government. The opening balance sheet of Bellevue Pharmacy included a provision of 10 million US dollars for costs arising from this investigation. The provision is an estimate of attorneys' fees, (internal) investigation costs and the costs of a possible settlement with the government. At the end of the first semester in 2018, the provision amounts to 6.9 million euros.

The Group has a number of other small, immaterial provisions mostly relating to product liability claims and employment matters in the ordinary course of business.

13. Borrowings

In the first semester of 2018 no new borrowings were acquired. The 15.0 million euros 4.04% Serie C Senior Notes, the 5.0 million euros Floating Rate Serie D Senior Notes and the 20.0 million US dollars 5.07% Serie E Senior Notes were classified as short term borrowings. These borrowings will be repaid on the 15th of April 2019.

On 5 May 2016 Fagron received Long Term Waivers under the Revolving Credit Facility and the Note Purchase Agreement. The financial covenants were adjusted to give Fagron extra latitude with respect to the original levels of the financial covenants. The extra latitude in the financial covenants decreases with each six-months test period, starting with the first test period on 31 December 2016 until the test period ending on 30 June 2018. The test periods and accompanying levels are shown below. As of the 1st of July 2018 the original levels of the financial covenants are again in effect.

	Financial covenants	
Test period	Net financial debt / REBITDA	REBITDA / net interest expenses
30 June 2018	Max. 3.60x	Min. 2.80x
After 30 June 2018	Max. 3.25x	Min. 4.00x

On 30 June 2018 the net financial debt / REBITDA is equal to 2.72. The REBITDA / net interest expenses is equal to 5.80.

14. Business combinations

In the first semester of 2018 Fagron acquired a company. Full control was acquired of this company. As the acquired activities were immediately – in their entirety or to a significant degree – integrated in existing entities of Fagron, their respective contribution to the profit of Fagron have not been reported separately.

On April 2018, Fagron announced the acquisition of Humco, a leading developer, manufacturer and supplier of innovative patented pharmaceutical delivery vehicles (suspensions) and pharmaceutical branded products supplied to more than 45,000 pharmacies in the United States. The acquisition amounted to approximately 57.8 million euros, representing an increase in goodwill of 44.0 million euros. Expectation is that the goodwill will be fully tax deductible. The provisional fair value of the acquired assets and liabilities was determined as detailed below:

Fair value of the acquired assets and liabilities (x 1,000 euros)	
Intangible fixed assets	6,628
Property, plant and equipment	1,446
Inventories	4,626
Trade receivables	3,406
Other receivables	293
Cash and cash equivalents	996
Total assets	**17,394**
Borrowings	-39
Trade payables	2,153
Other current payables	1,483
Total liabilities	**3,598**
Net acquired assets	**13,796**
Goodwill	43,973
Total acquisition amount	**57,769**

The determination of the fair value of the assets and liabilities in 2017 did not result in an adjustment of the goodwill.

Contingent considerations

At the semester closing the Group had 20.2 million euros in contingencies. These fees payable to former shareholders were determined on the basis of business plans at the time of acquisition. The increase of these contingent considerations is related to the acquisition of Humco. This is also the primary reason for the increase of other current payables.

The contingent considerations relate primarily to North America and vary between 0 euros and a maximum of 20.2 million euros. The considerations are measured at the fair value at the moment of acquisition. This is estimated based on the maximum compensation if the conditions are met.

15. Related parties

The members of the Executive Committee, the CEO and the non-executive directors are considered as related parties. The remuneration policy is described in the Corporate Governance Statement which is part of the 2017 annual report. The remuneration is determined on a yearly basis, therefore no further details are provided in these interim financial statements.

16. Subsequent events

Fagron received in July 2018 a tax assessment of 15.4 million euros regarding the amortization of goodwill as a result of mergers in Brazil. We are contesting this. Fagron will object to the imposed assessment and did not create a provision for this.

17. Effective tax rate

Recognised income tax expenses are based on management's best estimate of the weighted average annual income tax rate of 21.8% for 2018 (S1 2017: 18.6%).

FREE TRANSLATION

To the Board of Directors
Fagron NV

Statutory auditor's report on review of consolidated condensed financial information for the period ended 30 June 2018

Introduction

We have reviewed the accompanying consolidated condensed statement of financial position of Fagron NV and its subsidiaries as of 30 June 2018 and the related condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the 6-month period then ended, as well as the explanatory notes. The board of directors is responsible for the preparation and presentation of this consolidated condensed financial information in accordance with IAS 34, as adopted by the European Union. Our responsibility is to express a conclusion on this consolidated condensed financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated condensed financial information is not prepared, in all material respects, in accordance with IAS 34, as adopted by the European Union.

Antwerp, 2 August 2018

PwC Reviseurs d'Entreprises sccrl / Bedrijfsrevisoren bcvba
Represented by

Peter Van den Eynde
Réviseur d'Entreprises

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