

# **FINANCIAL REPORT FOR THE HALF-YEAR ENDED JUNE 30, 2018**

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# Activity report

## Comments on activity in the first half of 2018

Reported revenue for the first half of 2018 totaled €389.6 million, down 4.3% due to a highly unfavorable exchange rate effect of €26.1 million. At constant exchange rates, the Group's revenue increased 2.1% to €415.7 million.

At constant exchange rates, the Diagnostic Imaging business generated €367.9 million in the first half of the year, down 1.5% compared with the first half of 2017. This slight decline is mainly attributable to Optiray® in the CT/Cath Lab segment. Conversely, MRI sales increased. The introduction of Dotarem® generics in Europe and certain Asian countries has been more than offset by the market's shift from linear gadolinium-based products to macrocycles. Dotarem® sales volumes increased 14% with prices down 9% on average.

In Interventional Imaging, sales were up 27.7% at €31.0 million at constant exchange rates. This turnaround should be viewed in the context of the supply difficulties experienced during the first nine months of the 2017 fiscal year.

At the end of the first half of 2018, EBITDA amounted to €59.6 million, representing 15.3% of revenue, compared with €64.5 million in the first half of 2017. Without a particularly unfavorable exchange rate effect valued at €18.4 million, reported EBITDA would have been up 20.9%.

However, in order to analyze operational performance, EBITDA must be restated for the revaluation of inventories at the beginning of the year relating to the harmonization of the standard production cost calculation for €10.4 million at the end of June and €15.6 million over the full fiscal year. Once restated, EBITDA for the first half of the year would therefore be €49.2 million, or €67.6 million excluding the exchange rate effect.

Net income remained stable at 5.8% of revenue or €22.4 million.

The Group's equity increased 6.9% to €346.4 million, compared with €324.0 million at June 30, 2017. The Group's cash position totals €89.6 million, with net debt increasing slightly to €329.0 million. This change is due to the external growth operations carried out at the beginning of the year for €31 million but also an increase in inventories, which should decrease by the end of the year. Lastly, debt at June 30, 2018 suffered a cumulative currency effect of €14 million compared with the same period in 2017.

The GEAR 2023 strategic plan, presented on April 18, 2018, combines internal development initiatives ("Internal Boost"), aimed at accelerating organic growth, with external development initiatives ("External Boost") based on acquisitions to generate additional growth and improve margin prospects.

To carry this plan forward, the Group implemented several initiatives in the first half of 2018:

### Internal Boost:

- The positive phase IIB results for Gadopiclenol confirms the strong development potential of the successor to Dotarem®;
- In Japan, the beginning of direct distribution in October will speed up our penetration in the world's number 2 market;
- The marketing launch of Contrast&Care, software offered in SaaS mode;
- In interventional imaging, new indications obtained for Lipiodol® in transarterial chemoembolization (C-Tace) in several new countries.

### External Boost:

- With regard to Artificial Intelligence, the signing of the partnership with IBM Watson Health aims to develop and market a software solution for the diagnosis and treatment of liver cancer;
- Acquisition of a new microsphere technology from Oculugel to strengthen the interventional imaging offering;
- 510(k) obtained from the FDA in the United States to market Accurate Medical Therapeutics microcatheters starting in late 2018. In Europe, the CE mark is expected during the fourth quarter for initial sales in 2019.

For 2018, the Group anticipates slightly greater revenue than in the 2017 fiscal year at constant exchange rates.

Restated EBITDA at constant exchange rates (excluding the full-year effect of inventory revaluation for €15.6 million) is expected to be around 15% of revenue

### **Main risks and uncertainties for the six remaining months of the year**

Readers can refer to the 2017 Registration Document filed with the French Financial Markets Authority (AMF) on April 25, 2018, registered under number D.18-0387, which can be downloaded from the AMF and Guerbet websites (<http://www.guerbet.com>). We also inform readers that no major uncertainties or risks have appeared since this date concerning the remaining six months of the year.

### **Main transactions between related parties recorded in the first months of the year**

Readers can refer to note 25 to the consolidated financial statements and note 31 (describing the list of stakes held by the parent company) of the 2017 Registration Document filed with the French Financial Markets Authority (AMF) on April 25, 2018, registered under number D.18-0387, which can be downloaded from the AMF and Guerbet (<http://www.guerbet.com>) websites.

## Key figures

In € thousands - IFRS	June 30, 2018	June 30, 2017
Revenue	389,567	407,082
EBITDA <sup>1 2</sup>	59,641	64,509
Operating income <sup>2</sup>	36,621	40,676
Net income	22,413	23,083
Net earnings per share	€1.78	€1.84
Shareholders' equity	346,396	324,016
Net finance cost	328,998	310,673
Leverage <sup>3</sup>	2.63 *	2.69
Gearing	0.95	0.96

<sup>(\*)</sup> The method adopted to date to calculate the June 30 ratio (net debt/2x half-year EBITDA) was amended to take into account the market practice (net debt/EBITDA of the last twelve months). In applying this method, the June 30, 2017 ratio was no longer 2.41 but 2.69.

## Guerbet share

	Month	Highest price (€)	Lowest price (€)	Number of shares traded	Turnover (in € millions)
<b>2017</b>	January	84.98	70.32	387,361	30.34
	February	87.45	77.80	311,567	25.65
	March	90.64	76.15	408,723	34.21
	April	80.00	71.50	327,279	24.74
	May	86.34	78.01	216,841	17.77
	June	84.99	77.65	160,995	13.06
	July	83.00	72.59	245,066	19.32
	August	78.00	69.09	140,832	10.48
	September	78.83	68.98	113,447	8.38
	October	87.65	75.55	238,477	19.70
	November	78.64	67.00	158,883	11.77
	December	79.88	70.40	130,459	9.83
<b>2018</b>	January	85.10	77.80	188,081	15.45
	February	81.80	62.20	261,723	18.69
	March	68.50	61.80	168,361	10.93
	April	68.00	50.00	516,989	28.27
	May	57.40	51.80	218,375	11.83
	June	58.40	55.00	160,645	9.16

<sup>1</sup> EBITDA refers to operating income, to which are added back depreciation, amortization and provisions.

<sup>2</sup> Includes a positive pre-tax impact of €10.4 million arising from the change in the accounting estimate for inventories in order to harmonize standard costs as presented in Note 3.

<sup>3</sup> Considering the acquisitions planned for 2018, Guerbet signed an amendment with its banks stipulating that non-compliance with the ratio would not constitute a default.

# **CONDENSED HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2018**

On September 25, 2018, the Board of Directors approved the publication of the Guerbet condensed half-year consolidated financial statements for the period from January 1 to June 30, 2018.

The condensed half-year consolidated financial statements for the period ended June 30, 2018 are to be read as a complement to the consolidated financial statements for the year ended December 31, 2017, as indicated in the Registration Document filed with the French Financial Markets Authority (AMF) on April 25, 2018, under number D.18-0387.

▪ **Consolidated balance sheet**

<b>ASSETS (net)</b> <b>In € thousands</b>	<b>Notes</b>	<b>06/30/2018</b>	<b>06/30/2017</b>	<b>12/31/2017</b>
Intangible assets	<b>1</b>	168,715	101,730	108,622
Property, plant and equipment		252,573	263,676	258,787
Non-current financial assets		11,653	6,247	10,480
Deferred taxes	<b>2</b>	23,892	24,239	17,565
<b>Total non-current assets</b>		<b>456,832</b>	<b>395,892</b>	<b>395,454</b>
Inventories	<b>3</b>	280,643	279,559	270,479
Trade receivables and related accounts		148,823	152,984	150,433
Assets held for sale			0	0
Other current financial assets		58,176	77,800	61,841
Cash and cash equivalents		89,611	55,797	75,386
<b>Total current assets</b>		<b>577,253</b>	<b>566,140</b>	<b>558,139</b>
<b>TOTAL ASSETS</b>		<b>1,034,085</b>	<b>962,033</b>	<b>953,592</b>

Share capital	<b>4</b>	12,571	12,530	12,563
Other reserves		346,301	311,272	314,772
Consolidated net income		22,413	23,083	46,219
Cumulative translation adjustments		(34,889)	(22,869)	(31,413)
<b>Shareholders' equity</b>		<b>346,396</b>	<b>324,016</b>	<b>342,141</b>
of which Group share		346,396	324,016	342,141
Non-current borrowings	<b>6</b>	249,759	303,322	287,433
Other non-current financial liabilities		5,448	0	8,612
Deferred taxes	<b>2</b>	18,438	18,080	17,549
Provisions	<b>5</b>	36,102	35,641	34,780
<b>Total non-current liabilities</b>		<b>309,747</b>	<b>357,043</b>	<b>348,374</b>
Trade payables and related accounts		74,745	71,252	78,702
Current borrowings	<b>6</b>	168,849	63,148	66,360
Other financial liabilities		103,166	85,722	70,311
Current tax payable		25,019	54,956	38,898
Provisions	<b>5</b>	6,162	5,896	8,806
<b>Total current liabilities</b>		<b>377,942</b>	<b>280,974</b>	<b>263,077</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>1,034,085</b>	<b>962,033</b>	<b>953,592</b>

▪ **Consolidated income statement**

In € thousands	06-30-2018 (6 months) (1)	06-30-2017 (6 months)	12-31-2017 (12 months)
<b>Revenue</b>	<b>389,567</b>	<b>407,082</b>	<b>807,119</b>
Royalties	0	0	0
Other income	1,155	1,803	2,157
Cost of goods sold and change in inventories	(76,548)	(96,552)	(187,142)
Employee costs	(118,456)	(114,443)	(222,151)
External charges	(122,375)	(122,536)	(254,827)
Taxes and duties	(10,144)	(10,515)	(17,710)
Depreciation and amortization	(21,027)	(20,806)	(39,449)
Net provision charges/reversals	(1,993)	(3,027)	(11,365)
Other operating income and expenses	(3,556)	(330)	2,587
<b>Operating income</b>	<b>36,621</b>	<b>40,676</b>	<b>79,219</b>
Income from cash and cash equivalents	2	35	45
Gross finance cost	(3,142)	(3,165)	(6,096)
<b>Net finance cost</b>	<b>(3,140)</b>	<b>(3,130)</b>	<b>(6,050)</b>
Foreign exchange gains and losses	(1,094)	(2,333)	(5,766)
Other financial income and expenses	(32)	(893)	(593)
Income taxes	(9,943)	(11,237)	(20,591)
<b>Consolidated net income</b>	<b>22,413</b>	<b>23,083</b>	<b>46,219</b>
of which Group share	22,413	23,083	46,219
Net earnings per share with a par value of €1 (in €)	1.78	1.84	3.69
Diluted net earnings per share with a par value of €1 (in €)	1.77	1.82	3.69

(1) Includes a positive pre-tax impact of €10.4 million, recognized in Cost of goods sold and change in inventories, arising from the change in the accounting estimate for inventories in order to harmonize standard costs as presented in Note 3.

▪ **Consolidated statement of net income and other comprehensive income**

In € thousands	06-30- 2018	06-30- 2017	12-31- 2017
<b>Consolidated net income</b>	<b>22,413</b>	<b>23,083</b>	<b>46,219</b>
<b>Other comprehensive income</b>			
Actuarial gains and losses relating to IAS 19 obligations	0	0	1,803
Impact of IFRS 2 restatement	1,425	0	1,972
Net investment hedge: conversion of borrowing into USD	(3,471)	6,420	9,897
Change in translation adjustments	(3,492)	(19,146)	(27,688)
<b>Consolidated comprehensive income</b>	<b>16,875</b>	<b>10,357</b>	<b>32,203</b>

▪ **Consolidated statement of cash flows**

In € thousands	06-30- 2018 (6 months)	06-30- 2017 (6 months)	12-31- 2017 (12 months)
<b>Net income</b>	<b>22,413</b>	<b>23,083</b>	<b>46,219</b>
Depreciation, amortization and provisions for fixed assets	24,274	22,678	42,847
Charges to and reversals of provisions for contingencies	(1,253)	652	2,834
Change in fair value of hedging instruments	(38)	934	610
Stock option and free share costs	1,824	1,612	2,990
Proceeds from sales of fixed assets and other adjustments	21	1,169	1,594
<b>Cash flow from operating activities after net finance cost and taxes</b>	<b>47,241</b>	<b>50,128</b>	<b>97,093</b>
Net finance cost	4,656	3,878	6,397
Tax expenses (including deferred taxes)	9,943	11,237	20,691
<b>Cash flow from operating activities before net finance cost and taxes</b>	<b>61,840</b>	<b>65,243</b>	<b>124,080</b>
Taxes paid	(11,717)	(6,856)	(24,369)
<b>Change in working capital requirements relating to activity (including liability relating to employee benefits)</b>	<b>(32,581)</b>	<b>(44,127)</b>	<b>(43,657)</b>
(Increase) / decrease in inventories	(15,108)	(28,395)	(23,714)
(Increase) / decrease in trade receivables and related accounts	1,644	20,579	193
Increase / (decrease) in trade payables and related accounts	(4,665)	(27,580)	6,351
(Increase) / decrease in other assets	(13,219)	(3,324)	(13,021)
Increase / decrease in other liabilities	(1,234)	(5,407)	(13,466)
<b>Net cash flows from operating activities</b>	<b>17,541</b>	<b>14,260</b>	<b>56,054</b>
Investments in	(16,996)	(24,160)	(43,811)
<i>intangible assets</i>	(6,989)	(10,985)	(16,152)
<i>property, plant and equipment</i>	(9,952)	(13,225)	(26,383)
<i>long-term investments</i>	(55)	50	(1,276)
Reimbursement received from Mallinckrodt		7,690	
Sales of fixed assets		3,475	7,692
Increase / (decrease) in amounts payable on fixed assets	(686)	(3,096)	(3,957)
Acquisition of Accurate, net of cash acquired	(24,223)		
<b>Net cash flows used in investing activities</b>	<b>(41,905)</b>	<b>(16,091)</b>	<b>(40,076)</b>
Dividends paid	(10,700)	(10,784)	(10,745)
Increase in capital and other reserves *	111	443	969
New borrowings	110,777	31,956	37,179
Loan repayments	(50,036)	(50,287)	(38,047)
Net interest paid (including finance leases)	(5,130)	(4,463)	(8,627)
<b>Net cash flows from/(used in) financing activities</b>	<b>45,022</b>	<b>(33,135)</b>	<b>(21,049)</b>
Effect of exchange rate fluctuations	(1,872)	(2,753)	(4,609)
<b>Net change in cash position</b>	<b>18,786</b>	<b>(37,719)</b>	<b>(9,681)</b>
<b>Opening cash position</b>	<b>66,007</b>	<b>75,688</b>	<b>75,688</b>
<b>Closing cash position</b>	<b>84,794</b>	<b>37,969</b>	<b>66,007</b>

(\*) Corresponds to the IFRS 2 treatment relating to free shares: capital increase of €8,000 and an impact on reserves of €103,000 at June 30, 2018.

▪ **Statement of changes in shareholders' equity**

In € thousands	Share capital	Consolidated reserves	Net income/(loss)	Change in translation adjustments	Total
<b>Position at 12-31-2016</b>	<b>12,501</b>	<b>277,093</b>	<b>28,930</b>	<b>(3,724)</b>	<b>314,800</b>
Appropriation of 2016 earnings		28,930	(28,930)		0
Distribution of dividends		(10,609)			(10,609)
2017 consolidated net income			46,219		46,219
Actuarial gains and losses		3,775			3,775
Net investment hedge		9,897			9,897
Translation adjustments				(27,689)	(27,689)
Capital increase	62	907			969
IAS 8 impact		5,086			5,086
Other changes		(308)			(308)
<b>Position at 12-31-2017</b>	<b>12,563</b>	<b>314,772</b>	<b>46,219</b>	<b>(31,413)</b>	<b>342,141</b>
Appropriation of 2017 earnings		46,219	(46,219)		0
Distribution of dividends		(10,662)			(10,662)
H1 2018 consolidated net income			22,413		22,413
IFRS 2 restatement for free shares		1,425			1,425
Net investment hedge		(3,471)			(3,471)
Translation adjustments				(3,476)	(3,476)
Capital increase	8	103			111
Other changes		(2,085)			(2,085)
<b>Position at 06-30-2018</b>	<b>12,571</b>	<b>346,301</b>	<b>22,413</b>	<b>(34,889)</b>	<b>346,396</b>

# NOTES TO THE CONDENSED HALF-YEAR CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD ENDED JUNE 30, 2018

In € thousands

## **I) Accounting principles**

The accounting principles applied in preparing the consolidated financial statements for the period ended June 30, 2018 are the same as those used in the consolidated financial statements for the year ended December 31, 2017 (which can be consulted on the Group website: [www.guerbet.com](http://www.guerbet.com)).

In accordance with the conclusions expressed in the December 31, 2017 financial statements, the new standards IFRS 15 *Revenue from contracts with customers* and IFRS 9 *Financial instruments* that the Company was required to adopt as of January 1, 2018 had no impact on the June 30, 2018 financial statements.

IFRS 16 *Leases* was not subject to early adoption as of January 1, 2018.

The condensed consolidated financial statements for the period ended June 30, 2018 were prepared in accordance with IAS 34 *Interim financial reporting*, which allows for the presentation of a selection of notes. The condensed consolidated financial statements should be read in conjunction with the 2017 consolidated annual financial statements.

The Group's condensed consolidated financial statements are expressed in thousands of euros, unless otherwise indicated and were approved on September 25, 2018 by the Board of Directors.

Readers should note that the Group conducts its entire business in a single area of activity, namely research, development and the production and sale of contrast media for medical imaging. The Group does not, therefore, present segment reporting as defined by IFRS 8. However, to ensure a thorough understanding of its activity for readers, the Group provides a breakdown by geographical region in section VI) *Additional information* of this document. This information corresponds to the internal reporting statements used by Management to steer the Group. Additional information on revenue by product range (X-ray, MRI, IRT, MD and other) is also disclosed.

## **II) Major events in the first half of 2018**

In January 2018, the Guerbet Group acquired Accurate Medical Therapeutics Ltd. for €57 million, of which €3.8 million was earmarked to repay the debt to the former shareholders. A total of €19.5 million was paid at the time of the signing. Additional payments will be spread over several years, subject to the achievement of regulatory and commercial objectives. The first additional payment of €8.5 million was made on March 29, 2018.

On April 26, 2018, the Group acquired a technology developed by Occlugel, a French company specializing in the R&D of microspheres used in embolization. This new technology will round out Guerbet's offering in Interventional Imaging. The maximum sale price was €7 million excluding tax, comprising an initial payment of €3 million, with additional payments subject to the achievement of objectives. The first payment of €3 million excluding tax was made in May 2018.

## **III) Seasonality**

There is no significant seasonal aspect to the business.

## **IV) Dividend payment**

In the first half of 2018, a dividend of €0.85 per share was paid to shareholders.

## V) Management of financial risk

In accordance with its risk management policy, Guerbet hedges against the foreign exchange and interest rate risks on its borrowings.

As of June 30, 2018, hedging instruments had a negative value of around €5.4 million.

### A) FOREIGN EXCHANGE RISK

#### a. Foreign exchange risk exposure and hedging at June 30, 2018

The table below presents the Group's main foreign exchange risks:

In € millions	USD	CNY	JPY	CHF	HKD	CAD	MXN
Accounting risk <sup>(1)</sup>	(123.98)	8.89	21.07	7.14	14.55	(4.14)	(14.30)
Positions before hedging	(123.98)	8.89	21.07	7.14	14.55	(4.14)	(14.30)
Hedges outstanding	70.28	(3.18)					
Net foreign exchange position	(53.70)	5.71	21.07	7.14	14.55	(4.14)	(14.30)

(1) The accounting risk includes all the assets and liabilities in non-euro currencies.

The Group opted for net investment hedging for 50% of its USD debt.

In addition, the foreign exchange hedging instruments set up in 2016 (cross currency swap) represent 40% of the USD debt.

#### b. Analysis of financial income sensitivity to foreign exchange risk at June 30, 2018

Sensitivity is calculated using the unhedged net balance (accounting risk after deduction of hedges outstanding) for the main currencies.

The table below shows the impact on financial income of a 10% fluctuation in these currencies against the euro:

In € thousands	06/30/2018	06/30/2017
USD	5,370	7,851
JYP	2,107	773
HKD	1,455	933
MXN	1,430	1,420

### B) INTEREST RATE RISK

#### a. Interest rate risk exposure and hedging

Prior to hedging, a substantial portion of the debt (financial liabilities) was floating-rate: 98%.

To safeguard the Group against rising interest rates in the US, interest rate hedging instruments were set up to convert the floating-rate USD debt (syndicated loan) to a fixed rate.

Hence, at June 30, 2018, 95% of the A and B tranches of the outstanding syndicated loan was fixed-rate.

Compared to the Group's total debt:

- 47% was fixed-rate,
- 53% was floating-rate.

The portion of floating-rate debt increased with the rise in the portion of euro-denominated debt (not hedged).

	Less than 1 year <sup>(1)</sup>	More than 1 year	Total
Fixed-rate financial liabilities	(910)	(7,877)	(8,787)
Floating-rate financial liabilities	(167,939)	(241,882)	(409,821)
Fixed-rate financial assets	3,500		3,500
Floating-rate financial assets	89,611		89,611
Net management position <sup>(2)</sup>			
- fixed-rate	2,590	(7,877)	(5,287)
- floating-rate	(78,328)	(241,882)	(320,210)
Off-balance sheet position <sup>(3)</sup>	(122,848)	(65,509)	(188,357)
Net position after management			
- fixed-rate	(120,258)	(73,386)	(193,644)
- floating-rate	44,520	(176,373)	(131,853)
<p>(1) All maturities of floating-rate financial assets and liabilities and fixed-rate financial assets and liabilities maturing in less than one year</p> <p>(2) Sum of the fixed-rate (assets – liabilities) and floating-rate (assets – liabilities) differences.</p> <p>(3) Interest rate and cross currency swaps (receiver floating rates and payer fixed rates).</p>			

#### b. Analysis of financial income sensitivity to interest rate risk at June 30, 2018

Sensitivity is calculated using the balance of unhedged gross debt.

95% of this debt is Euro-denominated. Hence, the sensitivity calculated in this memo only involves the Euro-denominated debt.

Based on a 3-month Euribor rate, a 100 basis point increase/decrease would increase/decrease the Euro-denominated debt by around €2.844 million.

Gross debt in € thousands	3M EURIBOR + 100bp	3M EURIBOR - 100bp
215,495	218,340	212 652

## VI) Additional information

The geographical information below is presented according to the risk and profitability analysis in two subsets, corresponding to the Group's internal organization and Guerbet's different developments in these markets:

- the main European markets where the Guerbet Group has been able to build sustainable customer relationships, and has a strong position thanks to its own networks of pharmaceutical sales representatives,
- other markets.

Europe consists of the European countries where the Group is present via its own networks of pharmaceutical sales representatives, namely: Germany, Austria, Belgium, Spain, France, the United Kingdom, the Netherlands, Italy, Portugal, Switzerland and Turkey.

The non-allocated portion of operating income corresponds to head office administrative costs, R&D costs, and indirect industrial costs not attributable to products. These components can only be allocated to the various sectors arbitrarily.

The Group's R&D costs and support functions are centralized in France.

June 30, 2018 in € millions	European companies in their markets	Other	Total
Revenue:			
- European markets	173.3		173.3
- Other markets	27.1	189.2	216.3
<b>Total revenue</b>	<b>200.4</b>	<b>189.2</b>	<b>389.6</b>
<b>Operating income</b>	<b>15.7</b>	<b>20.9</b>	<b>36.6</b>

June 30, 2017 in € millions	European companies in their markets	Other	Total
Revenue:			
- European markets	190.9		190.9
- Other markets	24.9	191.3	216.2
<b>Total revenue</b>	<b>215.8</b>	<b>191.3</b>	<b>407.1</b>
<b>Operating income</b>	<b>36.7</b>	<b>4.0</b>	<b>40.7</b>

Breakdown of revenue by product range:

In € thousands	June 30, 2018	June 30, 2017
X-ray	45.0%	47.7%
MRI	33.5%	33.8%
IRT	7.5%	6.0%
MD	10.0%	10.2%
Other	4.0%	2.3%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

## VII) Descriptive notes (in € thousands)

### Note 1 - Property, plant and equipment and intangible assets

The increase in intangible assets for €56.8 million is due to the recognition of the Accurate goodwill at June 30, 2018. This goodwill will be definitively allocated in the second half of 2018, in accordance with IFRS 3.

### Note 2 - Deferred tax assets and liabilities

In € thousands	12-31-2017	Changes in net income	Changes in shareholders' equity	Translation and other adjustments	06-30-2018
Deferred tax assets	17 565	6 073	(564)	818	23,892
Deferred tax liabilities	(17,549)	(3,220)	1,096	1,234	(18,438)
<b>Total</b>	<b>16</b>	<b>2,853</b>	<b>532</b>	<b>2,052</b>	<b>5,454</b>

### Note 3 – Inventories

In € thousands	06/30/2018	12/31/2017
Raw materials and spare parts	60,810	95,012
Semi-finished and finished products, work-in-progress and goods	251,328	203,212
<b>Gross value</b>	<b>312,138</b>	<b>298,223</b>
Provisions	(31,496)	(27,744)
<b>Net value</b>	<b>280,642</b>	<b>270,479</b>

As part of the consolidation of the CMDS activity, the plan to harmonize the calculation of industrial costs for the entire group was finalized in the fall of 2017, and implemented on January 1, 2018. This was reflected in an inventory valuation based on a more precise cost breakdown and an expansion of the cost scope included in the inventory valuation.

Pursuant to IAS 8, this reflects a change in accounting estimate and was therefore treated using the prospective method (IAS 8.36), thus affecting only current and future periods. The P&L impact was spread over the inventory turnover period, which is 9 months on average. The 9-month duration was calculated by correlating the valuation of all inventories (raw materials, chemical and pharmaceutical work-in-progress, finished goods) to the corresponding standard industrial cost.

This change in accounting estimate generated an inventory revaluation of €15.6 million at January 1, 2018, with an impact of +€10.4 million (before tax) on current operating income for the half-year, given the spreading over the inventory turnover period.

### Note 4 – Share capital

At December 31, 2017, the parent company's share capital comprised 12,563,358 shares each with a par value of €1. The number of Guerbet shares increased over the period by 7,143 for a total of 12,570,501 shares at the end of June 2018.

The Group holds 19,428 treasury shares.

### Note 5 – Provisions

In € thousands	12/31/2017	Charges	Reversals used	Reversals not used	Translation adjustments and reclassifications	06/30/2018
<b>Non-current:</b>	<b>34,780</b>	<b>1,445</b>	<b>0</b>	<b>(64)</b>	<b>(58)</b>	<b>36,102</b>
Deferred employee benefits	34,780	1,445	0	(64)	(58)	36,102
<b>Current:</b>						
Tax disputes	818	22	0	(414)	(48)	378
Commercial disputes	2,308	(16)	0	0	195	2,487
Various risks	5,679	53	(562)	570	(2,443)	3,297
<b>Total current provisions</b>	<b>8,806</b>	<b>59</b>	<b>(562)</b>	<b>155</b>	<b>(2,296)</b>	<b>6,162</b>
<b>Total provisions</b>	<b>43,586</b>	<b>1,504</b>	<b>(562)</b>	<b>91</b>	<b>(2,354)</b>	<b>42,264</b>

## Note 6 – Borrowings

In € thousands	06/30/2018	12/31/2017
<b>Long-term borrowings (non-current liabilities) of which:</b>	<b>249,759</b>	<b>287,433</b>
Special profit-sharing reserve (blocked current accounts)	990	17
Finance leases	2,573	2,742
Other borrowings	246,196	284,674
<b>Short-term borrowing (current liabilities) of which:</b>	<b>168,849</b>	<b>66,360</b>
Bank facilities	4,816	9,379
Finance leases	1,162	1,156
Other borrowings and current profit-sharing reserve	162,871	55,825
<b>Total borrowings</b>	<b>418,608</b>	<b>353,793</b>

With regard to long-term debt, around €30 million was repaid on the syndicated loan (€25.9 million) and EIB loans (€3.5 million).

A €100 million bridge loan was set up at the end of December 2017 to finance acquisitions. It was fully drawn down at the end of June 2018, replacing drawdowns on short-term facilities in the amount of €7 million.

## Note 7 – Other contingent assets and liabilities

In December 2008, the request for grant for the French-German "Iseult" research project, filed with Oséo, was approved by the European Commission. The grant agreement provides for financing of half of the expenses incurred, including 39% in the form of repayable advances, and 61% in the form of a grant. An amendment signed with BPI France extends the duration of the project by 2 years and changes the terms of the financial return if a product resulting from the project is released for sale.

No other significant contingent assets or liabilities were identified.

## Note 8 – Employee costs

### 8.1 – Stock options

Main characteristics used to value the benefit granted in respect of share-based payments:

#### a. Characteristics of share-based payment plans in effect at June 30, 2018

Grant date	Number granted	Share price on grant date	Volatility	Risk-free rate	Exercise price	Lock-up period
October 17, 2011	530,840	€16.58	35%	2.77%	€15.40	4 years
November 23, 2011	48,000	€16.80	35%	2.77%	€16.07	4 years
February 20, 2012	6,800	€15.37	35%	2.77%	€15.37	4 years

#### b. Breakdown of benefit by fiscal year for plans in effect

Grant date	March 26, 2009	October 17, 2011	November 23, 2011	February 20, 2012	Total
2013		590	53	8	651
2014		590	53	8	651
2015		468	47	7	522
2016				1	1
<b>Total</b>	<b>0</b>	<b>1,648</b>	<b>153</b>	<b>24</b>	<b>1,825</b>

#### c. Impact on the balance sheet

The above benefit is recorded for each fiscal year in terms of the number of options yet to be exercised in exchange for shareholders' equity.

## 8.2 – Free shares

Under the No. 2 group employee free share plan, 31,520 new shares were granted on March 1, 2018, subject to the presence of employees at the end of a 2-year vesting period.

The following main assumptions were adopted:

	<b>Plan 2</b>
<i>Grant date</i>	03/01/2018
<i>Vesting date</i>	03/01/2020
<i>Vesting period</i>	2 years
<i>Price on grant date</i>	64.50
<i>Expected dividend rate</i>	1.30%
<i>Risk-free rate</i>	N/A
<i>Volatility</i>	N/A
<i>Turnover rate</i>	2.06%
<i>Performance requirement achievement rate</i>	100%

At June 30, 2018, a €1.4 million provision for plans 1 and 2 excluding social security and tax expenses was recorded in employee costs in accordance with IFRS 2 *Share-based payment*.

## Note 9 – Income tax

At June 30, 2018, income tax expense was calculated in line with the projected expense for the full year. The Group's effective tax rate was 30.73% at June 30, 2018, compared to 32.74% at June 30, 2017.

## Note 10 – Related-party disclosures

### 10.1 – Relationships with non-consolidated companies

All the significant Group subsidiaries are fully consolidated. Transactions between these companies are eliminated.

### 10.2 – Compensation and benefits granted by the Group to the main directors and members of the Board

The main directors form the Executive Committee. They received the following benefits and compensation in thousands of euros:

<b>Short-term benefits</b>	
Total gross compensation	<b>1,618</b>
of which in-kind benefits	14
and variable portion <sup>1</sup>	643
<b>Post-employment benefits</b>	
of which funded supplemental pension contributions	51
of which provisions for retirement benefits (on the balance sheet)	530
<b>Share-based payments<sup>2</sup></b>	
Stock options	0
Free shares	532

During the 1st half of 2018, the members of the Board of Directors received €237,772 in attendance fees for fiscal year 2017.

<sup>1</sup> For each person, the variable portion depends on the achievement of certain individual objectives over the course of the previous year. It is adjusted according to the performance of the company or the Group, during that same year, and is calculated based on the person's December 2017 salary.

<sup>2</sup> This is the expense recorded for the first half of 2018 for the stock options and free shares granted to them (see Note 8).

**Note 11 – Subsequent events**

On July 11, 2018, the Guerbet group sold the assets of its subsidiary Guerbet Argentina Ltd (mainly corresponding to purchased goodwill). Given the immaterial carrying amount of the assets sold, the Group decided not to present them separately under the heading “Assets held for sale,” as stipulated by IFRS 5, but the financial statements of the Argentine subsidiary were consolidated at June 30, 2018.

# Statutory Auditors' review report on the 2018 half-year financial statements

From January 1 to June 30, 2018

*This is a free translation into English of the statutory auditors' review report issued in French and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable in France. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.*

To the shareholders,

In compliance with the assignment entrusted to us by the shareholder's meeting and in accordance with the requirements of article L. 451-1-2 III of the French Monetary and Financial Code (Code Monétaire et Financier), we hereby report to you on:

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

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

## **I – Conclusion on the financial statements**

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

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

Without qualifying the conclusion expressed above, we draw attention to the note 3 “Inventories” which discloses the impacts of the change in accounting estimate of the inventories valuation.

## **II – Specific verification**

We have also verified the information given in the half-yearly management report on the condensed half-yearly consolidated financial statements subject to our review.

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

Levallois-Perret and Paris La Défense, September 25, 2018

The Statutory Auditors  
*French original signed by*

**HAF Audit & Conseil**  
**Member of Crowe Global**

**Deloitte & Associés**

Marc de Prémare

Frédéric Souliard

# **Statement from the person responsible for the half-year financial report**

I hereby certify, to the best of my knowledge, that the condensed consolidated financial statements for the half-year ended have been prepared in accordance with the applicable accounting standards and provide a true and fair view of the assets, liabilities, financial position and earnings of the Group, and the half-year activity report provides a true and fair view of the significant events that occurred during the first six months of the year, their impact on the financial statements, and the main transactions between related parties, as well as a description of the main risks and uncertainties for the second half of the year.

Villepinte, September 25, 2018

Yves L'Epine

Chief Executive Officer