



Virbac

SUSTAINABLE DEVELOPMENT

**Shaping the future
of animal health**

Company profile

Presentation

STRATEGY AND ANALYSIS

G4-1 Statement from the senior decision-maker on the importance of sustainable development for the organization and its strategy

"We do not inherit the Earth from our parents, we borrow it from our children" (attributed to Saint-Exupéry). This awareness should be what drives how people behave towards the Earth. Virbac understands this well.

There are several reasons why long-term development is natural for Virbac. The majority of Virbac's capital is controlled by one family, that of its founder, Dr Pierre-Richard Dick. His profoundly humane values have distinguished the company and remain the foundation upon which the company strategy is built. As with many family businesses, the ability to envisage the long-term and to act accordingly is part of its genetic make-up. Furthermore, being a listed company only serves to advance this vision, because increasing numbers of shareholders favor companies whose strategy includes sustainable development goals that foster, rather than impede, economic performance. Virbac's mission, to create, manufacture and sell veterinary medicines and in a broader sense, animal health products, puts the company at the heart of the food chain and the "One Health" ecosystem, where it is understood that the health of all living beings on Earth is intrinsically linked. Its customers, veterinarians, farmers and animal owners are becoming increasingly mindful of their impact on the environment and human health. As a result, Virbac is naturally driven to direct its activities accordingly.

The Group's growth both in France and internationally leads to additional requirements. Virbac is deeply rooted in its place of origin, the Côte d'Azur. Its visibility grows with its workforce and its investment in its place of origin. So it must endeavor to set both a social and environmental example for its employees and its community. At the same time, however, Virbac has also become a global company that derives over 60% of its revenue from outside Europe and whose subsidiaries are located in 32 countries across every continent. The company must ensure that this development complies with certain common guiding principles, regardless of where it operates, particularly in relation to social and environmental issues, all while incorporating development targets.

Since 2012, the company's sustainable development strategy has been audited once by one of the company's statutory auditors. The audit relies on a solid basis in three areas.

In the social sphere, respect for human beings was one of the key values of the company's founder: conducting real social dialogue, a proper compensation and social security policy for employees at the lower end of the salary scale, and the trust and interest granted to every employee are part of Virbac's traditional values. The company is committed to preserving and fostering this legacy by complementing it with ambitious skill development policies.

In the environmental sphere, the company's operations themselves guarantee strict quality requirements (for example, by ensuring compliance with good manufacturing and laboratory practices). In addition, several years ago the company embarked on a continuous improvement strategy designed to consistently cut waste and optimize the use of resources. The search for energy efficiency and environmental friendliness are increasingly being systematically integrated into the company's key decisions (investment, transportation, product design, etc.).

In the financial sphere, the company's objective is to pursue the consistent and profitable growth it has seen almost annually since it was founded. This development is based mainly on solid organic growth, driven by innovation and the strength of Virbac's customer relationships. The company regularly boosts its development through targeted acquisitions, all the while ensuring a controlled level of net debt. This strategy is pursued as part of a straightforward and clear governance structure, providing shareholders with a high level of transparency. Without overdoing the communication, Virbac uses a genuine approach, targeting long-term development that respects customers, employees, shareholders, partners and its environment.

Sébastien Huron

G4-2 Description of key impacts, risks, and opportunities

As an animal health stakeholder, Virbac designs, manufactures and sells veterinary medicines, vaccines, and general health products to prevent disease, to improve animal well-being and health, including those of food producing animals, thus contributing to a more abundant, higher-quality, less expensive worldwide supply of meat and milk. The challenge is to meet the steadily increasing quantitative and qualitative food demands of a growing global population that wants to eat better. Virbac also offers veterinarians and owners of companion animals medicines, vaccines and health products and a range of food products that are tailored to carnivores (in keeping with the animals' needs) and that prolong the lives of animals and improve their quality of life. This in turn contributes to the increased well-being of the owners and is of particular benefit to people who live alone. Through its research, development and in-licensing efforts, Virbac has managed to provide veterinarians with an alternative to surgical castration, treatments and vaccines against infections that are still hardly combated (for example, the vaccine and treatment for canine leishmaniosis) or that present a new epizootic risk.

The risks that weigh on Virbac, as they do for all veterinary pharmaceutical companies, are the following:

- producing medicines or vaccines of inadequate pharmaceutical quality, which could have negative effects on the health of animals and, in turn, on humans. The obligation to obtain a Marketing authorization (MA) from health authorities, the obligation to comply with good laboratory and good manufacturing practices, as well as the obligation to establish adequate quality assurance and quality control procedures to reduce the Group's exposure to this risk;
- not being sufficiently innovative to respond to the needs of veterinarians, farmers, and animal owners, for numerous reasons:
  - insufficient R&D budgets for maintaining an innovative edge over our competition;
  - lack of quality projects for obtaining new molecules, new vaccines or new differentiated products;
  - taking on excessive risk, particularly in insufficiently regulated countries, which could lead to market penetration by products that are insufficiently effective or even potentially hazardous;
  - excessive caution in well-regulated countries that could lead to insufficient innovation that is detrimental to the community.
- taking environmental risks or risks to the health of employees due to insufficient management of certain materials used in the composition of medicines or used in the R&D or production processes.

Detailed analysis of risks based on the Group's internal mapping is available on page 99 of the annual report.

As for any industrial company, there are opportunities for improvement in the environmental sphere:

- industrial policy that encourages local production (from one to three production sites per large world region) to limit the transportation of finished products. However, there are opportunities to optimize the transportation of finished products, as well as raw materials, that would further limit emissions of CO₂;
- energy use at the various production sites can be further reduced by optimizing processes, better insulating the various operations buildings, and constructing new buildings with better environmental quality standards. Continued optimization of water consumption may also be pursued. Within the limitations of pharmaceutical regulations, it is possible to increase the portion of recyclable materials converted into finished products. The volume of waste generated from the various sites can be further scaled back and the percentage of sorted waste can be increased.

In the social sphere, the main areas of improvement are found in an improvement in employee safety in the workplace: the reduction of work-related accidents, better protection from potentially hazardous materials, improved ergonomics and management of psychosocial hazards. Continuing to improve skills through training and better diversity management are also areas of progress pursued by Virbac.

Finally, in the economic sphere, there are three areas of improvement:

- helping customers to better prescribe and better use the products, by promoting the responsible use of veterinary medicines through suitable support and training activities;
- further developing relations with suppliers who are involved in sustainable development practices;
- extending risk management practices throughout the Group.

PROFILE OF THE ORGANIZATION

G4-3 Name of the organization

See pages 9, 136 and 190 of the annual report.

G4-4 Primary brands, products and/or services

See page 244-245 of the annual report.

G4-5 Location of the organization's registered office

See page 136 of the annual report.

G4-6 Number of countries in which the organization operates, and the list of countries with either major or particularly important operations in terms of matters of sustainable development dealt with in the report

See pages 190 of the annual report.

G4-7 Type of ownership and legal structure

See pages 125 and 136 of the annual report.

G4-8 Markets in which the organization operates (including geographic distribution, sectors served, and types of customers or beneficiaries)

See pages 66 to 74 of the annual report.

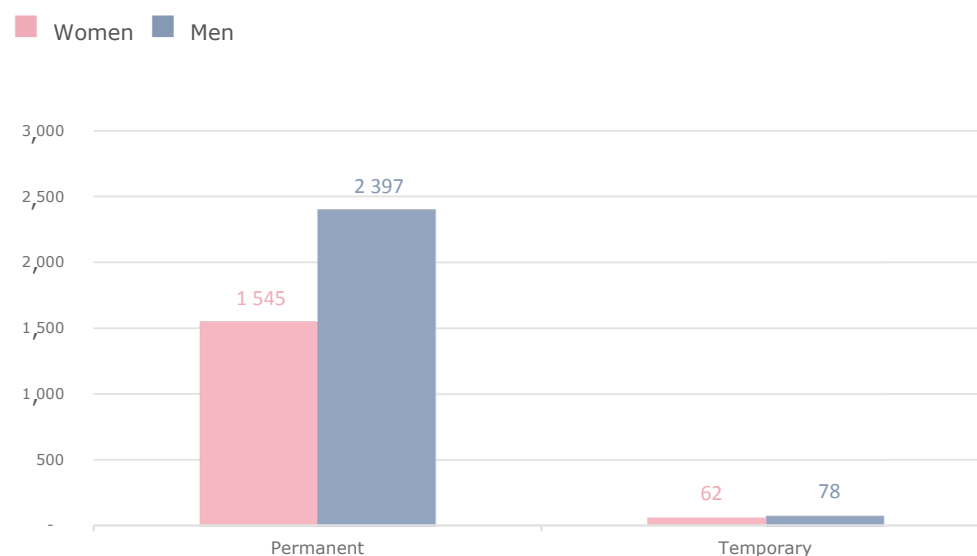
G4-9 Size of the organization (total number of employees, sites, net revenue, total capital broken down into liabilities and equity, product quantities and services provided)

See pages 44 and 78-81 of the annual report.

G4-10 Total workforce by gender, type of employment, employment contract, and geographical area

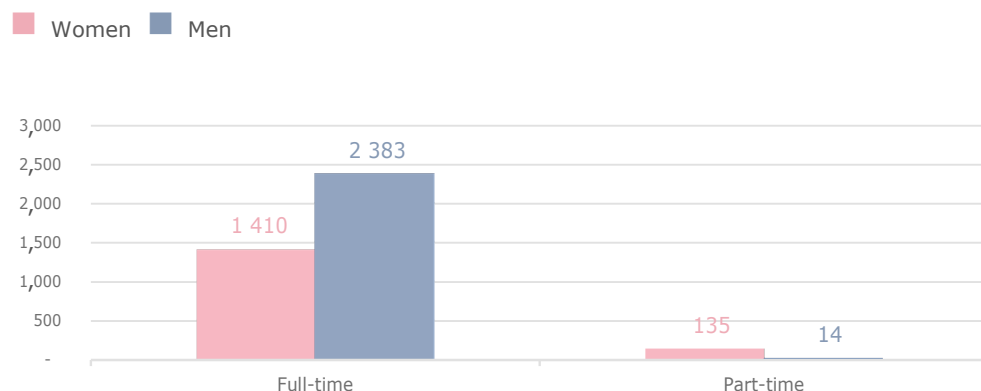
The scope of the workforce for 2017 covers 16 countries and represents 4,082 employees or 85% of the total staff. The change in the permanent workforce is -0.33% (3,942 in 2017 compared to 3,955 in 2016). On the social reporting scale, the total number of staff dropped by 13.

Breakdown of total employees (by number)



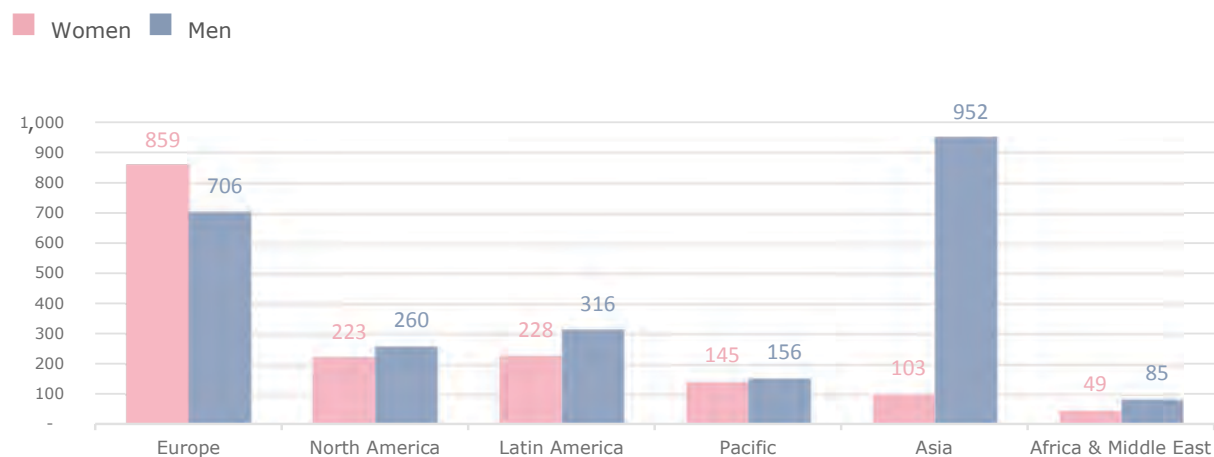
Temporary workforce includes contracts terminating at the end of a specified period or when a specific task, given an estimated date of completion, is completed.

Breakdown of permanent employees (by number)



Within the permanent workforce, 9% of women work part-time and thus account for the vast majority of part-time contracts (91%).

Regional breakdown men/women (by number)



Europe remains the only geographical area where women are in the majority (54% of the workforce). The Pacific areas with 48% and North America with 46% are very proportionally balanced. Latin America with 42% and Africa and the Middle East with 37% show a more significant imbalance. Asia has the lowest number of women in the workforce (10%). This very low representation is due to India, which has only 2.5% women. This country remains a special case: the sales teams, for reasons of local culture, difficulty and security (visits to farms on two wheels) are more naturally composed of men. Excluding India, the Asia area accounts for 216 employees and consists mostly of men at 62%.

G4-11 Percentage of employees covered by a collective agreement

Each subsidiary of the Virbac group applies the social regulations in force in its country regarding collective wage bargaining obligations.

Employees covered by collective agreements

Australia	0%
Brazil	100%
France	100%
Germany	0%
India	72%
Italy	0%
Japan	0%
Mexico	7%
South Africa	0%
Spain	98%
United States/Canada	17%
United Kingdom	0%
Colombia	96%
Vietnam	0%
Uruguay	100%
New Zealand	0%

G4-12 The organization's supply chain

SUPPLIERS	PRODUCTION ASSEMBLY	WAREHOUSING DISTRIBUTION	CUSTOMERS SALES
3 categories of suppliers directly connected to industrial activity (worldwide): - Approximately 900 suppliers of raw materials and packaging (€120 million worth of purchases); - Approximately 100 fabrication subcontractors (€65 million worth of purchases); - Approximately 40 suppliers of finished products (€35 million worth of purchases).	2 industrial site categories: - Virbac plants (located in 10 countries), whose products have generated 63% of the Group's revenue; - External industrial sites (located all over the world), whose products have generated 37% of Group's revenue.	2 distribution center categories: - Virbac internal distribution centers (located in the country or area of each subsidiary); - External distribution centers (located all over the world). - Internal and external distribution costs account for 3.6% of the Group revenue.	2 customer categories: - User customers (veterinarians, farmers, integrators, animal owners); - Intermediary customers (central purchasing units, distributors and wholesalers). 8,376 product references have been sold to these customers located in more than 100 countries.

2017 data

To supply its factories, Virbac buys the active ingredients, excipients and packaging from suppliers meeting high standards of quality and reliability. All new suppliers of raw materials and of primary packaging are subject to a rigorous qualification procedure aimed at limiting disruptions in supply. Whenever possible, Virbac strives to qualify several sources for the same need.

Purchases of industrial equipment are also subject to rigorous selection that prompts Virbac to work with the leaders in industrial pharmaceutical equipment for important investments. Selection of new development partners is done in the same vein by multidisciplinary teams who ensure that they meet the most stringent reliability criteria and the best standards.

For certain products for which the industrial investments may not be reasonably amortized, Virbac calls upon a network of sub-contractors specialized in pharmaceuticals: aerosol, freeze-drying, tablets, etc. Production is carried out in close proximity to the regions in which the products are sold, with certain exceptions for very high-tech products such as biological products.

Other than purchases directly linked to development and production, Virbac makes €220 million worth of Group-wide purchases:

- products and services related to marketing, sales forces and communication (promotional and advertising items, design or post-production agency services, advertising space, and at an earlier stage, market studies, not to mention digital media and events such as seminars and conferences);
- products and services not linked to production, commonly called "indirect" products or services (intellectual services, travel, facility management, energy, temporary workers, training, IT and telecommunications);
- products and services indirectly linked to production and R&D (consumables, chemical products, maintenance, parts);
- investments for the whole Group (€40 million, two-thirds of which are for production) earmarked for equipment, construction and small materials.

To cover all its needs, Virbac calls upon several thousand suppliers around the world. The Group's purchases are managed by dedicated teams at headquarters and in the regions, sharing a set of good practices.

G4-13 Significant changes in the organization's size, capital or supply chain during the reporting period

See pages 74 and 125 of the annual report.

COMMITMENTS TO EXTERNAL INITIATIVES

G4-14 Explanation of the organization's position as to approach or precautionary principle and its actions regarding this matter

Given the very nature of pharmaceutical activities, Virbac systematically considers the precautionary principle. However, the Group ensures that this principle does not disproportionately impact the innovation process by favoring, when appropriate, a risk/benefit analysis.

G4-15 Economic, environmental and social charters, principles, and other external initiatives the organization endorses or supports

Virbac's commitments are based on the principles set out in the following international documents:

- the Universal declaration of human rights;
- the international conventions of the International labor organization;
- the guiding principles of the Organization for economic co-operation and development (OECD) as regards multinational companies.

G4-16 Membership in professional associations or national/ international advocacy organizations in which the company holds management positions or in which it participates in projects or committees, or provides funding above routine contributions or where it considers its membership as strategic

As with all the large veterinary pharmaceutical companies, Virbac is a member of the main professional organizations representing animal health nationally, regionally or worldwide.

Among the main professional organizations:

- at the national level
  - SIMV (*Syndicat de l'industrie du médicament vétérinaire* [Association for animal health industry]) in France
  - Noah (National office of animal health) in Great Britain
  - BfT [Federal association for animal Health] in Germany
  - AISA (Italian association of environmental sciences) in Italy
  - VeterIndustria in Spain
  - AHI (Animal health institute) in the United States
- at the regional level
  - AnimalhealthEurope (the voice of the animal medicines industry)
- at the worldwide level
  - HealthforAnimals (Global animal medicines association)

Virbac's representatives regularly participate in the work of these professional organizations through teleconferences, email consultations and in-person meetings. The main objective is to contribute to common work, to make Virbac's voice heard and to distribute internally such information as may be useful to the company.

The representatives take part:

- as experts in working groups

For example, at the national level, Virbac is present in 26 working groups in the *SIMV*. At the European level, Virbac is a member of 15 working groups, mainly technical and regulatory.
- in governance capacity within these organizations

At the national level, Virbac is on the board of directors of the *SIMV*, Noah, AISA, VeterIndustria, BfT (in this last organization, Virbac's representative was elected chairman of the board of directors in 2015). At the regional level, Virbac is on the board of directors of AnimalhealthEurope, whose headquarters is in Brussels. At the international level, Virbac is on the board of directors of HealthforAnimals, as vice-chair.

In terms of financing, Virbac contributes to these professional organizations through the payment of a membership fee based on the revenue it generates in the territory in question.

RELEVANT ASPECTS AND SCOPES IDENTIFIED

G4-17 Operational structure of the organization, including its main divisions, operating entities, subsidiaries and joint ventures

See pages 190 and 220 of the annual report.

G4-18 Process of definition of content and scope of aspects

An internal sustainable development working group, led by the chairman of the executive board, has been in place for the past ten years. All of the company's departments are represented in this task force: Human Resources, Finance, Marketing, Risk, Safety, Regulations, Sourcing, Legal, Communication, etc. During collective and sub-group meetings, the content of the report is defined and then produced according to two specific criteria: relevance of topics in relation to the Group's activity, and compliance with the *Grenelle II* law of France.

In terms of data collection, the working group relies on an optimized production and recovery process, thanks in particular to standardization of indicators and reporting scope within a dedicated baseline used in the Group's major subsidiaries. This optimization also applies to the organization and training of a network of local correspondents specifically assigned to the major areas of sustainable development: environmental, social and economic.

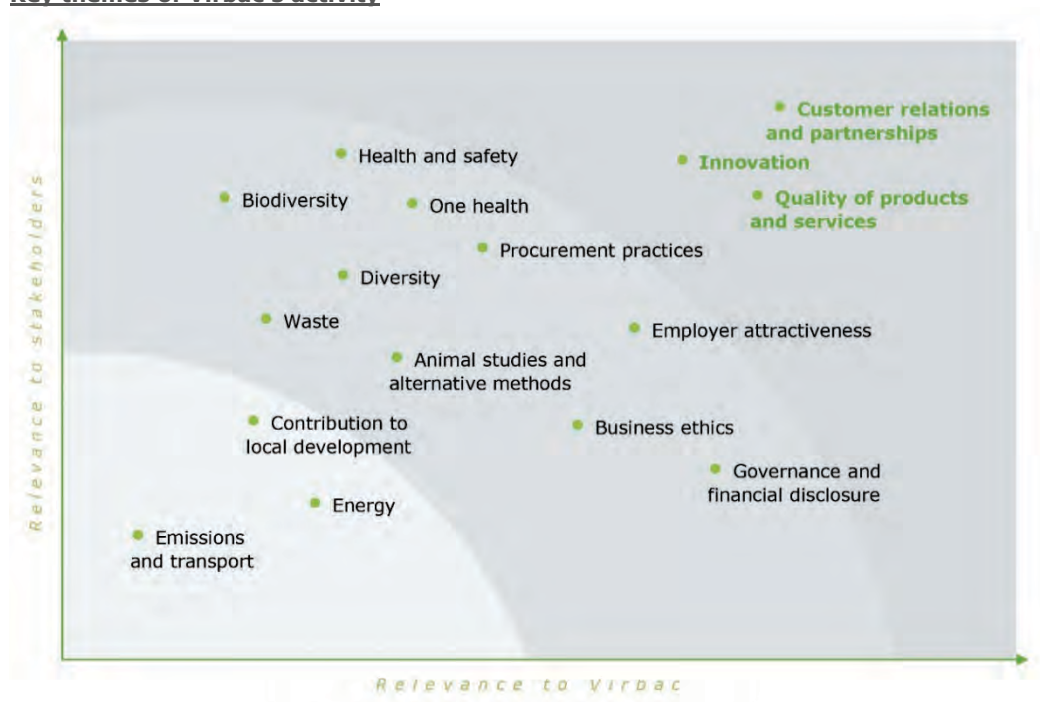
In 2015, Virbac gave some strategic thought to CSR (Corporate social responsibility) and conducted an analysis of materiality in order to assess the key issues for the Group in terms of sustainable development. To do this, Virbac used a third-party expert, who directed the analyses and assessments.

This strategy was carried out using a methodology involving factual analysis of credible external and internal sources:

- hosting workshops with the internal sustainable development working group (within which all departments are represented) for reflection on the most important of the key CSR issues;
- sharing information about surveys and internal and external communication support;
- reviewing sectoral documentation;
- media analysis, etc.

Based on a materiality threshold defined at the confluence of internal expectations (impact of the key issues on Virbac's activity and business model) and external expectations (importance of the stakeholders' expectations), the results were summarized and submitted to the chairman of the executive board for approval. The office of the non-financial reporting specialist that assisted throughout the entire process guaranteed its independence and objectivity.

Key themes of Virbac's activity



G4-19 Relevant aspects (key themes) identified in the content process

The significant key issues in the analysis of materiality are as follows.

- Relations and customer partnerships: key issue GRI G4 "Communication and Marketing"
- Quality of products and services: key issue GRI G4 "Consumer health and safety"
- Innovation: a Virbac-specific key issue

G4-20 Scope of each relevant aspect within the organization

The three key issues (Customer relations and partnerships, Quality of products and services, Innovation) are relevant and of material importance to all the organization's activities.

G4-21 Scope of each relevant aspect outside of the organization

The three key themes for Virbac's activity (Customer relations and partnerships, Quality of products and services, Innovation) are also relevant outside of the organization for the stakeholders listed in G4-24.

G4-22 Reasons for and implications of any reworded information communicated in previous reports

A more standardized methodology based on a consistent definition of the indicators and support to the local correspondents was implemented in 2012. In certain cases, it can be difficult to compare with previous data. In the event that amendments were made, they are explained in the appropriate sections.

G4-23 Significant changes to the field of study and the scope of aspects compared to previous reporting periods

In 2017, the production subsidiary PP Manufacturing (United States) was also included in the social scope.

STAKEHOLDER INVOLVEMENT

G4-24 List of stakeholder groups included by the organization

The Group's main stakeholders are veterinarians, distributors, farmers, animal owners, employees, regulatory authorities, suppliers, associations, shareholders and communities.

G4-25 Basis of identification and selection of stakeholders with whom to engage

Listening to stakeholders is a key component of Virbac's sustainable development strategy when it comes to knowing the expectations of its customers, employees, suppliers, scientists, residents near its sites, public authority representatives, and non-governmental organizations.

The stakeholders with whom Virbac is actively involved are identified by factors such as:

- their contribution to a better definition of needs within the Group's areas of activity;
- their alignment with the company's strategy and their added value;
- their expertise in the field;
- staff involvement in the company's operations;
- their perception of the Group's activities and products.

G4-26 Frequency of dialogue by type and by stakeholder group, possible consultation with specific stakeholders as part of the preparation of the report

STAKEHOLDERS	APPROACH AND FREQUENCY OF DIALOGUE
Veterinarians Farmers Animal owners Distributors	Continuous product information via advertising Continuous information on specific animal diseases Continuous support programs for veterinarians and farmers Technical call centers in France, United States, etc. Conferences, specialized trade shows, scientific conferences Permanent websites Market research Presence on social networks
Financial community Investors Analysts SRI funds	Meetings between analysts and investors Annual shareholders' meeting Website including all regulatory information Multi-platform financial bulletins
Suppliers Partners	Regular monitoring of the Group's main suppliers (annual meetings) Audit plan for the Group's main suppliers Formal exchanges at each call for tender and for the main suppliers based on financial, environmental, ethical and quality criteria
Public authorities Regulatory authorities Professional animal health associations	Regular communication with regulatory managers and the decision-makers on critical questions that affect the pharmaceutical industry, the scientific community and Virbac's customers Participation in industry-specific working groups
Civil society Non-governmental organizations Journalists	Multiple contact options via the Group's website Transparency of and accessibility to the Group's official reports Local contributions to NGO initiatives
Scientific community Research partners Opinion leaders Universities/veterinary schools Veterinarians	Establishment of research partnerships Contributing to scientific education programs Organizing technical symposia
Employees Applicants	Intranet, magazines, presentations and in-house messaging boards Loyalty and onboarding programs for employees Annual conferences Plenary meetings for managers and employees twice a year Internal opinion survey and world compilation every two years Recruitment websites, professional forums and corporate culture on the Internet Partnership with schools and universities

G4-27 Key themes and concerns raised during dialogue with stakeholders and the manner in which the organization has responded, particularly in its reporting.

See "Strategy and analysis", points G4-1 and G4-2. Virbac's approach is to foster dialogue with stakeholders at the local level. The Group does not consolidate all actions taken by the various subsidiaries in this area, except those regarding social issues in regards to which an internal opinion survey, coordinated by headquarters, is conducted every two years, for all Group employees. Based on the results (see pages 79-80 of the annual report), the Group is committed to initiatives for progress in terms of management and communication.

REPORT PROFILE

G4-28 Reporting period

January 1st, 2017 – December 31, 2017.

G4-29 Date of last published report (if any)

This document is Virbac's tenth annual sustainable development report and the sixth to have been audited for completeness of content and screened for environmental and social indicators by an independent auditor. In addition, this document was designed in accordance with GRI G4 guidelines. The latest Virbac sustainable development report was published on April 30, 2017.

G4-30 Reporting cycle (annual, biennial etc.)

Annual.

G4-31 Whom to contact with queries about the report or its contents

Arnaud Brisset - Corporate Communications manager - arnaud.brisset@virbac.com

G4-32 Index of GRI content

The detailed index is available below. The compliance option chosen by Virbac for its second report using G4 guidelines is "essential". Virbac's material key issues are identified by the symbol **"KEY ISSUE"**.



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VIRBAC KEY THEME

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G4-33 Policy and practices regarding the external audit of the report

This report was audited by one of Virbac's statutory auditors at Deloitte. This audit, in accordance with regulations, has two goals: to certify that the report contains all sustainable development information required by law and to confirm the veracity of all information published under this regulation. See statement on pages 62 to 63 of the annual report.

GOVERNANCE

Since 1992, Virbac has used a dual governance structure with an executive board and a supervisory board. For the purposes of this report, the term "highest governance body", used by the GRI G4 guidelines, may refer to either the supervisory board (indicators G4-34, G4-38, G4-45, G4-46, G4-47), or to the executive board (G4-35, G4-36, G4-51).

G4-34 The organization's governance structure, including the committees that report to the highest governance body

See pages 104 and 110 of the annual report.

G4-35 Delegation process for powers of highest governance body to senior managers and other employees as they pertain to economic, environmental and social themes

Delegations of powers of the executive board to senior managers as they pertain to the economic, environmental and social themes adhere to the same plan as that which applies to other delegations of powers within the organization. For more details, see page 85 of the annual report.

G4-36 Indicate whether the organization has appointed one or several senior managers in charge of economic, environmental and social themes, and whether they report directly to the highest governance body

The economic, environmental and social themes are at the confluence of the Group's various departments. Virbac's main departments responsible for these topics are the Hygiene, Safety, Environment, Financial Affairs and Human Resources departments. All these departments are represented on the Group's strategic committee and all report to the chairman of the executive board. The chief financial officer is also a member of the executive board.

G4-38 Describe the composition of the highest governance body and its committees according to the following breakdown: executive or non-executive; independence; functions in the governing body; number of other positions and appointments of each member and the nature of their appointments; gender; members belonging to under-represented social groups; jurisdiction over economic, environmental and social impacts; stakeholder representation.

See pages 104 and 110 of the annual report.

G4-39 Indicate whether the chairman of the board of directors (or equivalent) is also an executive director (and, in that case, describe their functions in the organization's organizational chart and the reasons for this arrangement)

Virbac has adopted a dual governance structure with an executive board and supervisory board. No member of the supervisory board has an executive role within the Group.

G4-40 Process of determining the qualifications and expertise required by members of the board of directors (or equivalent), including any consideration for gender and any other diversity indicator

See pages 104 and 110 of the annual report.

G4-45 Role of the highest governance body in the identification and management of impacts, risks, and economic, environmental and social opportunities

At the end of 2009, the Virbac group set up a Risk Management department that reports to the executive board. Its top priority was to create a map of the major risks for the Group, which has been updated twice. This map was last updated during the last quarter of 2015.

At the same time, roll-out of the risk management mechanism was underway in subsidiaries posing a significant challenge for the Group. This mechanism involves creating a map of the subsidiary-wide risks, appointing risk owners, and implementing and following up on action plans in dealing with major subsidiary-wide risks. In 2016, this mechanism was deployed in the South African and French subsidiaries. The map of the Mexican subsidiary has also been updated. In 2017, particular emphasis was placed on the action plan follow-up process and supporting risk owners.

G4-46 Role of the highest governance body in the review of the effectiveness of the organization's risk management processes pertaining to economic, environmental and social themes

The map of the Group's major risks are regularly presented to the supervisory board, which validates the contents. The risks taken into account include the company's economic, environmental and social risks. Risk owners are appointed to define, implement and oversee action plans on priority risks. The result of these activities is presented annually to the supervisory board, together with the objectives and directions of the Risk Management department for the following year.

In 2017, the Group furthered its efforts to develop the risk culture. These include:

- internal training entitled "Risk Management: the Fundamentals" (about a dozen managers trained in 2017);
- the deployment of an IT tool specifically dedicated to risk management (deployed at the headquarters and in seven subsidiaries);
- the continuation of a project on securing major Group products (sponsored by two members of the executive board and piloted by the Risk Management department);
- the continued deployment of a code of conduct drafted in 16 languages and disseminated to all Group employees and the training of a large number of leaders and managers in accordance with the principles and rules described in this document.

G4-47 Frequency of review of the impacts, risks, and economic, environmental and social opportunities by the highest governance body

Maps of the various entities are updated approximately every three years. This may vary depending on the environment in which the entity is developing. In 2016, the map of the Mexican subsidiary was updated.

Nevertheless, the action plans implemented on major risk factors are meticulously managed by the risk owners. As for the Group's major risks, the progress status of the action plans will be conducted on a quarterly basis between the risk owners and the Risk Management department.

G4-51 Current compensation policy for the highest governance body and senior managers

See page 113 & 114 of the annual report.

G4-53 Method of seeking and taking into account stakeholder opinions on matters of compensation, including the results of votes on policies and proposals on compensation for governance staff and senior managers

Since the annual shareholders' meeting of June 17, 2014, Virbac annually submits resolutions to its shareholders for consultation on all of the components of compensation for the members of the executive board. At the 2017 annual shareholders' meeting, these resolutions received 90.2% of votes in favor of the chairman of the executive board and all other members of the executive board.

ETHICS AND INTEGRITY

G4-56 The organization's behavior-specific values, principles, standards and rules, such as codes of conduct and codes of ethics

Virbac's values are widely disseminated throughout the Group and are referred to at each major event in the life of the company. They are explained at a presentation systematically given by one of the Group managers for all newcomers. This presentation, the Virbac Way, illustrates how the company's values and strategic guiding principles are implemented in the various Group entities.

In 2015, Virbac implemented a code of conduct, drafted in 16 languages and disseminated to all of the Group's employees. This code of conduct, about thirty pages in length, describes the standards and rules to be adhered to in the main areas related to the life of the company, grouped under four main themes: conducting business, protection of assets, business and privacy and social responsibility of the company.

In 2016, Virbac updated its Group anti-corruption policy, which is now available in 10 languages. Members of the executive board, members of the strategic committee, members of the France committee and the Group's subsidiary managers signed a document formalizing their commitment to comply with this policy.

In 2016, Virbac recognized the new European rules on market abuse. Various presentations on this topic were given especially for members of the executive board, the supervisory board, members of the strategic committee, members of the France committee and the finance department. A market abuse prevention policy written in 3 languages was disseminated internally; it includes the changes related to this new regulation.

In 2017, Virbac approved an action plan for complying with the requirements of article 17 of the Sapin II law of December 9, 2016, which requires the establishment of a Group-wide corruption risk prevention program. As part of this action plan, Virbac feels that its anti-corruption policy is in keeping with the code of conduct referred to in point II 1°) of article 17 of the aforementioned law and included this anti-corruption policy in the internal regulations for French companies. Thus, Virbac committed to corruption risk mapping by resorting to the tools and methodologies used for the Group's overall risk mapping. The results of this mapping are being analyzed and will serve as the basis for deployment of other planned actions in the aforementioned action plan.

G4-58 Internal and external mechanisms used in claims relating to unethical and unlawful behaviors and to issues regarding the integrity of the organization

Virbac's code of conduct gives a specific email address for each topic broached, allowing employees to approach in a confidential manner a senior manager specialized in the area in question. The code of conduct is preceded by an introduction by the chairman of the executive board inviting employees to contact the departments mentioned in the document should they have any questions or should they witness behavior that breaches the rules defined in the code of conduct.

Economy

Performance indicators

Dedicated exclusively to animal health for over fifty years, Virbac aims to continue its development in harmony with its environment and with its workers. It also wants to ensure the continuity of the Group through sustainable and profitable growth. In 2017, Virbac showed slightly lower organic growth (-0.5%). This reflects a contrasting situation with, on the one hand, strong growth outside the United States, particularly in developing countries, and on the other hand, a drop in the United States, where the recovery has been slower than planned.

As part of its strategy, Virbac supports its development through regular new product launches, the strength of its large portfolio and a global presence reaching into all the major markets in both developed and developing countries. Virbac also benefits from a stable shareholder family that favors constant and long-term growth over short-term goals. In terms of sub-contracted production activities (licensing products or production sub-contracted to a third party), they account for more than a third of the Group's revenue in 2017, as a result of the acquisition of Sentinel products manufactured externally over the period. The suppliers in charge of manufacturing these products are managed according to the assessment procedures described in the G4-HR5 and G4-HR10 indicators.

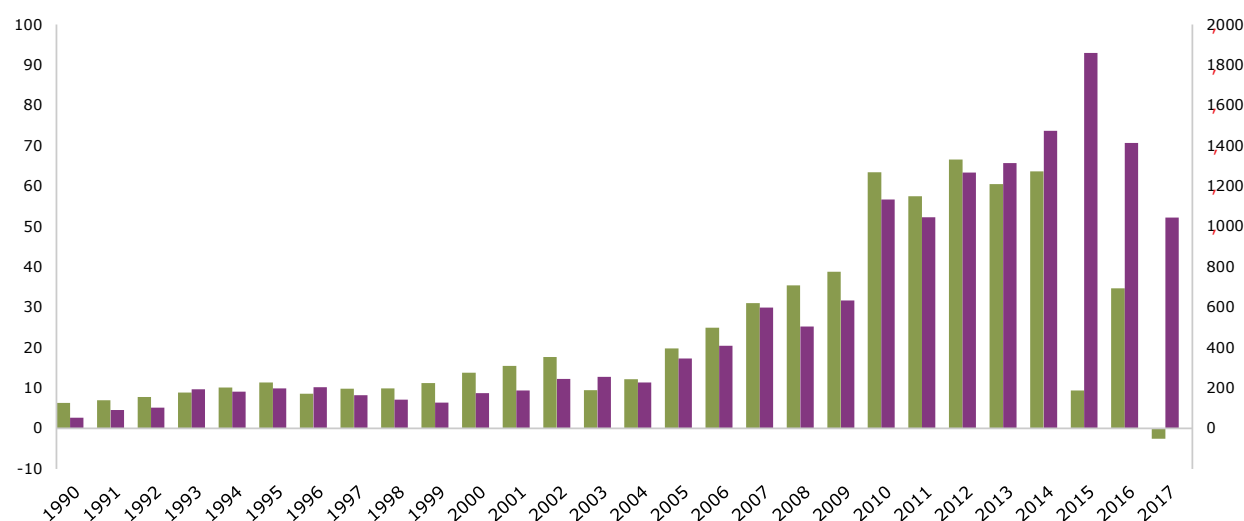
Change in revenue (in € million) and Group workforce

■ Revenue ■ Workforce



Change in net profit and market capitalization (in € million)

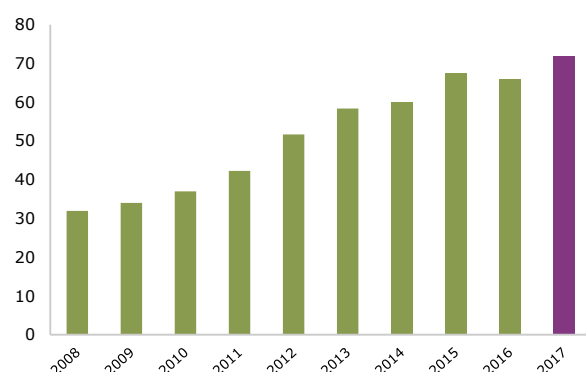
■ Net profit - Group share ■ Market capitalization as at 31/12



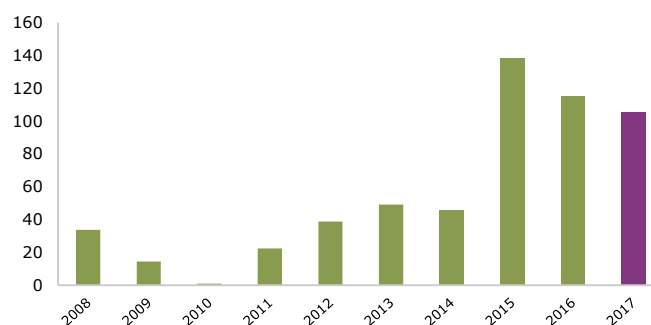
Virbac pursues a policy of investment and innovation that ensures the continuity and independence of the company. Also, Virbac independently sustains its internal and external growth. The resources thus identified support funding for innovation that is geared towards meeting the needs of customers.

In 2017, resources dedicated to innovation (research, development, licensing) accounted for 8.4% of its revenue.

R&D expenses + Licensing (in € million)



**Net debt/equity
Group share (in %)**



Figures as of 2015 include funding for the acquisition of Sentinel brands in the United States.

ECONOMIC PERFORMANCE

G4-EC1 Direct economic value generated and distributed, including products, operating costs, performance and employee compensation, donations and other investments for communities, retained earnings, payments to capital providers and governments

For data related to direct economic value generated, distributed economic value and undistributed economic value, refer to the annual report on pages 72-73 and 130 to 136.

G4-EC2 Financial implications and other climate change-related risks and opportunities for the organization's activities

The Group has not as yet carried out an analysis of the impacts of its activities on climate change.

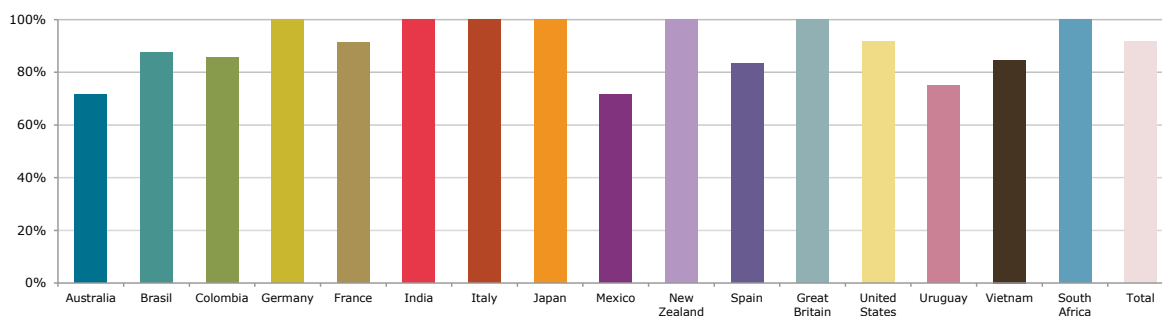
MARKET PRESENCE

G4-EC6 Proportion of locally hired senior managers in the main operational sites

When it's a matter of recruiting for key positions, internal candidates are preferred. Recruitment decisions (internal or external) are based exclusively on the skills and qualification criteria for the position. The candidate's nationality does not play a role in the decision.

Virbac staffs, to the extent possible, leadership positions with local managers in order to be closer to clients and the market culture. At the same time, the Group pursues a policy of skills development at the international level, which supports managers vying for positions with international exposure. In 2017, in the sixteen company subsidiaries, 92% of senior managers were local hires and the management of seven subsidiaries were made up strictly of local hires.

Proportion of locally hired senior managers (in %)



INDIRECT ECONOMIC IMPACTS

G4-EC7 Development and impact of investments in infrastructure and services, mainly public, carried out via a commercial service, in-kind or pro bono

A few examples in France: the donation of dog and cat food to the *Société protectrice des animaux* (SPA) and the contribution to the Virbac corporate foundation.

G4-EC8 Substantial indirect economic impacts, including their importance

Animal health is at the heart of healthy ecosystems. For this reason, the Virbac corporate Foundation financed the implementation of the "Screening, control and prevention of zoonoses in the Great Limpopo transfrontier park (Zimbabwe)" program in 2017. The objective of this project is to improve animal health, as much for wild as for domestic animals across the ecosystem of this park, surrounded by Shangaan communities. The main actions carried out in 2017 include: raising awareness of zoonoses, improving livestock nutrition, vaccinating domestic carnivores against rabies, and providing safe drinking water to reduce the risk of disease transmission and conflict between humans, wildlife and domestic animals.

G4-EC9 Share of spending with locally-based suppliers in the main operational sites

Virbac works with regional suppliers when their conditions are competitive and in line with the requirements of the Group's subsidiaries. In 2017, the proportion of purchases made with regional suppliers amounted to 19% of total purchases. By regional suppliers, Virbac is referring to those located in the same geographical area as the subsidiary (or the industrial site), depending on how the country in question is zoned. For example: for the Carros site - France, the Provence-Alpes-Côte d'Azur region; for the American sites in Forth Worth and St. Louis, Texas and Missouri; for Australia, New South Wales, etc.

Environment

Performance indicators



In each of the Virbac group's industrial sites, resources and impacts are monitored and managed according to key indicators. They relate to energy consumption and natural resources (water, electricity, gas, fuels), emissions into water, air and the quantity of waste generated.

The scope of the principal environmental indicators covers all the major production sites, representing nearly 60% of the Group's revenue in 2017: South Africa, Australia, Brazil, the United States, France, Mexico, New Zealand, Uruguay and Vietnam (excluding Chile, which is a joint-venture). For reasons of reporting maturity, certain indicators are collected within a more limited scope and the Group is continuously working to expand this. All the exclusions or possible focus countries are specified. Note that 2017 packaging and waste data for the St. Louis site in the United States were not reported.

The Grenelle II provision on ground use has not been covered, having been deemed non-applicable to the Virbac group's activities and establishments. Finally, following the publication of the French decree of May 3, 2012 concerning the compulsory provision of financial guarantees for securing certain facilities classified for environmental protection, Virbac established, in 2016, a financial guarantee in France of €124,164.

Circular economy

Taking into account its activity, the Virbac group is not concerned with actions to combat food waste. The establishment of the waste collection and sorting channels described in the report on page 54 also aims to establish circular economies. It should be noted that the reuse of waste is not applicable to pharmaceuticals.

Environmental protection: training and provision of information for employees

To sensitize its teams to key environmental issues, Virbac has carried out several activities within France since 2012. In concrete terms, these were the implementation of a training process for jobs subject to Environment and Security regulations, as well as the provision of welcome sheets to new employees explaining the environment and health regulations to be adhered to. Since 2013, an HSE component has been included in the welcome program for new employees. In 2015, with the creation of the HSE Corporate board and its connection to the chairman, an audit program was built. Also since 2015, the subsidiaries in Mexico, Australia, Taiwan, Vietnam United States, Uruguay, New Zealand and Chile have been audited at least once a month: an action plan for each of these subsidiaries was established, including regular monitoring by the HSE Corporate board and local stakeholders.

MATERIALS

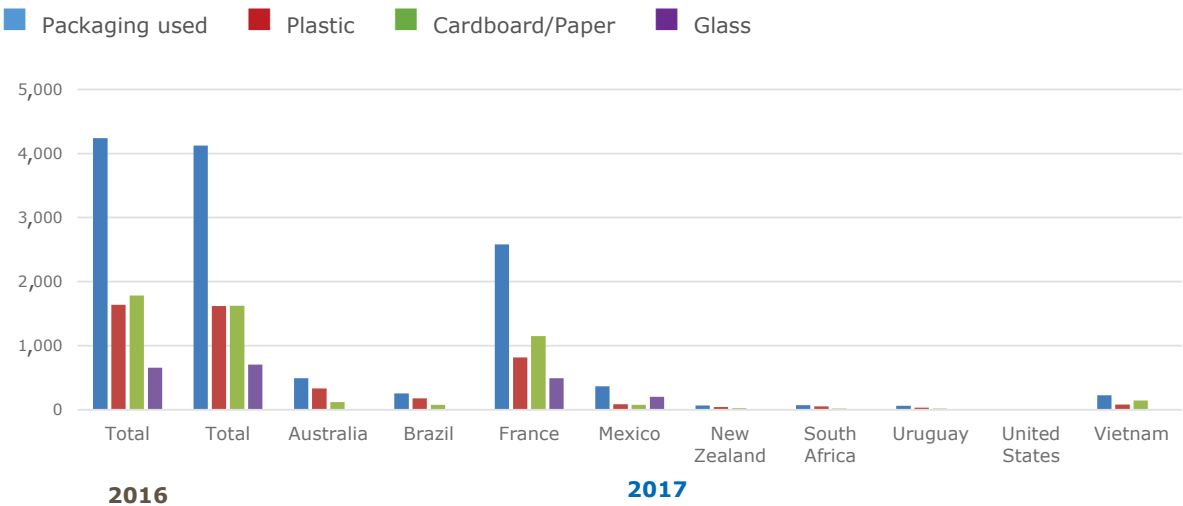
Minimize wastage at every stage of the industrial process

Since the introduction of the continuous improvement strategy, Virbac has stepped up the fine-tuning of its use of active ingredients, excipients and packaging. This improvement has been implemented through partnerships with dedicated suppliers and in compliance with the various regulations: from resupply of the bare minimum (reduction of stocks and internal transfers) to the shipping of finished products (in line with customer requirements) and optimized flow organization (manufacturing smoothed and tailored to demand). Finally, while taking into account regulatory obligations for the pharmaceutical industry, Virbac's innovation policy favors manufacturing products that require less wrapping and packaging.

G4-EN1 Consumption of materials by weight or volume

In 2017, total packaging on the market worldwide reached 4,124 tons (excluding the St. Louis site in the United States, which did not report this data in 2017). This number is an increase of 4% at constant scope compared to the prior year.

Packaging (tons)



G4-EN2 Percentage of recycled materials used

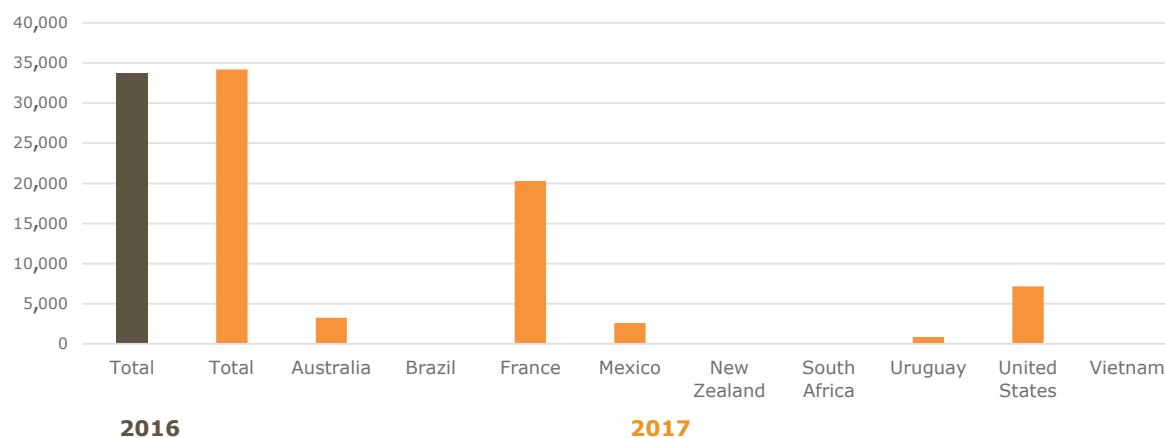
The pharmaceutical industry is subject to strict standards regarding the purity, quality and stability of primary packaging (that is in contact with the medicine). Therefore, at present, a large part of materials used cannot come from recycling channels. Secondary packaging items are made from virgin cardboard, but are fully optimized in terms of weight. Tertiary packaging and thicker secondary packaging are made from recycled fibers.

ENERGY

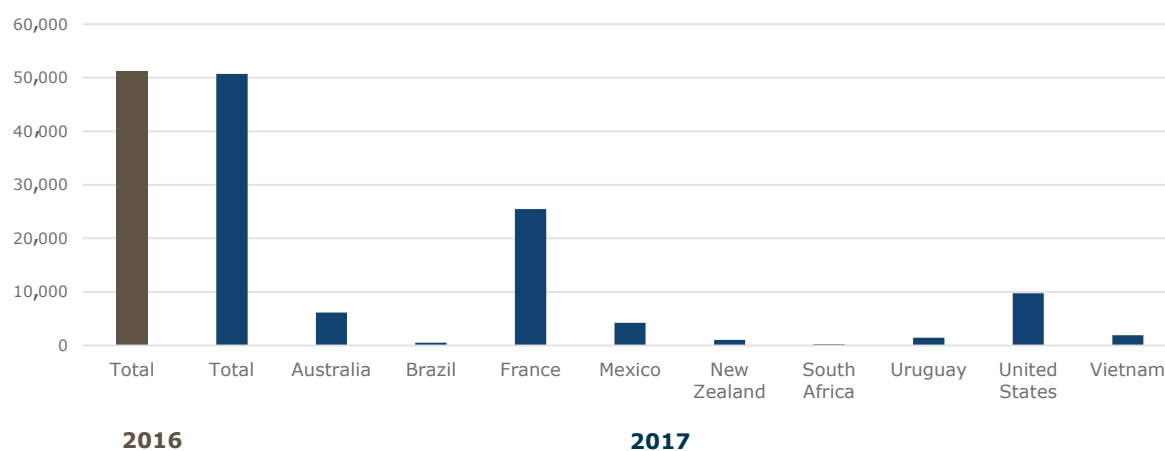
For several years, Virbac has been working to reduce its energy and natural resource consumption by replacing equipment (better efficiency), adding thermal insulation, optimizing air conditioning and by introducing consumption indicators as close as possible to end-users (better control of energy expenditure). Compared to an identical volume of activity, the overall reduction in electricity consumption at Virbac sites in France (which accounts for more than 50% of the Group's production) reached almost 36% over the past nine years.

G4-EN3 Consumption at the heart of the organization

The 34,170 MWh of gas consumed in 2017 over the entire environmental scope are broken down in the table below. The sites in Vauvert (France), South Africa, New Zealand, Brazil and Vietnam do not use gas. At constant scope, gas consumption only increases by 1%.

Gas (MWh)

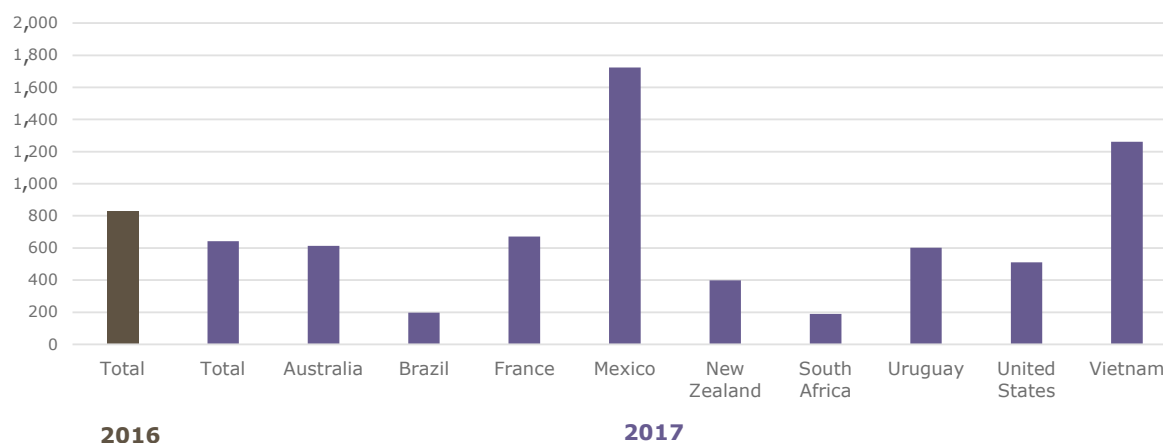
The 50,730 MWh of electricity consumed in 2017 over the entire environmental scope are broken down below. Electricity consumption is stable for all sites and for the Group in comparison to the past year.

Electricity (MWh)

G4-EN5 Energy intensity

For each of the subsidiaries, energy intensity is the ratio between energy consumption (gas and electricity) and the value added in thousands of euros of the same subsidiary (direct labor costs + indirect production costs).

Energy intensity (MWh/k€)



G4-EN6 Reduction of indirect energy consumption

At all of its industrial sites around the world, whether choosing new equipment or through constant monitoring, Virbac strives to address energy consumption by using the BAT (Best Available Techniques) that apply to its activity. For example, at the Penrith site in Australia, a reduction of about 500 MWh per year in electricity consumption was recorded thanks to the installation of solar panels and optimized power management; still in Penrith, a reduction in gas consumption of 580 MWh per year was made possible by the implementation of optimized maintenance of industrial boilers.

Within the framework of the new CO₂ regulations for companies with more than 500 employees, Virbac in France has also signed an agreement with EDF and its partners to implement an Energy Saving Plan (ESP) over three years, which, after a detailed inspection of the major sites in France, has identified three major areas of potential gain: better temperature management and renewal rates of its air handlers; installation of a heat recovery unit at the water treatment plant, and, finally, installation of additional insulation on all the steam circuits. After the installation of nearly 100 "insulation blankets" at the Carros site in France, Virbac continued this action plan in 2017 by powering up the heat recovery unit at the water treatment station. This project reduced gas consumption by 3% over a full year and lowered the gas boilers' installed power. The same level of gains has also been reached since 2016 at the Instrucciones site in Uruguay, where the hot water network set-point was lowered by 15°C.

G4-EN7 Reduction of energy needs, products and services

Virbac endeavors to optimize facilities that directly consume energy. At Carros, the company is avoiding, as much as possible, the need to install new electricity generators for its two new production units (CaniLeish vaccine and site dedicated to injectables). At the Instrucciones site in Uruguay, the air handlers in the production areas are put on "stand-by" mode outside of the periods of activity. Another example at the Carros site in France: the installation of temperature regulation systems (for storage of raw materials in 2015 and for finished products in 2017) includes electricity consumption optimization as part of the technical options available. At the St. Louis site in the United States, in conjunction with those actions already carried out, the insulation of the storage warehouses has been reinforced by the installation of insulating gates; LED lighting continues to be installed, especially on the exteriors.

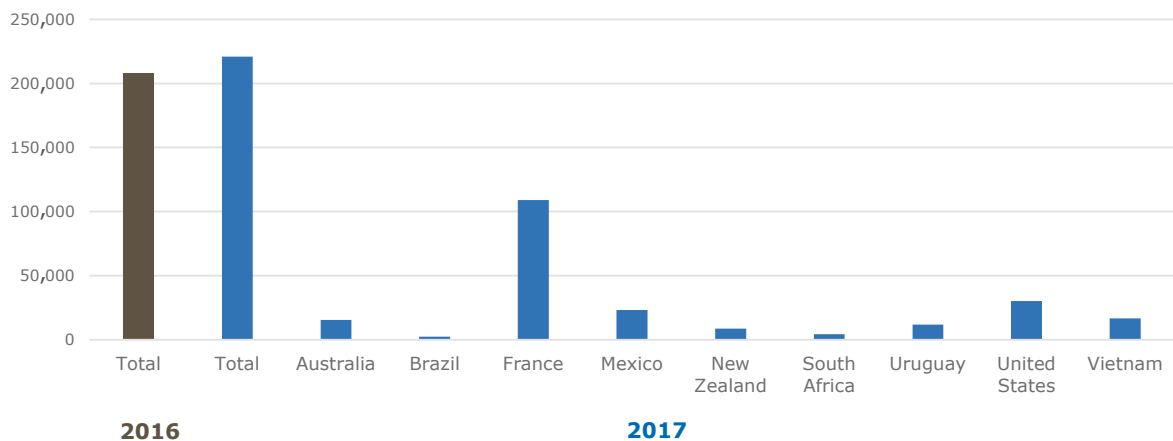
WATER

For many years, Virbac has striven to lower the water consumption for an equivalent level of activity by setting up recycling and production facilities for various water qualities in accordance with the BAT. Thus, reduction of water consumption at French sites (representing more than 50% of the Group's production) reached almost 21% over the past nine years.

G4-EN8 Total water extracted, by source

The 221,000 m³ of water consumed in 2017 over the entire environmental scope is an increase of 6% compared to 2016. This increase is primarily related to the site in Mexico, with a full-year effect for the new production unit (+30%).

Water consumption (m³)



G4-EN9 Water sources significantly affected by withdrawals

Apart from the site in South Africa, located in a water stress zone based on the criteria of the *FAO (Food and Agriculture Organization)* and the *WRF (Water Risk Filter)*, no other Group production plants are situated in such an identified water stress zone.

BIODIVERSITY

G4-EN11 Operational sites that are held, rented or managed in protected areas, or adjacent to them, plus those in zones rich in biodiversity outside these protected areas

Virbac's various industrial sites in Carros are located within the boundary of the Plaine du Var plain, an Operation of National Interest (OIN) zone. The national EPA (Établissement public d'aménagement [Public development agency]), is responsible for planning the sustainable development of the Plaine du Var (see www.ecovallee-plaineduvar.com). Likewise, the 4 hectares of the Penrith site in Australia are adjacent to a major waterway.

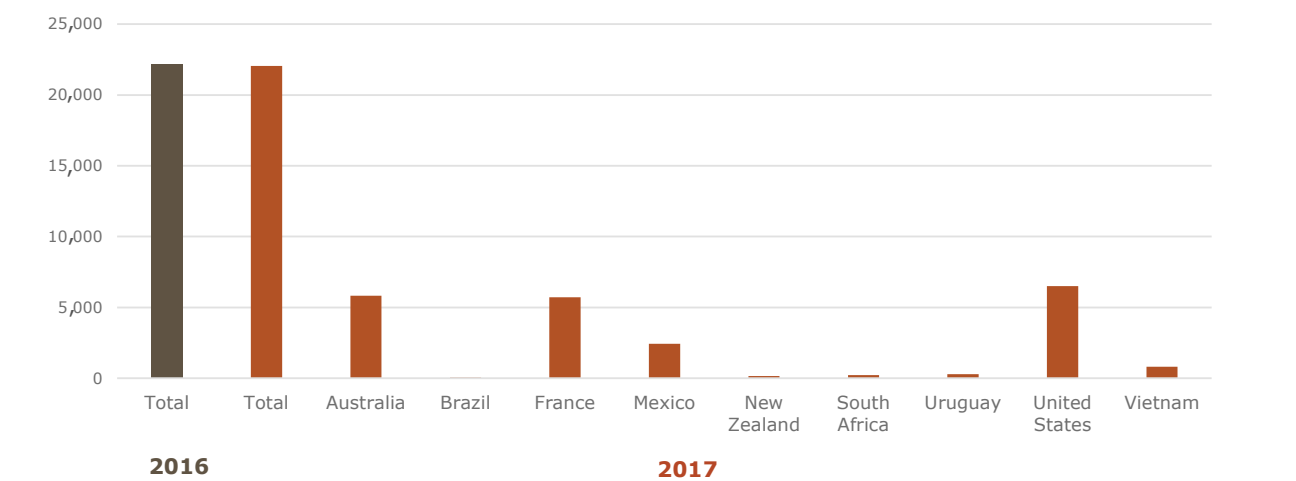
EMISSIONS, EFFLUENTS AND WASTE

Taking into account the nature of its pharmaceutical industrial activity (especially inhibiting technologies), Virbac does not generate any visual, noise or odor pollution. Virbac is investing increasingly in environmental friendliness: taking into account EHS impacts in the management of industrial projects and strengthening of the Risk Management department. Furthermore, the Group's environmental principles are adapted in the subsidiaries, depending on the various local regulations. In many sites, such as St. Louis and Boston in the United States, Penrith in Australia and Carros in France, the majority of waste water from manufacturing is recovered and treated as hazardous industrial waste in accordance with the local regulations of the countries involved.

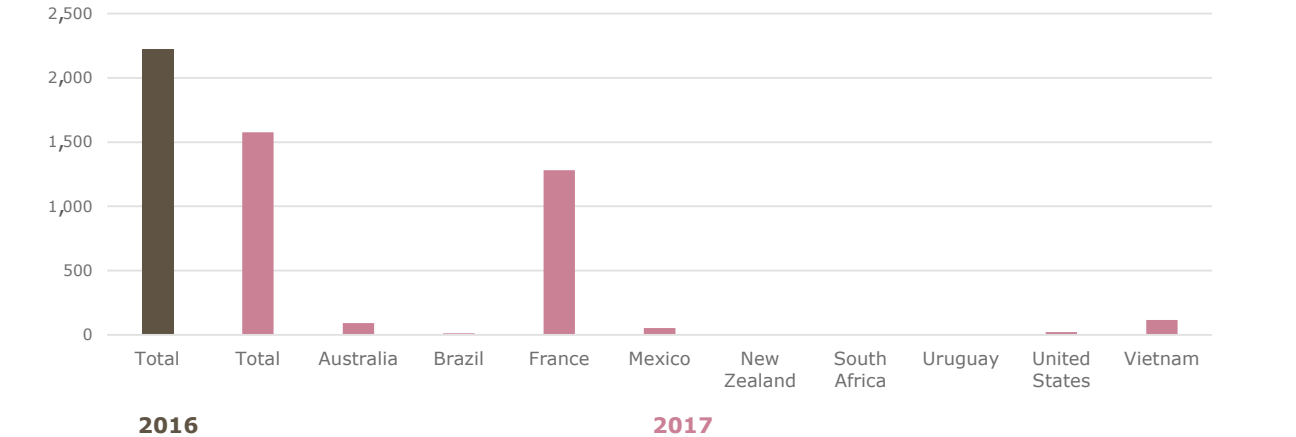
G4-EN15 Direct greenhouse gas emissions (scope 1) G4-EN16 Indirect greenhouse gas emissions (scope 2) related to energy

The direct and indirect emissions of greenhouse gases (scope 1 and 2) represent emissions related to the consumption of the various forms of energy (in this case gas and electricity) in all industrial sites worldwide, as well as the greenhouse gas emissions related to refrigeration fluids. In total, these emissions represent 23,624 tons of CO₂, these emissions are down by 3% due to a leveling-off of energy consumption (see EN3 indicator); but mainly due to a major drop (-29%) in emissions related to refrigerant gases, this on the heels of improved monitoring of facilities that use refrigeration fluids with a high level of CO₂ emission.

Greenhouse gas: energy-related emissions (equivalent tons of CO₂)



Greenhouse gas: emissions related to refrigeration gases (equivalent tons of CO₂)

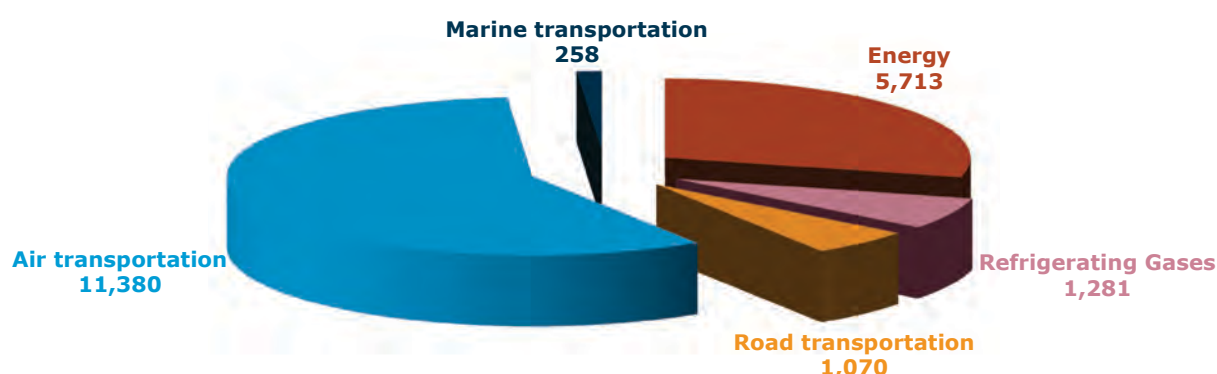


In accordance with the CO₂ regulations for companies with more than 500 employees, Virbac has committed to a plan for the reduction of greenhouse gases related to energy consumption (gas and electricity). Thus, in addition to all the thermal insulation already installed, all the "anomalies" (valves, taps, elbow attachments, etc.) have also been insulated on all the steam networks at the Carros sites in France. This additional thermal insulation has already resulted in a 1% gain in total gas consumption. This savings plan was followed up in 2017 with the establishment of an energy recovery system at the biological production wastewater treatment station, resulting in an approximate drop in gas consumption of 5% at the Carros sites (France).

G4-EN17 Other indirect greenhouse gas emissions (scope 3)

To date for the Virbac group, the other indirect greenhouse gas emissions (scope 3) reflect emissions related to the shipping of finished products, from the time of departure from all sites to the time of delivery at the end-customer's location. Even if these numbers have gone up in nearly all subsidiaries, they are not as sound and verifiable as they need to be for reporting purposes. Virbac is currently working on the implementation of a new calculation method based on the emissions factor given by the French Environment and Energy Management Agency (Agence de l'environnement et de la maîtrise de l'énergie - ADEME). See site www.bilans-ges.ademe.fr. This was applied to emissions related to shipments leaving the sites in Carros and Magny (France), the Wissous, Vauvert and BVT site data, which came to them via the carriers. The new calculation method will be used in all subsidiaries during 2018 for inclusion in the next report.

Total emissions for France (tons of CO₂)

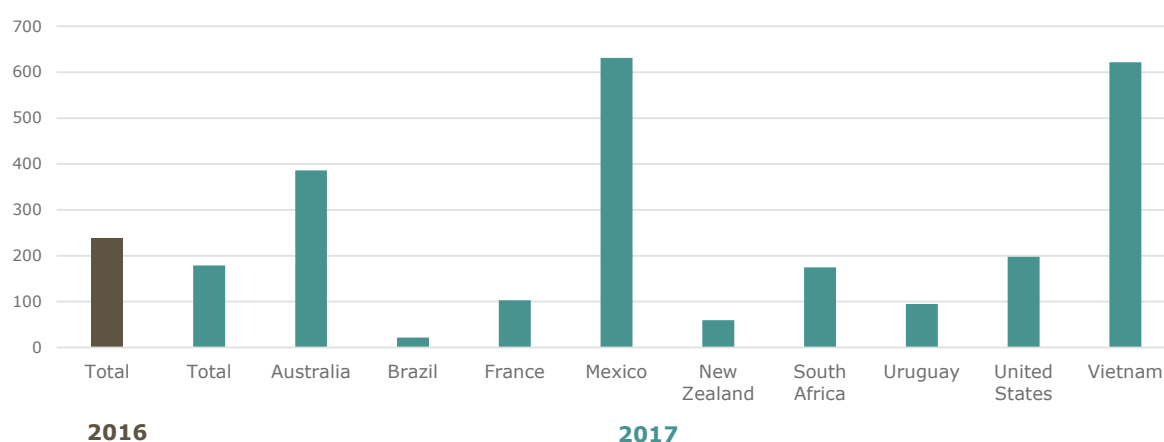


The new calculation method for transportation-related emissions do not allow for comparisons with prior years, but they account for more than two-thirds of France's total emissions.

G4-EN18 Intensity of greenhouse gas emissions

The intensity of greenhouse gas emissions is the ratio between direct and indirect greenhouse gas emissions (scope 1) and the value added in thousands of euros of each subsidiary (direct labor costs + indirect production costs).

Intensity of direct and indirect greenhouse gas emissions (tons of CO₂/k€)



G4-EN19 Reduction in greenhouse gas emissions

As part of transporting finished products while assuring end-user satisfaction, Virbac has implemented a grouping system for several national and international destinations in France and the United States, thereby reducing shipping-related CO₂ emissions. For all staff at the Carros sites, Virbac provides a shuttle service to the railway station serving the industrial area. Also used for inter-site connections and the corporate restaurant, this shuttle transported nearly 4,166 people per month in 2017, an increase of 2%. This increase is due to the establishment of a second shuttle service due to a new Virbac facility in the industrial zone.

As part of a PDIE (Plan de déplacement inter-entreprises [Business-to-business transportation plan]), in 2012 Virbac was actively involved in setting up an "express shuttle" connecting different points of the city of Nice and the Carros industrial area. In 2013 and 2014, three new lines were added between the West of the department and the Carros industrial area. Since 2010 in France and 2012 in the United States, Virbac has also had in place an incentive-based policy for company vehicles geared towards limiting the carbon footprint. Still on the theme of transportation, financial incentives and reserved parking spaces are offered to employees of the new production site in Mexico who use "clean" vehicles or who carpool. The sites in Australia and France take greenhouse gas emissions into account when choosing refrigeration gases for each industrial refrigeration unit. Finally, in Mexico, a solar boiler producing industrial hot water has been installed as part of the new production unit.

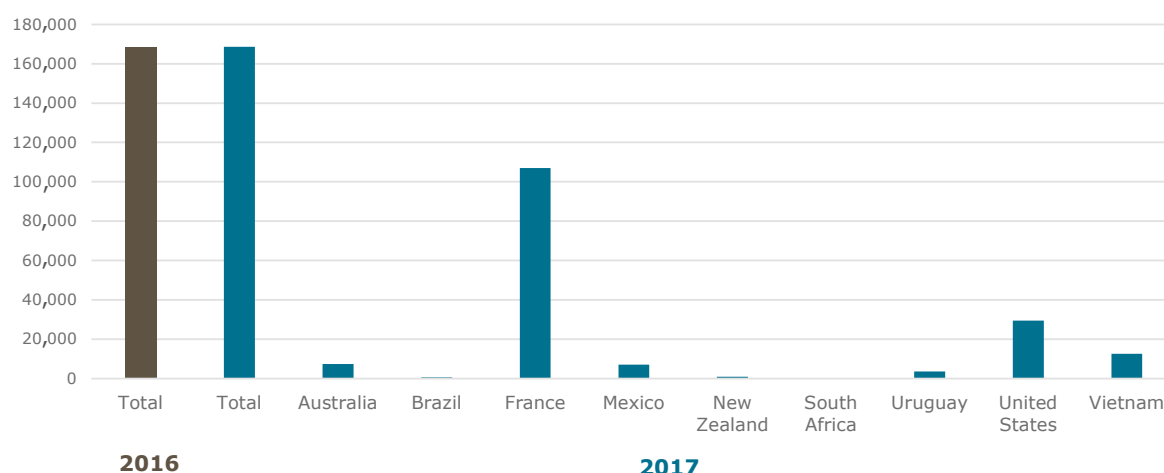
G4-EN21 NO_x, SO_x and other substantial atmospheric emissions

Due to the nature of its activity and the energy used, Virbac generates low NO_x emissions (related to boilers that run on natural gas at production sites equipped with them) and no significant SO_x emissions. Measures carried out in 2017 at all Carros sites in France show that NO_x emissions do not exceed 5 tons per year and thus confirm the USA's EPA (*Environmental Protection Agency*) emission factors supplied by the site, which calculate the quantity of NO_x emitted by all sites included in this report, to be approximately 15 tons for the year 2017. Overall, the other possible emissions, particularly Volatile Organic Compounds (VOC) related to operations, are considered insignificant given the confinement of operations.

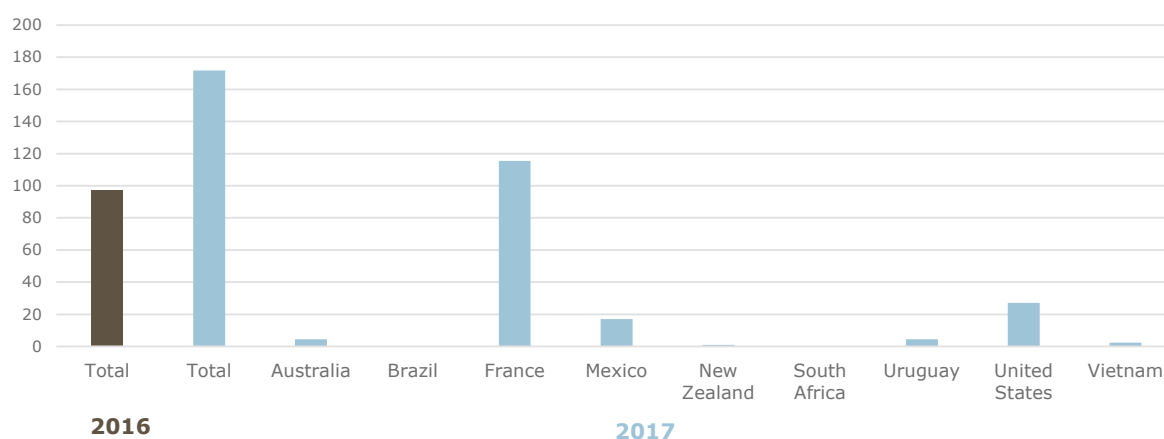
G4-EN22 Total water discharges, by type and destination

The quantity of industrial water discharged by all the Virbac sites worldwide amounted to 168,535 m³ in 2017. Given the activities at Virbac's industrial sites, the main pollutant discharged into industrial waters is COD (Chemical Oxygen Demand). This indicator, monitored since 2013, shows that 172 tons of COD were emitted by the industrial sites of the entire Group in 2017. The emissions remained stable despite the gradual return to normal of the St. Louis site in the United States (+68%) and quality checks, particularly related to the cleaning of equipment. The quantity of COD emitted greatly increased (+30%) at constant scope; this increase is due to the gradual return to normal at the St. Louis site in the United States and the increase in power at the new site in Mexico. This COD increases by 77% with the integration of the Carros industrial sites in France (VB1), which were not included in prior balance sheets.

Volume of water discharged (m³)



Quantities of COD discharged (tons)



G4-EN23 Total weight of waste, by type and processing method

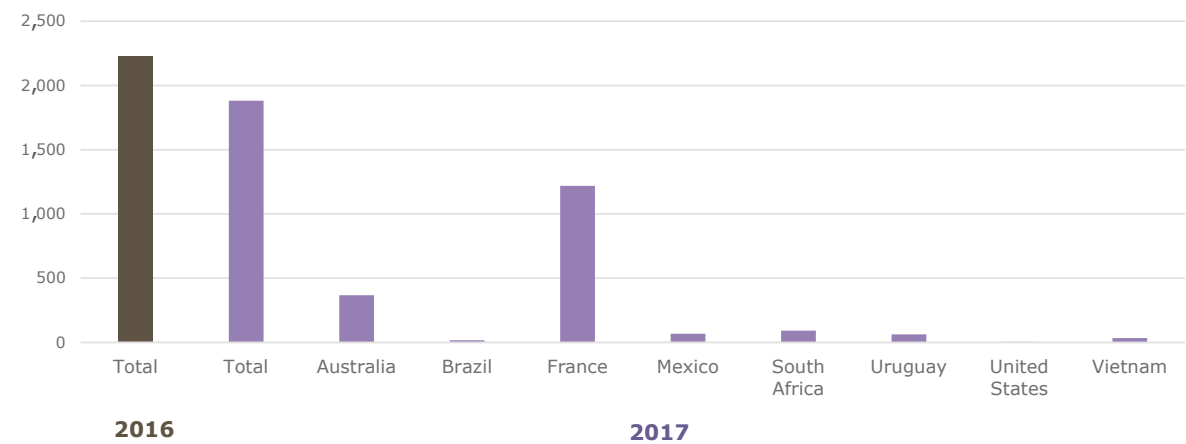
Virbac produces two kinds of waste: non-hazardous industrial waste and hazardous industrial waste. These are handled by dedicated waste collection and sorting sectors which ensure optimal waste recycling or recovery depending on the nature of the waste.

Improving non-hazardous industrial waste sorting at source and reducing its volume

Since 2003, Virbac has been helping with the roll-out of a non-hazardous waste (aluminum, iron, glass, cardboard, plastic, paper, etc.) collection system at the Carros industrial area through "Carros Indus'tri". This system (regularly studied by local communities or other industrial areas wishing to imitate it), managed by the Côte d'Azur Industry Plaine du Var (CAIPDV) business club, evolved in 2015 into "Tri&Co" as a result of optimizing and harmonizing collection schedules, among other things. Thus, all non-hazardous waste from the Carros sites is handled by service providers located within a radius of less than 40 km with a 100% recovery rate and therefore 0% landfilling. Like most

Virbac sites, the Argo Navis site in Mexico is setting up pre-packaging facilities for non-hazardous waste to optimize the volumes produced and consequently the truck traffic. The 1,881 tons of non-hazardous waste generated in 2017 in the environmental scope (excluding the St. Louis site in the United States, which did not report this data in 2017), are broken down in the following graph. There was an 11% decline, due primarily to the stoppage at the former Mexican site and greater accuracy of data from New Zealand and Australia (actual weighing of waste rather than an estimate of weight from volume).

Non-hazardous waste (tons)

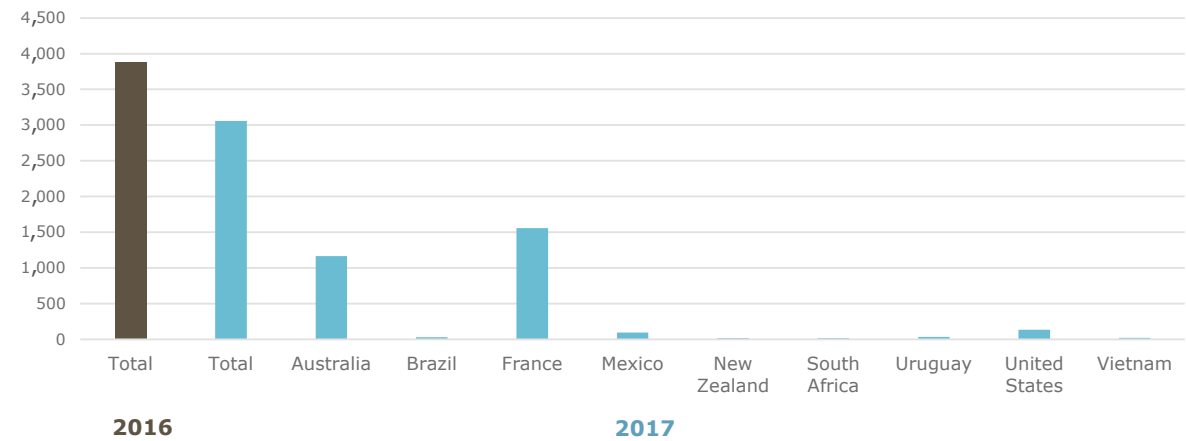


Controlling volumes of hazardous industrial waste

Virbac tracks all hazardous waste up to the point of disposal: soiled packaging; laboratory, production, medicinal or infectious wastes; and chemical effluents (mostly incinerated and therefore thermally utilized or recycled for solvent recovery). Finally, Virbac makes regular improvements to the collection system through the establishment of new and even more selective channels, making it possible to reduce the proportion of waste that cannot yet be recycled.

The 3,057 tons of hazardous waste generated in 2017 in the entire environmental scope (excluding the St. Louis site in the United States, which did not report this data in 2017), are broken down as follows.

Hazardous industrial waste (tons)



The 9% decrease in tonnage is nearly exclusively due to a return to normal of quantities of recovered water at the main Carros site in France (-21%).

G4-EN24 Total number and volume of significant spills

There were no significant spills at any of the Group's sites in 2017.

COMPLIANCE

G4-EN29 Amount of significant fines and total number of non-monetary penalties for non-compliance with environmental laws and regulations

For all Virbac sites in 2017, there weren't any damages paid to third parties or non-monetary penalties reported.

TRANSPORTATION

G4-EN30 Substantial environmental impacts from the shipment of products, other goods and materials used by the organization in the course of its business and from staff-related travel

The Group's IT team actively pursues a strategy of installing communication systems that reduce transportation-related environmental impacts:

- Collaborative tools reducing unnecessary travel (videoconferencing in most subsidiaries, shared spaces, instant messaging);
- Communication tools conducive to virtual internal and external discussions (workflow, PDA, FTP platform);
- IT infrastructure reducing the amount of material resources required (server virtualization, Lean ERP, automation).

In 2017, Virbac continued to encourage its teams to use videoconferencing: all subsidiaries are equipped with dedicated systems (60 rooms in the Group) and all individual computers are also videoconference-ready with the deployment of more powerful software. The 13,289 videoconferencing meetings held throughout the Group in 2017 (a nearly 100% increase over the previous year) greatly helped to reduce physical travel among employees.

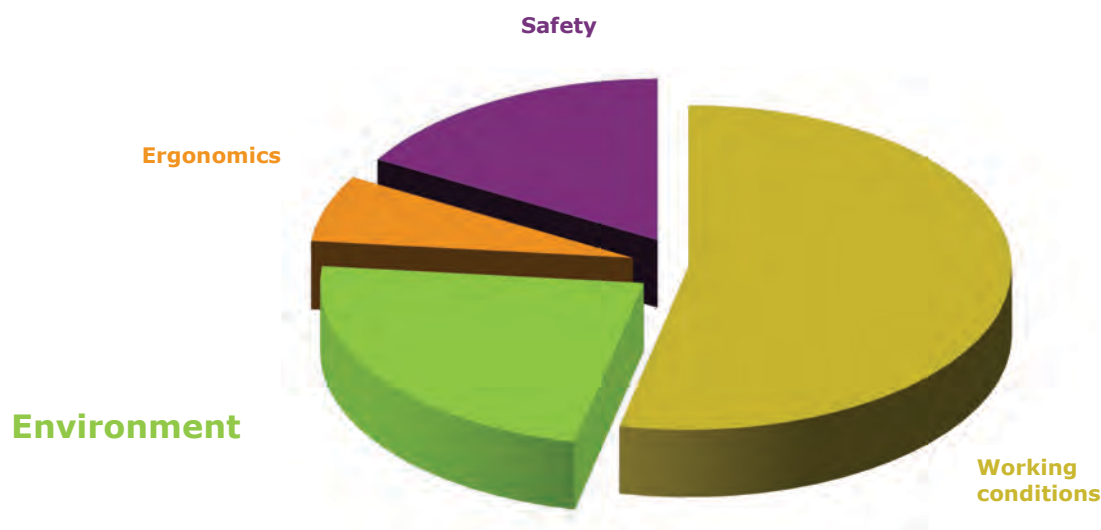
Total number of meetings via the videoconferencing tool built into workstations				
2013	2014	2015	2016	2017
3,289	5,360	6,270	6,923	13,289

In addition to all these initiatives, e-visits are gradually being set up to optimize sales team travel in France. After an experimental phase in the first half of 2016, 130 virtual visits took place in the last quarter. This strategy was pursued with other populations and in other subsidiaries in 2017. In the same vein, six webinars were also set up (notably on dietetic nutrition topics).

OVERALL

G4-EN31 Total expenditure and investment in environmental protection, by type

These budgets are managed locally by subsidiaries and have not yet been subject to consolidation across the Group. In France, which accounts for more than 50% of the Group's production, a monitoring system has been put in place to collect this data. Thus in 2017, total investments in the environment, for all French sites, amounted to nearly €1.2 million, or 23% of all investments earmarked for safety, ergonomics, working conditions and the environment.



G4-EN32 Percentage of new suppliers verified using environmental criteria

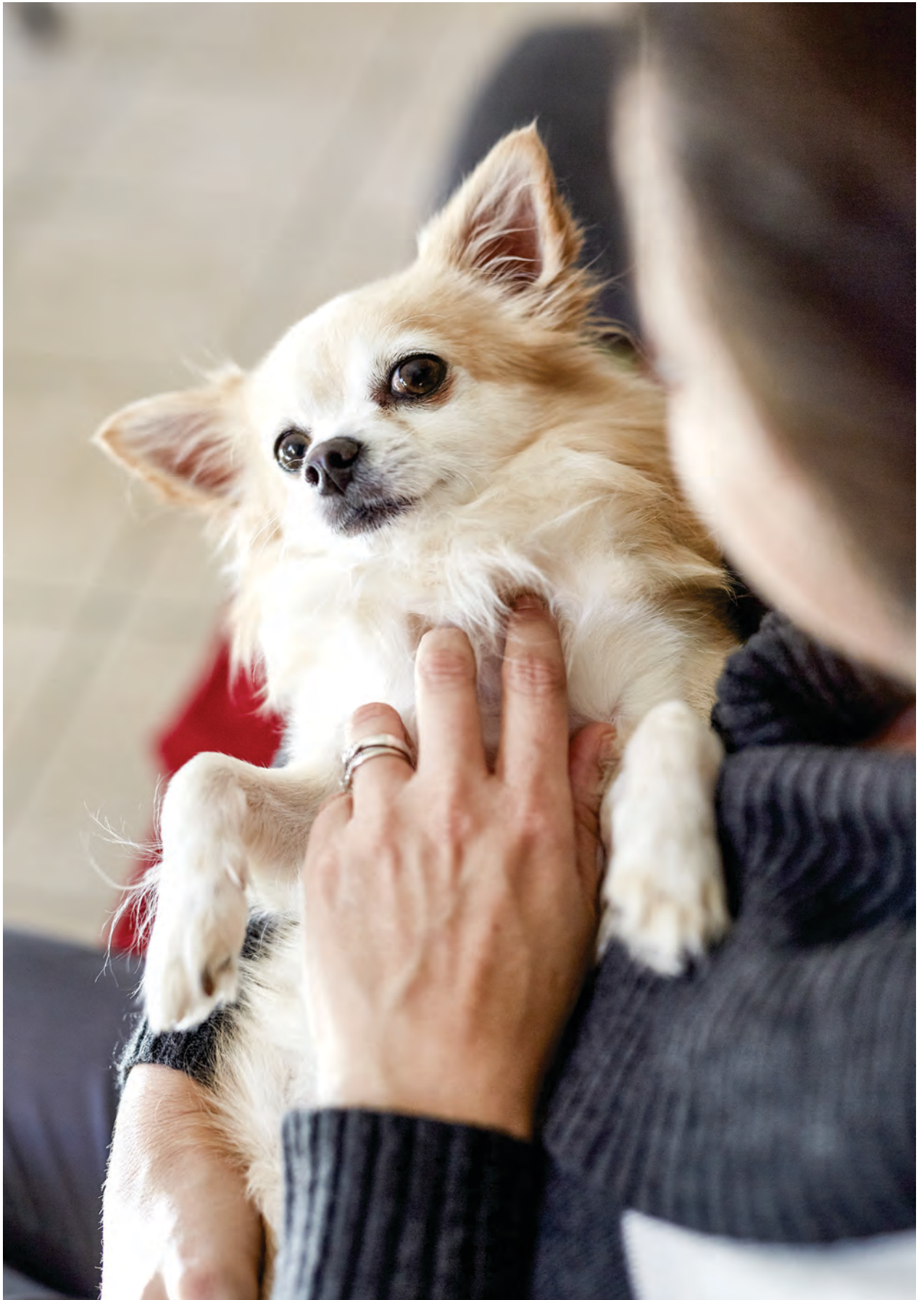
For every invitation to tender and for main suppliers (nearly 90% of the value of purchases of raw materials and subcontracting), Virbac administers a questionnaire to assess compliance with environmental standards currently in force. Since 2015, new framework contracts have included a provision requiring compliance with these standards. In 2017, the assessment process carried out by Virbac with its new suppliers did not identify any relevant risks. Should Virbac identify a non-compliant supplier, the latter would be required by the Group to comply, or else have its contract terminated.

G4-EN34 Number of complaints about environmental impacts submitted, reviewed and resolved through official grievance procedures

To Virbac's knowledge, no complaints about environmental impacts were made in regards to any of the Group's sites in 2017.

Social: employment, social relations and decent work

Performance indicators



For all social performance indicators, the 2017 scope includes the Group's main subsidiaries (85% of the total number of employees): South Africa, Germany, Australia, Brazil, Colombia, Spain, the United States, France, India, Italy, Japan, Mexico, New Zealand, United Kingdom, Vietnam and Uruguay. These social indicators cover both permanent and temporary contracts.

Social reporting does not cover the following themes:

- Group policy on health and safety conditions at work;
- record of agreements reached on this matter with staff representative bodies.

Virbac is working towards extending the scope of social reporting through gradual inclusion of these themes in the coming years.

Measuring and improving well-being at work

Throughout the year, emphasis was placed on the topics of information and communication as well as those of training and development. The first component stands out, in particular by improving the transmission of company-wide strategic decisions made through regular and tiered information meetings across the departments or by rolling out formalized and implemented best practices on subjects such as information sharing, improving transversality and "working better together".

Increasing the visibility of the actions carried out within the various departments also makes it possible to enhance Virbac's expertise, both individually and collectively.

The Group continues to invest in Digital Learning, which figures prominently in the deployment of training courses, combining e-learning and practical activities over a period of time.

In addition, specific customized training projects geared towards topics as varied as collaboration, project management or business relationship management have emerged, as well as individual support through coaching or personalized follow-up.

Developing employees also means offering more career opportunities within the Group. World-wide open positions are brought to the attention of employees by publishing them on the Virbac Intranet, so as to promote increased internal and international mobility. To better respond to the increase in employee transfers from one entity to another in the years to come, practices in this area have been harmonized by developing a Group-wide comprehensive and equitable international mobility policy.

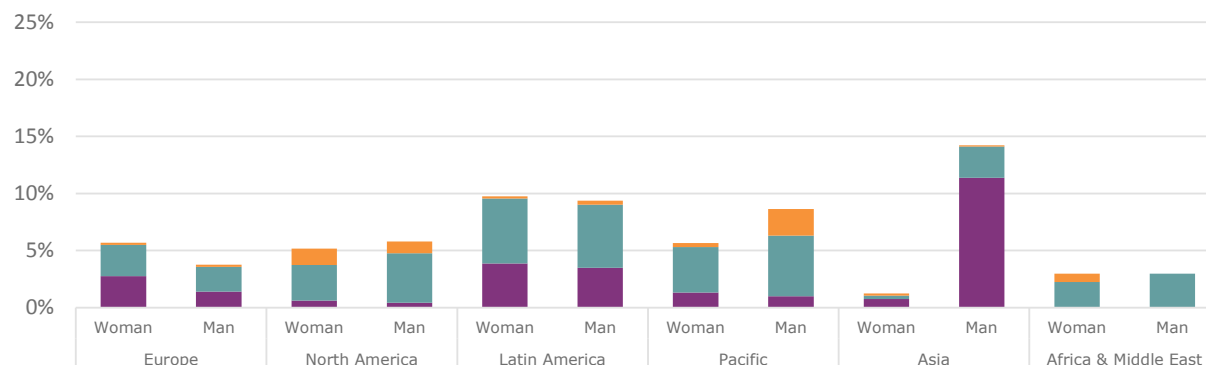
Facilitating the transmission of information for improved sharing, optimizing operating methods to increase efficiency and enhancing the development of know-how to ensure quality skills are all practices that aim to strike a balance between the performance of the company and improving the quality of working life from a sustainable development perspective.

EMPLOYMENT

G4-LA1 Total number and percentage of new employees hired and turnover rate of employees by age group, gender and geographical area

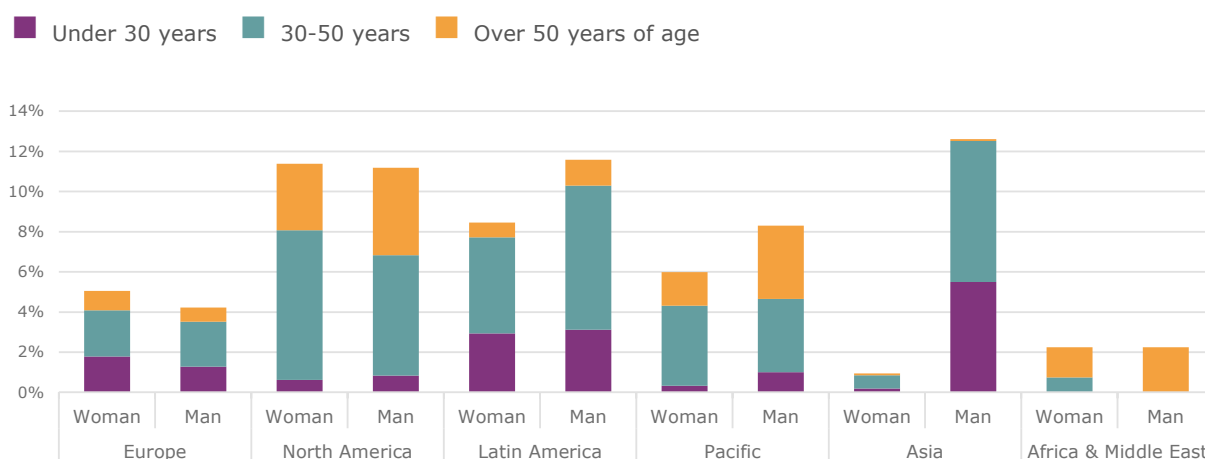
Newly-hired employees (%)

■ Under 30 years ■ 30-50 years ■ Over 50 years of age



In 2017, within the scope of social reporting, Virbac hired 519 new employees compared to 682 in 2016. India, with 137 new recruits, France, with 126 and North America with 53 account for 61% of the total number of new hires. In terms of age groups, it is relatively stable compared to 2016, with 48% of new hires under 30, 46% between 30 and 50, and 6% over 50 years of age. The subsidiary that hires the most young people is India, with 82% of new recruits under 30 years of age. It should also be noted that Uruguay and Vietnam mainly hire young people, with more than 60% under the age of 30, followed by France, with 48%, or 60 new hires out of 126. In contrast, North America recruited the most experienced employees with 68% between 30 and 50 and 23% over 50 years of age. In terms of gender, India still stands out for recruiting a majority of men, since this practice relates to the role of seller, which is typically assumed by males in this country.

Staff turnover (%)



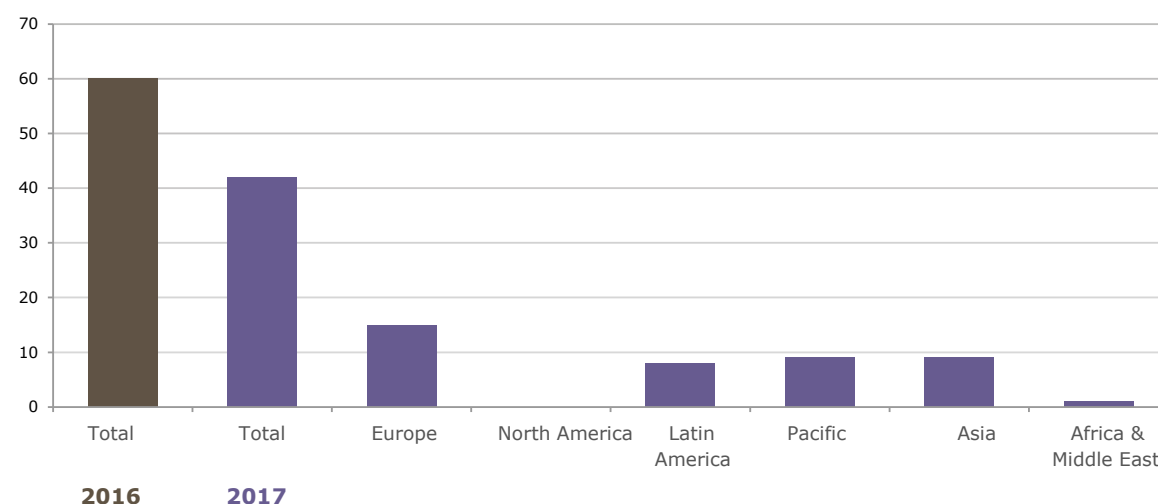
With 555 departures, total staff turnover rate in 2017 was 13.6%, down one point from 2016 (14.6%). The countries in which we see the highest staff turnover rates are Uruguay, with 34%, the United Kingdom, with 30.8%, and the United States, with 22.6%.

With less than 5%, Germany, Italy, Japan and South Africa are the countries in which we see the fewest departures. The number of departures amounts to 211 for women, or 13.1% of the population, and 344 for men, or 13.9%.

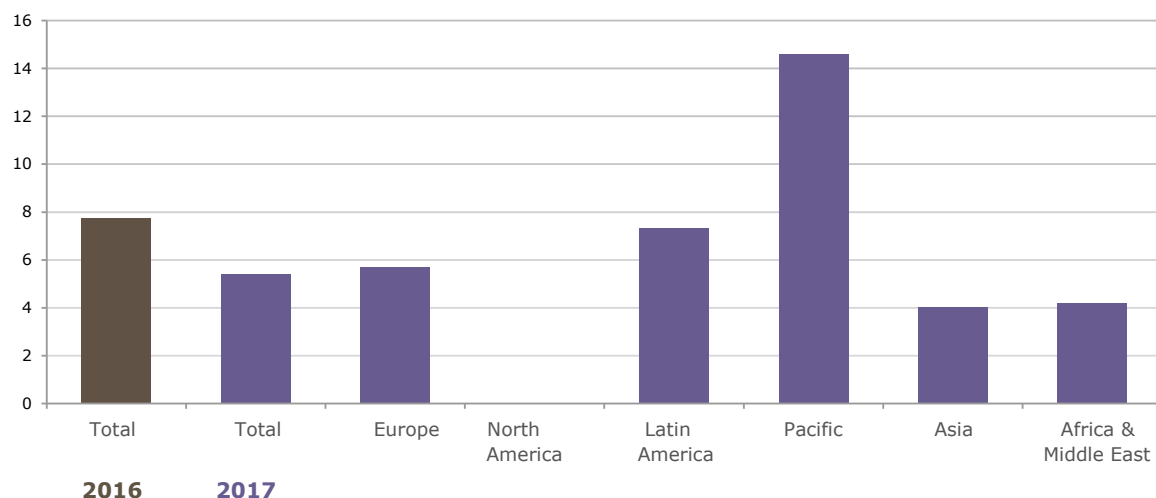
HEALTH AND SAFETY AT WORK

G4-LA6 Rates and types of work accidents, occupational diseases, absenteeism, proportion of lost work days, and number of work-related fatalities, by geographical area and by gender

Work accidents (number)



Frequency of work accidents

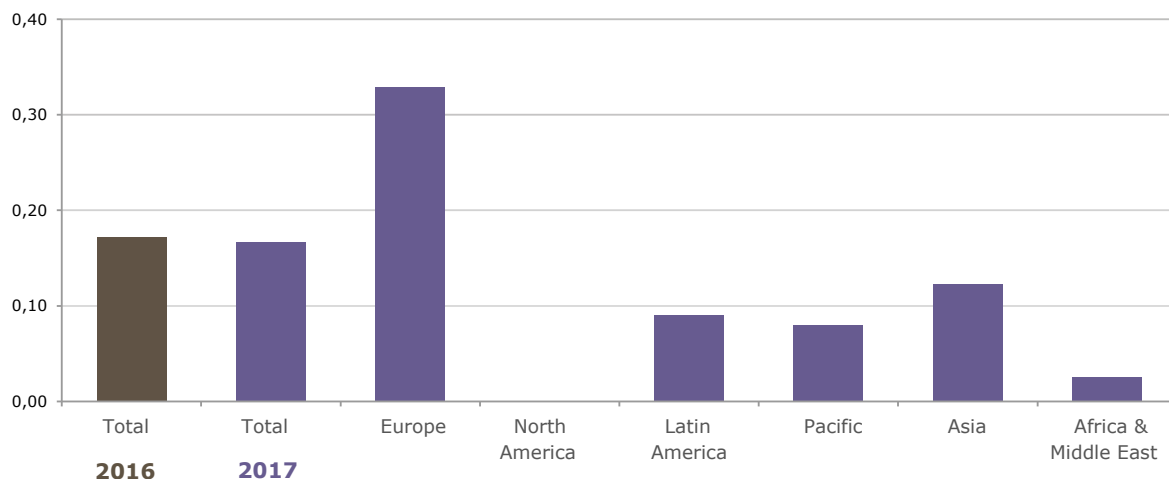


With a 31% decrease, the Group's 2017 results show a net improvement in the frequency rate (5.32 vs 7.73 in 2016). Apart from the Pacific region, which remains stable, all regions show improvement, particularly North America and Latin America. France remains stable with a frequency rate of 6.49. In 2017, Virbac had no fatalities at work within the entire social scope. The frequency rate used is based on French regulations and defined as the number of work accidents that resulted in at least one lost working day, divided by the number of hours worked multiplied by one million.

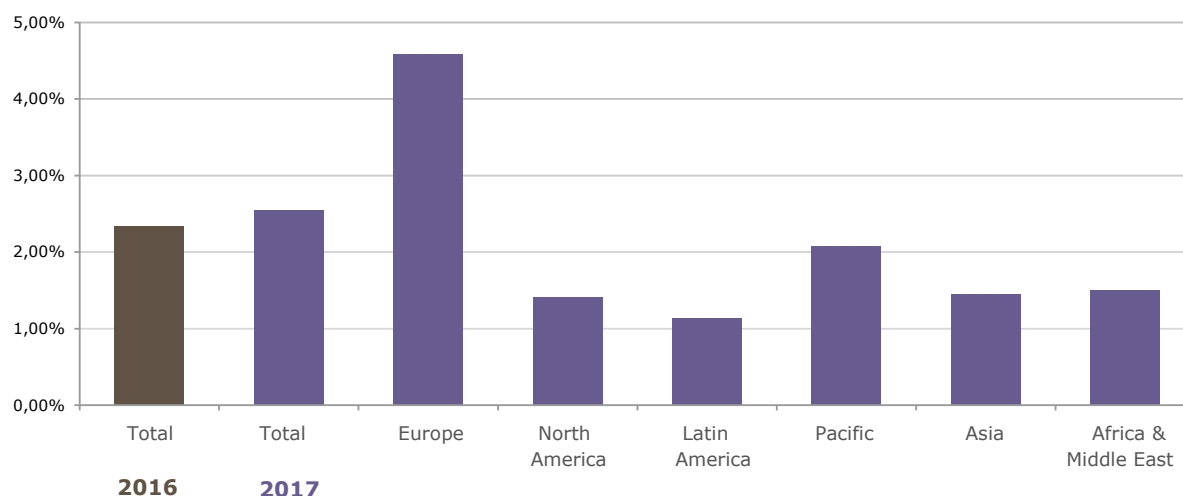
Occupational diseases

The notion of occupational disease is a concept specific to France. Over the year 2017 in France, three statements were made and accepted. All of these diseases were related to the handling of heavy loads. These three occupational diseases and one other from 2016 resulted in 117 lost working days.

Severity rate



In 2017, the proportion of lost work days, also known as the severity rate, remained stable, with a rate of 0.17, the same as in 2016. This rate is obtained by comparing the total number of working days lost after an accident at work, or due to an occupational disease, and the number of working hours originally planned for the workforce present at the end of the reporting period. This rate is given for 1,000 hours worked.

Total rate of absenteeism (%)

The absenteeism rate is based on the number of absence days incurred (in other words, excluding authorized absences) applied to the total number of work days initially planned for the current workforce throughout the year. This rate is about 8% higher than in 2016, as the increase is directly tied to absences other than those related to accidents or occupational diseases.

Focus France: safety at work

This is a priority area for the Group and has become ingrained in the corporate culture year after year. After an historic record in 2016, the 2017 frequency rate, like the severity rate, leveled off at 6.49 and 0.37 respectively over the year 2017.

To boost and further strengthen safety culture, a Group project was set up with a multi-year action plan. All managers in the industrial organization were trained (nearly 100 people). An Intranet tool was also developed to enable all employees to access various documents dealing with the topics of people, facilities and products.

Even though regulations on stress in the workplace have further developed and are still in line with the action plans designed in partnership with the CHSCT (Committee on hygiene, safety and working conditions) in 2012 and 2015, there are no more than 38 people (out of nearly 1,500 employees in France) affected by one of the ten regulatory criteria, 7 of which were during the first half of the year. At the end of 2017, Virbac was affected by just two stress factors: "carrying heavy loads" and "alternate shift teams"; the factors of "stressful positions" and "repetitive work" have been eradicated.

G4-LA8 Health and safety topics covered by formal agreements with trade unions

In all countries, numerous measures have focused on the theme of employee health and safety, without necessarily any formal agreement being entered into with the trade unions.

In France, following the change in legislation governing difficult working conditions, an external consulting firm was assigned to all sites in France to conduct an analysis identifying people subject to the 10 newly-defined factors of difficult working conditions. It shows that the percentage of employees is well below that which would require the company to negotiate an agreement or an action plan. However, with the constant aim of improving the working conditions of employees, an action plan established in conjunction with the CHSCT will be implemented to further minimize the number of vulnerable employees.

In North America, two agreements were also concluded with the trade unions: the International Longshoreman Association (ILA) agreement and the International Brotherhood of Electrical Workers (IBEW) agreement, whose mandate is to support the company with prevention, participation in the safety committee and providing safety training. There are other existing agreements in several countries, such as Germany or Brazil, in order to complement the health and safety guarantees required by law.

TRAINING AND EDUCATION

G4-LA9 Average hours of training per year, broken down by employee, by gender and occupational category

In 2017, training hours averaged 26.2 hours per employee (18.1 hours for women and 31.5 hours for men), compared to 26 hours in 2016. Two notable items should be taken into consideration to explain the gap between women and men. One explanation comes from India, where the majority of employees are men (97%) and the average number of training hours is 43.4. Next, in 2017, the United States deployed a major training system (114 hours) for workers, the majority of whom (76%) are men in this country.

Average annual training hours (per employee)	Women	Men	Total
Leaders	15.1	15.4	15.3
Managers	20.5	29.2	25.4
Technicians/Employees	14.6	35.8	28.1
Workers	20.3	31.6	27.1
Total	18.1	31.5	26.2

Certain countries include online training (e-learning) hours in the reported training hours, which means training inclusive of computerized learning solutions and methods: Mexico, Germany, France, India, the United States, Australia and New Zealand.

G4-LA10 Lifelong skills development and training programs intended to ensure worker employability and to help them manage the end of their career

The Virbac Group proposes a skills development policy with various development courses (management, professional efficiency, business know-how in particular). In all countries, staff in all categories are given training to ensure their continued employability and skills development. These training courses are provided in conjunction with development discussions that take place during the year-end or mid-year interviews.

In 2017, Virbac pursued its strategy around the world as a learning company. First and foremost, by broadening the roll-out of the development plan to about ten subsidiaries (France, Australia, Mexico, New Zealand, South Africa, Brazil, Northern Europe and Vietnam). In this context, employees were given the opportunity to meet with their manager about developing their skills, accessing online training and participating in hands-on workshops.

Furthermore, the Group continued to develop digital or multimodal training curricula with the same profound belief in its efficiency and the power of its future. The following academies were considerably enriched in 2017:

- the Innovation Campus, facilitation of a community and resources aimed at Innovation experts worldwide;
- the Virbac Business School: roll-out of career paths aimed at Sales and Marketing teams;
- the Virbac Quality Academy: launch of modules based on pharmaceutical quality aimed at all employees, initially in France, with the aim of rolling it out for all Group employees;
- the HR Learning Center: launch of the "Managing at Virbac" career path aimed at new managers and the "Feedback and Coaching" career path in France, the United States and Australia.

Specific customized training projects geared towards themes as diverse as business relationships, multicultural cooperation, project management, management or professional effectiveness and accountability emerged around the world, as was individualized support through coaching and personalized follow-up.

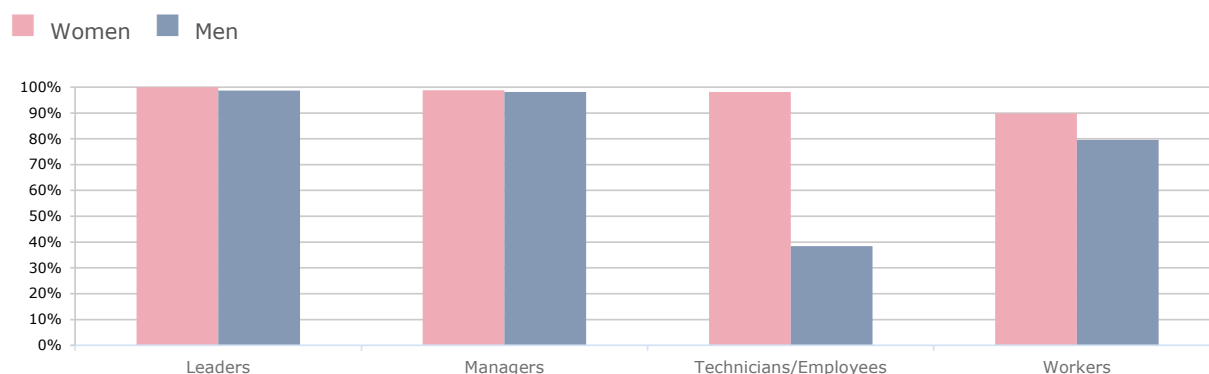
New initiatives were also established in certain subsidiaries, as in Northern Europe, leading discussion groups for managers, or a Lean Office training project with the implementation of a Kaizen approach in Brazil or thoughts about succession plans in Australia and Mexico.

G4-LA11 Percentage of employees who receive periodic assessment and career development interviews, by gender and professional category

The vast majority of Group staff receive, at the very least, an annual interview conducted to assess their performance over the year and their proficiency at their job (business-specific skills and behavioral skills). This interview is also an opportunity to discuss objectives for the following year as well as development needs.

More and more subsidiaries have set up an additional mid-year interview. In that case, the year-end interview is centered around performance assessment and job proficiency, whereas the mid-year assessment focuses on discussing development. During these interviews, topics such as workload and prioritizing are also discussed if necessary in order to prevent work overload.

Regular assessment interviews and career development (% employees)



DIVERSITY AND EQUAL OPPORTUNITY

For Virbac, job equity between women and men is fundamental and requires that no form of discrimination exists and is tolerated, both in terms of access to employment and promotions, wage policy and other determinants of working conditions.

In France a diversity policy has been in force for several years, and in 2009, a charter in favor of non-discrimination and diversity recognized by the HALDE (Haute autorité de lutte contre les discriminations et pour l'égalité)[French Equal Opportunity and Anti-Discrimination Commission] was signed. The company's human values have always put the employee front and center of our strategy: It is thanks to its teams that Virbac is now an internationally recognized stakeholder. The men and women that make up the company are a real treasure and diversity is an integral part of this human treasure. It's only natural that it is part of Virbac's Human Resources policy.

Diversity is taking root little by little in business culture and today, it represents a real opportunity for performance. By embracing diversity, the Group cultivates differences and creates value.

The diversity policy aims to guarantee equal treatment of staff, encourage variety among people and human relationships, maintain worker employability. It is built around 3 main principles: gender equality, disabilities, and age diversity through the intergenerational agreement.

The Gender Equality agreement signed in 2012 aims to:

- ensure equal access to vocational training for both women and men;
- ensure equality between women and men in their career paths;
- ensure pay equity between women and men doing the same job, with the same level of skill and responsibility;
- develop measures to promote work-life balance.

The disabilities agreement, signed in 2014 aims to:

- recruit, integrate, retain and train persons with disabilities;
- communicate, raise awareness among employees and managers, and build a network of in-house disability stakeholders acting as ambassadors;
- maintain and develop subcontracting activities in partnership with the protected and adapted sector;
- thus increasing the rate of employment year-by-year.

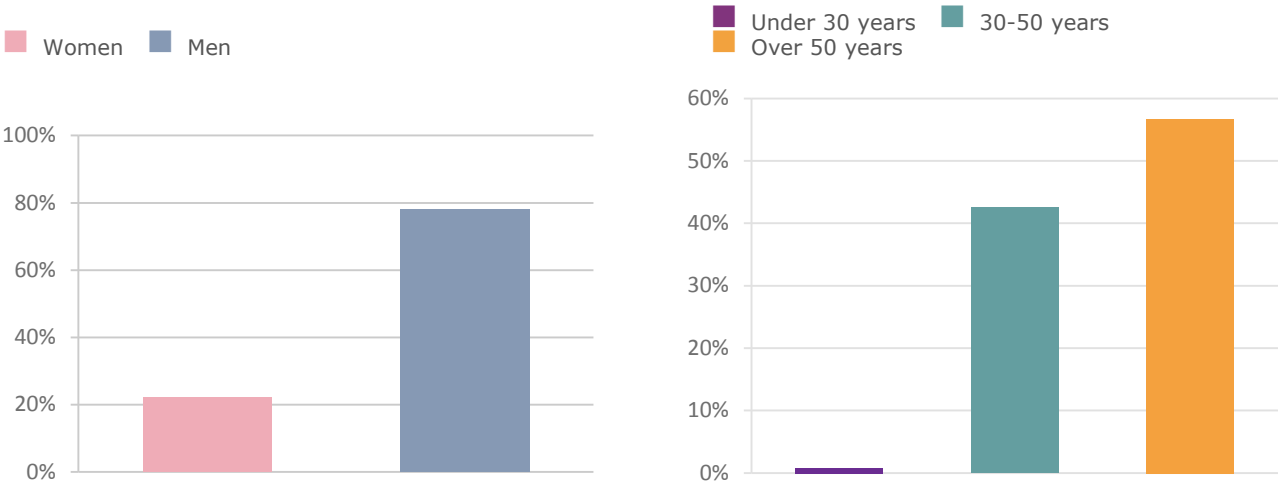
The Intergenerational Agreement, signed in 2013, aims to:

- permanently integrate young workers;
- recruit and retain seniors in the workforce;
- foster intergenerational skills sharing.

G4-LA12 Composition of governance bodies and distribution of employees by professional category, broken down by gender, age range, affiliation with a minority and other diversity indicators

In France, 50% of the members of the supervisory board are women. The Group has a recruitment policy that is firmly based on skills. In terms of social scope, 22% of women to 78% of men are found in leadership roles (senior management in France, *general manager* and their subsidiary-based executive board team). The majority of leaders are over the age of 50 (50%) and it should be noted that no leader is under the age of 30.

Breakdown within the governance bodies (%)



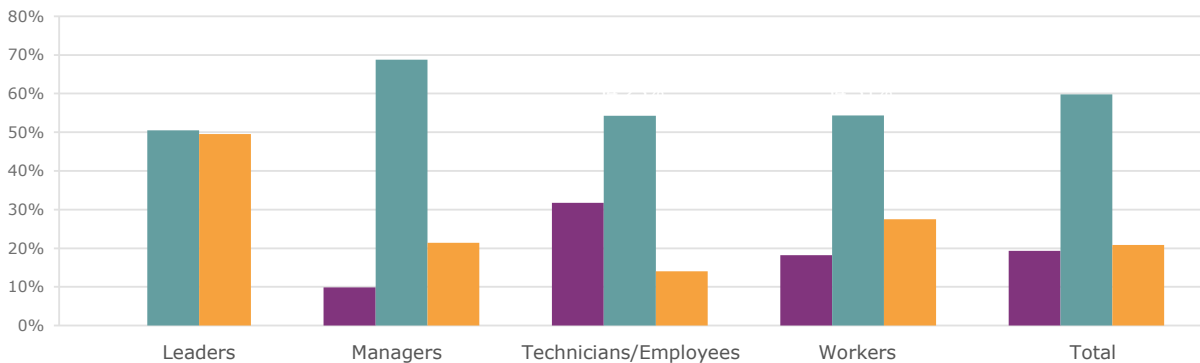
Distribution of employees (%)



Distribution of employees (age range)

Under 30 years 30-50 years Over 50 years

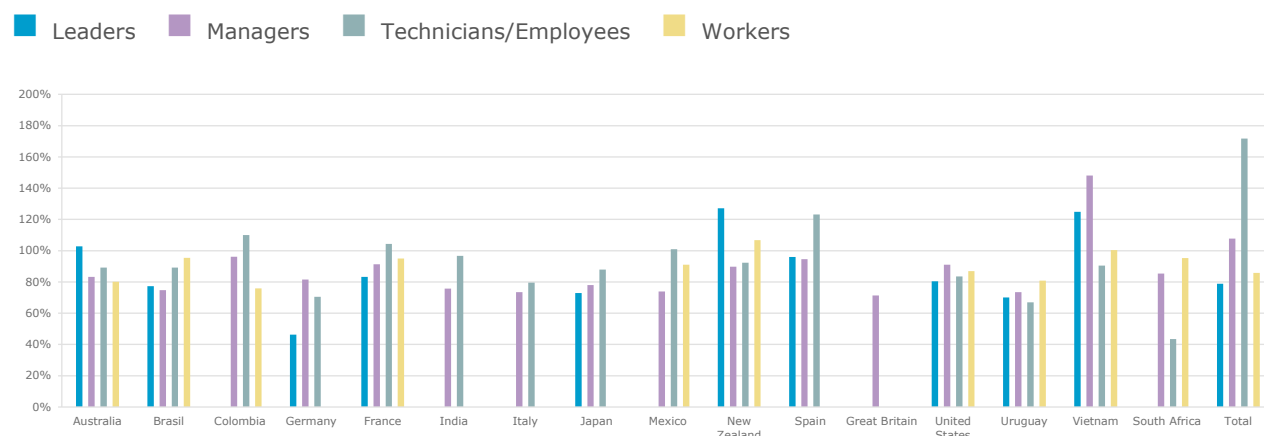
In the social reporting sphere, 61% of employees are men and 39% are women. In proportion, leaders represent the oldest population, with 50% of leaders over 50 years of age, and 69% of managers in the 30-50 year age group.



COMPENSATION EQUITY BETWEEN WOMEN AND MEN

G4-LA13 Ratio of base salary and compensation for women compared to men, by professional category and by main operational sites

Comparison of female/male salaries, by category (%)



Globally, Australia, France and Spain are the countries with the smallest unfavorable gap for women in all professional categories. On average, the female/male base salary ratio is equal to 88% for leaders, 87% for managers, 89% for technicians/employees, and 91% for workers. When it's a matter of pay equity between men and women, actions are taken to measure gaps, identify causes and take action, following the example of France through the gender equality agreement.

Compensation policy

The Group regularly conducts company-wide surveys on compensation in order to ensure it remains competitive in the job market. Depending on the results and in keeping with the group's policies, specific budgets are allocated to boost compensation (particularly for sought-after professions) and to develop compensation policies and employee benefits (for example, variable compensation for sales forces or insurance guarantees for all employees). For data on payroll and the compensation policy, see pages 113, 114 and 147 of the annual report.

Focus on France

In France, 100% of employees are compensated at a level above that of the legal minimum wage. The policy for base salaries is set at +5% above the industry minimum for all categories of staff. In addition, the policy follows a rationale of competitiveness vis-a-vis the life sciences market and is globally at the median for this market.

ASSESSMENT OF SUPPLIER EMPLOYMENT PRACTICES

G4-LA14 Percentage of new suppliers verified using employment practice criteria

For every invitation to tender and for main suppliers (nearly 90% of the value of purchases of raw materials and subcontracting), Virbac administers a questionnaire to assess compliance with social standards currently in force. Since 2015, new framework contracts have included a provision requiring compliance with these standards. In 2017, the assessment process carried out by Virbac with its new suppliers did not identify any relevant risks. Should Virbac identify a non-compliant supplier, the latter would be required by the Group to comply, or else have its contract terminated.

Social: human rights

Performance indicators

NON-DISCRIMINATION

G4-HR3 Total number of incidents of discrimination and corrective actions implemented

No incident of discrimination was reported in the Group in 2017.

FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING

G4-HR4 Identified sites and suppliers where the right to join a union and to collective bargaining may not be respected or is strongly threatened, and measures taken to enforce this right

In 2017, no activity of this type was identified within the Group or among its main suppliers of raw materials.

CHILD LABOR

G4-HR5 Sites and suppliers identified as posing a substantial risk for incidents of child labor and measures taken to assist with the efficient eradication of this type of labor

No child works within the Virbac Group. As concerns the main suppliers, Virbac's ethical assessment questionnaire commits them to abide by child labor legislation. In 2017, none of the suppliers questioned failed to live up to this criterion. Should Virbac identify a non-compliant supplier, the latter would be required by the Group to comply, or else have its contract terminated.

FORCED OR MANDATORY LABOR

G4-HR6 Sites and suppliers identified as posing a substantial risk for incidents of forced or mandatory labor and measures taken to help eradicate this type of labor in all its forms

Forced labor does not exist in the Virbac Group. Regarding its main suppliers, compliance with the fundamental International Labor Organization (ILO) agreements, including the prohibition of forced labor, is included in all new contracts. In 2017, none of the suppliers questioned failed to live up to this criterion. Should Virbac identify a non-compliant supplier, the latter would be required by the Group to comply, or else have its contract terminated.

ASSESSMENT OF THE RESPECT FOR HUMAN RIGHTS AMONG SUPPLIERS

G4-HR10 Percentage of new suppliers verified using human rights criteria

For every invitation to tender, and for main suppliers (nearly 90% of the value of purchases of raw materials and subcontracting), Virbac administers a questionnaire to assess their compliance with human rights: age of employees, the existence of a health and safety policy and the absence of discrimination. Since 2015, new framework contracts have included a provision requiring compliance with these standards. In 2017, the assessment process carried out by Virbac with its new suppliers did not identify any relevant risks. Should Virbac identify a non-compliant supplier, the latter would be required by the Group to comply, or else have its contract terminated.

Social: civil society

Performance indicators

ANTI-CORRUPTION CAMPAIGN

G4-SO3 Total number and percentage of sites that have undergone a corruption risk assessment and identified significant risks

In accordance with law no. 2016-1691 of December 9, 2016 regarding transparency, the fight against corruption and modernization of economic life, Sapin II, in 2017, Virbac carried out a corruption risk analysis in all of its subsidiaries and the parent company (a total of about thirty companies). The goal was to identify, assess and prioritize the risks in order to produce corruption risk mapping in the Group. All work will be completed in the first quarter of 2018, after being approved by the executive board.

G4-SO4 Communication and training on policies and procedures to fight corruption

In 2014 and 2015, specific training courses on the risks of corruption were carried out among many managers and leaders: general managers of European subsidiaries, chief financial officers in Latin America and APISA (Asia-Pacific-India-South Africa), key managers of the Indian and Uruguayan subsidiaries. In 2015, dedicated training was also organized with all employees at the Virbac Chinese subsidiary. To complement these efforts, training carried out from July 2015 as part of the deployment of the code of conduct provided the opportunity to discuss the risks of corruption with a large number of employees and to remind everyone of the rules in force in the anti-corruption field. This training involved four subsidiaries in the Apisa area, two subsidiaries in the Latin America area, the APISA regional team and some internationally-recruited new entrants in key positions. In 2016 and 2017, Virbac continued its efforts in the fight against corruption. Virbac has updated its Group anti-corruption policy, which is now available in ten languages and accessible to all Group employees via the Intranet, and is included in internal regulations for French Group subsidiaries. The members of the executive board, the members of the strategic committee, the members of Comex in France and the Group's subsidiary managers signed a document formalizing their commitment to comply with this policy.

PUBLIC POLICIES

G4-SO6 Total value of political contributions, by country and beneficiary

The Group did not make any contributions of this nature in 2017.

ANTI-COMPETITIVE BEHAVIOR

G4-SO7 Total number of legal proceedings for anti-competitive behavior, anti-trust and monopolistic practices, and their outcomes

No proceedings of this nature were initiated against any Group company in 2017.

COMPLIANCE

G4-SO8 Amount of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations

In 2017, no notifications of significant fines were received by the Group.

Social: product responsibility

Performance indicators

RESPONSIBLE INNOVATION

In terms of responsible innovation, Virbac today works with two main themes: alternative methods to animal testing and the reduction of antibiotics in animal production.

The development of prevention, particularly by vaccination, is one of the ways to reduce the use of antibiotics in animal production. Recent investments by Virbac in centers for research and vaccination production for livestock in Uruguay, Chile and Taiwan reflect this willingness on the part of the company to strengthen its development in the field of vaccines. Virbac is also involved in several partnership programs with public research institutes and private companies for the purposes of developing alternatives to antibiotics that will not lead to resistance in treated bacteria. These partnerships are part of long-term rationale and, like the vaccine strategy, will reduce the use of antibiotics.

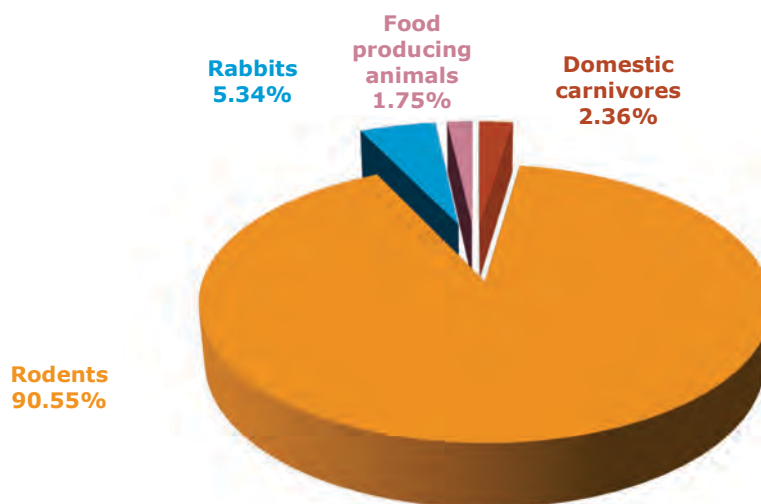
Virbac develops pharmaceutical and biological products for which regulatory requirements, as well as some quality controls imposed by medication agencies, must involve testing on animals. Virbac commits itself to the 3Rs rule (reduce, refine, replace) and is proactive in replacing studies and trials on animals with alternative methods and techniques, in addition to negotiating with the various agencies worldwide to persuade them to accept these alternative methods.

In 2017, 18% of the animals were used for R&D studies, 82% for biology production quality control (regulatory trials for release of vaccines).

R&D Studies

Dedicated to animal health, Virbac does not use primates for its R&D studies, but focuses on the species for which its health products are intended (efficacy and safety studies). Rodents and rabbits are used in the validation phases for new vaccines.

R&D studies - breakdown by species (%)

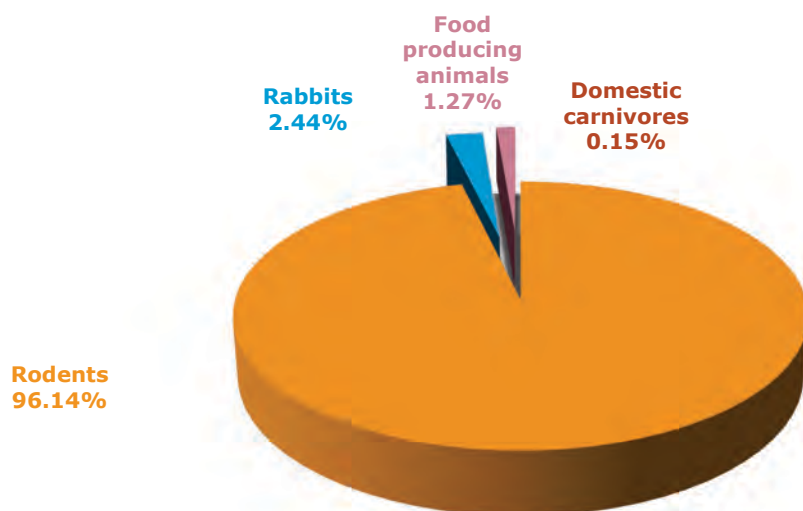


Out of the 7,466 rodents and rabbits used in studies, 1,745, or 23%, were used for validation and development of alternative methods. This temporary phase makes it possible to prove the reliability of alternative methods, particularly for the quality control of vaccines, and to foresee a significant medium-term reduction in the use of rodents.

Quality Control

34,591 animals were used as part of Quality Control activities in 2017.

Quality control - breakdown by species (%)



0.15% of domestic carnivores are used for the Target Animal Batch Safety Test (TABST) still required by several countries outside of Europe in order to release vaccines.

Over the past few years, Virbac has made a major effort to reduce the number of domestic carnivores.

Domestic carnivores used in quality control between 2013 and 2017

	2013	2014	2015	2016	2017
Dogs	170	146	52	38	50
Cats	12	10	10	8	6
Total	182	156	62	46	56

This reduction in the number of animals (69%) between 2013 and 2017 was achieved thanks to a 78% reduction in the number of trials carried out on domestic carnivores (the increase between 2016 and 2017 reflects a greater number of vaccines to be tested for countries outside of Europe).

Various initiatives made it possible to achieve this result:

- negotiation with national regulatory agencies (outside of Europe) to remove routine testing;
- selective production of tested or untested batches based on the destination country;
- regulatory removal of tests in Europe.

Focus on France: an adoption program that has been in place for 5 years

Since 2013, the year in which adoption was authorized in France by the new "Animal Welfare" regulation, Virbac has collaborated with the primary French association dedicated to this activity. The goal of ensuring a host family for 100% of adoptable dogs and cats was reached.

Domestic carnivores adopted between 2013 and 2017

	2013	2014	2015	2016	2017	Total
Dogs	135	183	56	68	50	492
Cats	62	45	1	19	7	134
Total	197	228	57	87	57	626

The drop in animals adopted since 2014 is due to a reduction in the number of quality controls (removal of tests) and by the nature of the R&D studies (vaccine development).

CONSUMER HEALTH AND SAFETY

Virbac is committed to developing, producing and distributing products and services aimed at improving the quality of life for animals and guaranteeing their health, while ensuring comfort and safety for those who administer these products: veterinarians, farmers, animal owners, etc.

To do this, Virbac meets the highest applicable quality-safety-efficacy standards. At the development stage, Good Laboratory Practices (GLP) are followed systematically, for example through data traceability. Current Good Manufacturing Practices (cGMP) are applied during the production stage, particularly through the certification of all Virbac factories. Finally, for the supply of drugs, Virbac uses Good Distribution Practices (GDP), such as compliance with the cold chain, when required by the nature of the products.

Assessment of product safety during its use is carried out whenever necessary, particularly through the development or selection of specific packaging. In product labeling, Virbac intends to clearly explain all the information useful to the proper administration of the product and to the understanding of its properties and contra-indications. The Group also has a leading role in the development of diagrams and pictograms that provide a clear understanding of information fundamental to consumer health and safety.

For species intended for consumption, Virbac ensures that during product development, its products comply with pharmaceutical standards relating to residual traces of medicines in foodstuffs: meat, milk, eggs... In addition, the guidelines for use are systematically brought to the attention of the consumer through product packaging and various associated communication media.

Throughout the life cycle of the products, including during development, Virbac assesses the expectations of customers and their satisfaction, in order to continuously adjust product features. In terms of marketing, all Virbac promotional communications are consistent with the scientific and technical claims demonstrated during the development stage of the product.

Lastly, the Virbac quality system enables the company to efficiently detect, trace and treat all quality incidents inherent to the pharmaceutical business.

Regulatory monitoring

Virbac has had an efficient regulatory monitoring system in place for several years, allowing it to stay abreast of regulatory developments. This monitoring system is carried out through inter-professional organizations:

- on the national level with, for example, SIMV in France, NOAH in the United Kingdom, BfT in Germany, etc.;
- on the regional level with, for example, IFAH-Europe (International Federation for Animal Health - Europe), AHI (Animal Health Institute) in the United States;
- at the global level with HealthforAnimals (Global animal medicines association).

It is also carried out using automatic monitoring tools in several hundred Internet sites linked to the company's activities. Lastly, this monitoring is carried out when Virbac receives feedback during periodic inspections of its facilities, and this feedback from inspectors helps the Group to progress.

The regulatory monitoring system covers all types of products:

- veterinary medicines (pharmaceuticals or vaccines);
- biocides (products intended for treating the animals' environment);
- nutritional products (intended as animal dietary supplements);
- food for companion animals.

Customer profile

Virbac clients worldwide are particularly diverse in terms of nature, size and expectations and they demand of the company a very specific and professional approach that takes their needs into account. Veterinarians remain Virbac's preferred client; however, depending on the country and the economic models, the client may be different:

- in the field of companion animals, other than veterinarians, owners mindful of the well-being of their animals are seeking more and more information, especially with the development of the internet. In the veterinary field, customers are also quite varied, as the information requirements in a veterinary clinic in which a single veterinarian operates are not the same as those in a chain of clinics in the United States with more than 1,500 clinics in its network;
- in the field of food-producing animals, the Virbac client's palette is also rich and varied. To give only a few examples, clients range from an Indian farmer with a few cattle to an Asian producer with over 200,000 sows or a Mexican beef production unit with more than 300,000 head of cattle.

This diversity and heterogeneity of client profiles require adaptation of communication methods and the development of high-quality professional relationships that address their clients' daily concerns.

Distribution also plays an increasingly important role in certain countries and requires specific strategies and communications. Most of the time, these distributors are considered strategic partners, for example, as with an agri-business chain that is larger than the Virbac Group and has more than 400 outlets in Australia.

G4-PR1 Percentage of important categories of products and services for which impacts on health and safety are assessed for improvement

In compliance with all national regulations, Virbac systematically monitors the quality of its products at all stages of the production process:

- pre-marketing (during the development phase and until the products are launched on the market);
- after market launch (through continual research on stability, advice and guidance for users and pharmacovigilance).

Products subject to pharmaceutical registration

(sources: EC 82/2001, 28/2004 regulations and applicable national regulations)

ASSESSMENT PRIOR TO MARKET LAUNCH

Pre-development: safety check	100%
Development: quality check	
Development: stability check	
Development: safety check for animal use	
Development: safety check for human use	
Development: environmental safety check	
Development: efficacy check	
Production: checking all components and raw materials at every stage of production	

ASSESSMENT AFTER MARKET LAUNCH

Stability check (continuous research)	100%
Advice and guidance for users	
Pharmacovigilance	

Products not subject to pharmaceutical registration

(sources: EC 767/2009 and internal instructions)

ASSESSMENT PRIOR TO MARKET LAUNCH

Pre-development: safety check	100%
Development: quality check	
Development: stability check	
Development: safety check for animal use	
Development: safety check for human use (for all locally-applied products coming into contact with human skin)	
Development: environmental safety check (at the test batch production stage)	
Development: efficacy check and/or perceived benefits	
Production: checking all components and raw materials at every stage of production	

ASSESSMENT AFTER MARKET LAUNCH

Advice and guidance for users	100%
Pharmacovigilance	

Nutritional products not subject to pharmaceutical registration

(sources: EC 183/2005, 1069/2009, 767/2009 and internal instructions)

ASSESSMENT PRIOR TO MARKET LAUNCH

Pre-development: nutritional recommendations check	
Pre-development: raw materials check	
Development: safety check for animal use	
Development: digestibility and palatability check	
Development: stability check	100%
Development: efficacy and perceived benefits check	
Development: validation in actual use conditions	
Monitoring and compliance of raw materials and products	
Monitoring of production processes	
Monitoring of digestibility and palatability	

ASSESSMENT AFTER MARKET LAUNCH

Stability check	10%
Advice and guidance for users	100%
Pharmacovigilance	

Pharmacovigilance

Like all pharmaceutical companies, the Virbac Group is legally obliged to monitor the veterinary medicines it places on the market, in terms of their safety and efficacy. This obligation is known as pharmacovigilance. Its purpose is to create an organization that keeps track of adverse reactions (whether serious or not) reported by veterinarians or other health professionals, or even by users of such medicines (owners of companion animals, for example). This organization, placed under the responsibility of a person qualified in (veterinary) pharmacovigilance and a qualified interim person, must compile all of the cases originating from all countries in the world, analyze them, decide whether the side effects are attributable or not to the use of the drug in question and, finally, officially report these cases to the supervisory authorities. Periodically, all cases declared during a given period for a given medicine are compiled in a report, which is then sent to the same authorities. Compiling all the side effects attributable to a drug eventually allows precautions for use to be added to the packaging leaflets and make their use safer. Due to the increasing globalization of its medicines, the Virbac Group goes about compiling cases of side effects on a global scale, by implementing a reporting system in all subsidiaries. The Virbac Group's ambition is perfect pharmacovigilance; that is to say, allowing them to compile all cases of side effects attributable to medicines that it places on the market, to fulfill all its obligations within the time frames prescribed by the administration, and to use the pharmacovigilance tool to develop knowledge of its products.

G4-PR2 Total number of incidents of non-compliance with regulations and voluntary codes pertaining to health and safety impacts of products and services during their life cycle, by type of outcome

In 2017, out of a total of 8,376 products marketed worldwide, Virbac declared or was informed by the national authorities of 78 cases of non-compliance observed in the field. None of these cases posed any danger to animal health.

PRODUCT AND SERVICE LABELING

G4-PR3 Type of product and services information and their labeling, by organization procedures and percentage of major categories of products and services subject to these information requirements

In terms of the safety of products and their components, Virbac's policy is as follows:

- provision of safety data sheets for "raw materials" and "finished products" to Virbac staff and carriers;
- organization of transportation in accordance with European regulations governing the shipping of high-risk products:
  - availability of safety data sheets for finished products in French and in English,
  - packaging of hazardous products in packaging that meets current standards;
- from the client's perspective, Virbac complies with the European directives and regulations on indications and precautions for use that must appear on packaging, both for products requiring marketing authorization and those referred to as nutritional.

Each claim is supported by appropriate clinical studies.

G4-PR4 Total number of incidents of non-compliance with regulations and voluntary codes pertaining to product and service information and labeling, by type of outcome

In 2017, out of a total of 8,376 product references marketed worldwide, Virbac declared or was informed by the national authorities of 21 cases of packaging non-compliance, which had no impact on product distribution.

G4-PR5 Results of client satisfaction surveys

Qualitative and/or quantitative market research is systematically carried out before and during the development of new products in order to ensure that the product specifications meet the animal health needs, the practices of the veterinary profession and the expectations of owners/farmers in terms of compliance. For example, the palatability of oral products (tablets, liquids) and their ease of administration by the owner are two criteria validated during the product development stage.

Qualitative market research collecting user feedback is also conducted regularly after the launch of new products. For example, before the launch of an ear treatment to gauge the degree of satisfaction of owners with the ergonomics, practicality and perceived efficacy of the product.

MARKETING COMMUNICATIONS

G4-PR6 Sale of prohibited or controversial products

Due to the nature of its pharmaceutical industrial activity, the Virbac Group is subject to the requirements defined by national or supranational veterinary pharmaceutical agencies. Any product claims must be scientifically proven and made available to the regulatory agencies. The pharmaceutical manager at each Virbac subsidiary vouches for the compliance of products sold in his country with the regulations.

These principles apply both to medicines with marketing authorizations and also to foods, complementary and dietetic food for which Virbac complies with local regulations (e.g. for nutritional supplements and food: European Regulation 767/2009, US NASC accreditation). In addition, Virbac does not directly promote products that require a prescription (and which may not be subject to exception) among owners or farmers, but refers them to veterinary consultation in order to promote preventive medicine.

G4-PR7 Total number of incidents of non-compliance with regulations and voluntary codes pertaining to marketing communications, including advertising, promotion and sponsorships, by type of outcome

In 2017, out of a total of 8,376 product references marketed worldwide, Virbac declared or was informed by the national authorities of six communications that did not comply with regulations and codes relating to promotional marketing.

COMPLIANCE

G4-PR9 Amount of substantial fines for non-compliance with laws and regulations regarding the provision and use of products and services

In 2017, a single fine was noted in Hungary for a total of 90,000 Hungarian forints (291 €).

Report of one of the statutory auditors, appointed as an independent third party, on the consolidated human resources, environmental and social information included in the management report

External Audit - Year ended December 31st, 2017

This is a free English translation of the Statutory Auditors' 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 standards applicable in France.

To the Virbac annual general meeting,

In our capacity as statutory auditors of Virbac SA, (the "company"), appointed as independent third party and certified by Cofrac under number(s) 3-1048¹, we hereby report to you on the [when applicable consolidated] human resources, environmental and social information for the year ended December 31st, 2017 included in the management report (hereinafter named "CSR Information"), pursuant to article L.225-102-1 of the French commercial code (Code de commerce).

Company's responsibility

The board of directors is responsible for preparing a company's management report including the CSR Information required by article R.225-105-1 of the French commercial code in accordance with the reporting protocols and guidelines used by the company (hereinafter the "guidelines"), summarized in the management on request to the EHS and Human Resources divisions.

Independence and quality control

Our independence is defined by regulatory texts, the French Code of ethics (Code de déontologie) of our profession and the requirements of article L.822-11 of the French commercial code. In addition, we have implemented a system of quality control including documented policies and procedures regarding compliance with the ethical requirements, French professional standards and applicable legal and regulatory requirements.

Statutory auditor(s)'s responsibility

On the basis of our work, our responsibility is to:

- attest that the required CSR Information is included in the management report or, in the event of non-disclosure of a part or all of the CSR Information, that an explanation is provided in accordance with the third paragraph of article R.225-105 of the French commercial code (attestation regarding the completeness of CSR Information);
- express a limited assurance conclusion that the CSR Information taken as a whole is, in all material respects, fairly presented in accordance with the guidelines (conclusion on the fairness of CSR Information).

It is not our responsibility to provide any conclusion on the compliance with other applicable legal expectations, in particular those concerning the French law 2016-1691 (fight against corruption).

Our work involved five persons and was conducted between December 2017 and March 2018 during a three-week period. We were assisted in our work by our sustainability experts. We performed our work in accordance with the order dated 13 May 2013 defining the conditions under which the independent third party performs its engagement and the professional guidance issued by the French institute of statutory auditors (Compagnie nationale des commissaires aux comptes) relating to this engagement and with ISAE 3000² concerning our conclusion on the fairness of CSR Information.

1. Attestation regarding the completeness of CSR Information

Nature and scope of our work

On the basis of interviews with the individuals in charge of the relevant departments, we obtained an understanding of the company's sustainability strategy regarding human resources and environmental impacts of its activities and its social commitments and, where applicable, any actions or programs arising from them.

We compared the CSR Information presented in the management report with the list provided in article R.225-105-1 of the French commercial code.

For any consolidated information that is not disclosed, we verified that explanations were provided in accordance with article R.225-105, paragraph 3 of the French commercial code.

We verified that the CSR Information covers the scope of consolidation, i.e., the Company, its subsidiaries as defined by article L.233-1 and the controlled entities as defined by article L.233-3 of the French commercial code within the limitations set out in the methodological note, presented in the introduction of the environmental and social chapters of the management report.

Conclusion

Based on this work and considering the aforementioned limits, we attest that the required CSR Information has been disclosed in the management report.

2. Conclusion on the fairness of CSR Information

Nature and scope of our work

We conducted eight interviews with the persons responsible for preparing the CSR Information in the departments in charge of collecting the information and, where appropriate, responsible for internal control and risk management procedures, in order to:

- assess the suitability of the guidelines in terms of their relevance, completeness, reliability, neutrality and understandability, and taking into account industry best practices where appropriate;
- verify the implementation of data-collection, compilation, processing and control process to reach completeness and consistency of the CSR Information and obtain an understanding of the internal control and risk management procedures used to prepare the CSR Information.

We determined the nature and scope of our tests and procedures based on the nature and importance of the CSR Information with respect to the characteristics of the company, the human resources and environmental challenges of its activities, its sustainability strategy and industry best practices.

Regarding the CSR Information that we considered to be the most important³:

- at parent and entity level, we referred to documentary sources and conducted interviews to corroborate the qualitative information (organization, policies, actions), performed analytical procedures on the quantitative information and verified, using sampling techniques, the calculations and the consolidation of the data. We also verified that the information was consistent and in agreement with the other information in the management report;
- at the level of a representative sample of entities/divisions/sites selected by us⁴ on the basis of their activity, their contribution to the consolidated indicators, their location and a risk analysis, we conducted interviews to verify that procedures are properly applied, and we performed tests of details, using sampling techniques, in order to verify the calculations and reconcile the data with the supporting documents. The selected sample represents on average 40% of headcount and between 41% and 73% of quantitative environmental data disclosed.

For the remaining consolidated CSR Information, we assessed its consistency based on our understanding of the company.

We also assessed the relevance of explanations provided for any information that was not disclosed, either in whole or in part. We believe that the sampling methods and sample sizes we have used, based on our professional judgement, are sufficient to provide a basis for our limited assurance conclusion; a higher level of assurance would have required us to carry out more extensive procedures. Due to the use of sampling techniques and other limitations inherent to information and internal control systems, the risk of not detecting a material misstatement in the CSR information cannot be totally eliminated.

Conclusion

Based on the work performed, no material misstatement has come to our attention that causes us to believe that the CSR Information, taken as a whole, is not presented fairly in accordance with the guidelines.

Marseille, April 6, 2018

One of the statutory auditors,
Deloitte & Associés

Vincent GROS

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¹ whose scope is available at www.cofrac.fr

² ISAE 3000 – Assurance engagements other than audits or reviews of historical financial information

³ Quantitative information

Social: total workforce by gender, employment type and geographical area; total number of recruitments by gender and geographical area; total number of dismissals by gender and geographical area; gender salaries ratio by socio-professional group; severity and frequency rate of work accidents by country; number of work-related fatalities; number of day of absence for occupational disease; absenteeism by geographical area; average hours of training per year, by employee, gender, and professional category.

Environmental: quantity of industrial water discharged; quantity of emitted CO₂; amount of waste by type; water consumption; total amount of packaging brought on the global market; gas consumption; electricity consumption; direct and indirect greenhouse gas emissions, emissions by activity on France perimeter.

Societal: total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle; total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling; total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communication, including advertising, promoting and sponsorship, product and service information and labelling.

Qualitative information

Societal: workplace safety in France; gender equality agreement; dialogue with different stakeholders; percentage of new suppliers controlled with environmental criteria; main types of products percentage for which health and safety impacts are evaluated for improvement and pharmacovigilance; communication and training on anti-corruption policies and procedures.

⁴ Virbac SA, Virbac France and Virbac Mexico.

THE VIRBAC TEAMS
ARE LISTENING TO YOU
ON 5 CONTINENTS

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Shaping the future
of **animal health**

